



Benefits Administration Letter

Number: 03-309

Date: September 15, 2003

Subject: Fiscal Year 2003 Factors for Calculating Imputed Costs

As required by Statement of Federal Financial Standards No. 5 -- *Liabilities of the Federal Government* – this letter provides the fiscal year (FY) 2003 cost factors for the Federal civilian benefit programs. Agencies will use these factors to calculate their imputed costs relating to the “pensions” (the Civil Service Retirement and Federal Employees’ Retirement Systems), the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program.

PENSIONS

Recently, the Board of Actuaries of the Civil Service Retirement and Disability Fund adopted a new set of economic assumptions for the Civil Service Retirement System (CSRS) and the Federal Employees’ Retirement System (FERS). OPM’s pension actuary has applied these new assumptions to derive the FY 2003 cost factors for the CSRS and FERS. New contribution rates, corresponding with the recommended assumptions, will become effective with the first pay period beginning on or after October 1, 2004.

The cost factors for the CSRS and FERS are expressed as percentages of “basic pay.” Basic pay is the portion of gross pay from which agencies withhold CSRS and FERS deductions; it generally excludes bonuses, allowances, overtime, and holiday pay. The normal cost factor represents the percentage of basic pay that would have to be remitted by and for covered employees to pay fully the Government’s cost to provide a CSRS or FERS benefit.

<i>Civil Service Retirement System</i>	<i>Federal Employees’ Group Life Insurance Program</i>	<i>Federal Employees Health Benefits Program</i>	<i>Federal Employees Retirement System</i>	<i>Federal Long Term Care Insurance Program</i>
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CSRS. For most or “regular” CSRS-covered employees, the FY 2003 cost factor will be 25.0 percent of basic pay, compared with 24.4 percent for FY 2002. Since the percentage of basic pay actually remitted to OPM by and for most CSRS-covered employees in FY 2003 was less than 25.0 percent, agencies must recognize an imputed cost for the shortfall. The FY 2003 cost factors for all categories of CSRS coverage are attached.

FERS. For regular FERS-covered employees, the FY 2003 cost factor is 12.0 percent of basic pay, compared with 11.5 percent for FY 2002. Since the percentage of basic pay actually remitted to OPM by and for most FERS-covered employees in FY 2003 was less than 12.0 percent, agencies will, likely for the first time, recognize a FERS-related imputed cost. The cost factors for all categories of FERS coverage are on the attachment.

Illustration: Calculation of Imputed Cost for Pensions

Agency XYZ has the following employees:

Category	Number	Aggregate Basic Pay Paid in FY 2003
Regular CSRS	10	\$500,000
Regular FERS	10	\$250,000

Agency XYZ computes its total FY 2003 “service cost” by multiplying the basic pay paid in fiscal year 2003 for each CSRS and FERS category by the applicable cost factor:

	A	B	Service Cost [A * B]
	Basic Pay Paid in FY 2003	Cost Factor	
CSRS Regular	\$500,000	25.0%	\$125,000
FERS Regular	\$250,000	12.0%	30,000
Total Service Cost			\$155,000

Agency XYZ determines the amount of employee withholdings and agency contributions actually remitted to OPM in FY 2003 for each CSRS and FERS category:

Employee Withholdings and Agency Contributions			
	Employee Withholdings	Agency Contributions	Total
CSRS Regular	\$35,000	35,625	\$70,625
FERS Regular	\$2,000	26,750	28,750
Total Employee Withholdings and Agency Contributions			\$99,375

Agency XYZ computes its imputed cost by subtracting the total amount of employee withholdings and agency contributions remitted to OPM in FY 2003 from its FY 2003 service cost:

Total Service Cost	\$155,000
Less: Total Employee Withholdings and Agency Contributions	99,375
Imputed Cost for CSRS and FERS	\$55,625

Agency XYZ posts its imputed cost for CSRS and FERS:

6730F.24	Imputed Cost	55,625
5780F.24	Imputed Financing Sources	55,625

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Although the Government provides health benefits to Federal employees after they retire, no contributions are made by or for employees during their active working careers. Thus, agencies must recognize the Government's entire cost to provide post-retirement health benefits to their employees as an imputed cost. The cost factor is expressed as an amount per employee currently enrolled in the FEHB Program; for FY 2003, the factor is \$3,766 per enrolled employee.

Calculation of Imputed Cost for Employees Enrolled in the FEHB Program:

- Step 1: Ascertain actual enrollment in the FEHB Program at three points in time: October 1, 2002; March 31, 2003; and September 30, 2003; include ALL enrolled employees, both full-time and less than full-time.
- Step 2: Multiply the October 1 enrollment by one; the March 31 enrollment by two; and the September 30 enrollment by one.
- Step 3: Calculate the grand total of each of the individual calculations in Step 2.
- Step 4: Divide the grand total in Step 3 by four to derive the "constructed FEHB enrollment."
- Step 5: Multiply the constructed FEHB Program enrollment, computed in Step 4, by the fiscal year 2003 cost factor of \$3,766 – this is the *imputed* FEHB cost.
- Step 6: Record the imputed cost as a charge to SGL account 6730F.24, with a corresponding credit to SGL account 5780F.24.

Illustration: Calculating Imputed Cost for Employees Enrolled in the FEHB Program:

	10/1/02	3/31/03	9/30/03
Step 1: Actual enrollment	72	66	60
Step 2: Multiplier	72 x 1 = 72	66 x 2 = 132	60 x 1 = 60
Step 3: Grand Total			264
Step 4: Constructed Enrollment [<i>Grand Total Divided by Four</i>]			66
Step 5: Imputed Cost [<i>Constructed Enrollment Times Cost Factor</i>]			\$248,556

Agency XYZ posts the following entry:

6730F.24	Imputed Cost	248,556	
5780F.24	Imputed Financing Sources		248,556

FEDERAL EMPLOYEES LIFE INSURANCE PROGRAM

The FEGLI Program provides life insurance benefits to eligible Federal retirees. The contributions remitted by and for covered employees do not fully cover the cost to provide post-retirement FEGLI Program benefits. Thus, agencies must recognize the unfunded portion of this cost as an imputed cost. The fiscal year 2003 cost factor for the FEGLI Program is *0.02 percent* of basic pay, the same as in previous years.

Calculation of the Imputed Cost for Employees Enrolled in the FEGLI Program:

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*] to determine *imputed cost*.
3. Record imputed cost computed in Step 2 as a charge to SGL account 6730F.24, with a corresponding credit to SGL account 5780F.24.

Illustration: Calculation of the Imputed Cost for Employees Enrolled in the FEGLI Program:

Agency XYZ has determined the aggregate annual basic pay of its employees covered by Basic life insurance to be \$1,125,000. It determines its fiscal year 2003 imputed cost for the FEGLI Program, as follows:

A	B	C
Annual Basic Pay	Cost Factor (%)	Imputed Cost [A x B]
\$1,125,000	.02	\$225

Agency XYZ posts the following entry:

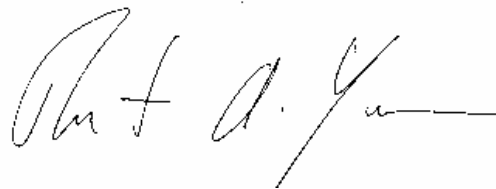
6730F.24	Imputed Cost	225	
5780F.24	Imputed Financing Sources		225

ASSURANCE FOR AUDITORS

The cost factors provided in this letter are being issued before they can be opined upon by OPM’s independent public accounting firm. Nonetheless, the FY 2002 cost factors for “regular” CSRS and FERS coverage, as well as those for the FEHB and FEGLI Programs were disclosed in the footnotes accompanying OPM’s consolidated FY 2002 financial statements; these statements received an unqualified audit opinion. The policies, procedures and controls pertaining to the calculation of the cost factors did not change from FY 2002. The change to the CSRS and FERS cost factors for FY 2003, as a consequence of the new economic assumptions discussed above is, in the view of OPM’s pension actuary, not material. Thus, auditors of agency financial statements can rely upon the disclosures in OPM’s FY 2002 financial statements and the audit opinion thereon.

INQUIRIES

If you have any questions about this letter, we would prefer that you email us at finance@opm.gov, so we have a record of them. You may of course call us on 202-606-0606.



**Robert A. Yuran, Chief
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Center for Financial Services**

Attachment

2003 COST FACTORS FOR THE CSRS AND FERS

CSRS	
CATEGORY	COST FACTOR (%)
Regular	25.0
Regular offset	19.5
Law enforcement officers	40.3
Law enforcement officers - offset	35.7
Air traffic controllers	33.5
Air traffic controllers – offset	28.7
Members of Congress	28.4
Members of Congress – offset	26.1
Congressional employees	33.9
Congressional employees – offset	28.7

FERS	
CATEGORY	COST FACTOR (%)
Regular	12.0
Law enforcement officers	25.1
Air traffic controllers	24.4
Members of Congress	17.7
Congressional employees	17.9
Military reserve technicians	14.7