

February 1989

**FEDERAL
EMPLOYEES**

**Early Retirements at
the Defense
Department in Fiscal
Year 1988**



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General Government Division

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February 23, 1989

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

The Honorable David Pryor
Chairman, Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

In March and April 1988, you and the former Chairman of the Subcommittee on Readiness asked us to examine certain aspects of the Department of Defense's (DOD) management of the voluntary early retirement program authorized in fiscal year 1988 because of budget reductions. Your concerns centered on the cost and possible adverse effect of large numbers of DOD civilian employees electing early retirement. On February 15, 1989, you requested a report on our findings to date. This fact sheet responds to that request.

OBJECTIVE, SCOPE, AND METHODOLOGY

Specifically, you wanted to know whether (1) budget savings were realized from early retirements, (2) alternative personnel management actions could have been taken to cope with fiscal year 1988 budget reductions, (3) employees were hired or are expected to be hired to fill vacancies created by early retirements, and (4) the Armed Services' missions were adversely affected because of early retirement of key personnel.

As agreed with the Subcommittees, we concentrated on the Army Materiel Command, headquartered in Alexandria, Virginia; two of its subordinate commands (Aviation Systems Command and Troop Support Command) located in St. Louis, Missouri; and the Air Force Air Logistics Center in Oklahoma City, Oklahoma.

To ascertain whether budget savings were achieved, we gathered data on all 288 of the retiring employees at the two subordinate Army commands. We chose those commands because they and our staff were located in the same city, which would help to expedite our studies. We obtained information on each retiring employee's pay and benefits from the Army commands and data on retirement benefits payments from the Office of Personnel Management (OPM), which administers the Civil Service Retirement Fund.

To determine whether vacancies created by retiring employees were later filled, we obtained data from the three Army commands and the Air Force Center on the number of new hires each month in fiscal year 1988 and the number of employees on board at each month's end. We also obtained similar data for the first quarter of fiscal year 1989 from the Air Force Center; first quarter data were not readily available from the Army commands.

To ascertain what alternative personnel actions were taken to cope with fiscal year 1988 budget reductions and to identify any adverse effects on their agencies' missions, we interviewed responsible officials at the locations visited. We did not make an independent assessment of possible adverse effects.

We did not verify to source documents the computer-generated data provided by the three Army commands, the Air Force Center, and OPM, nor did we verify the savings claimed by the Army Materiel Command. We began our work in July 1988 and it is still continuing. This fact sheet provides requested information gathered through mid-February 1989.

EXTENT OF DOD EARLY RETIREMENTS

Pursuant to section 8336 (d) (2) of title 5, U.S.C., OPM can approve agencies' requests for voluntary early retirement authorizations for a number of reasons. One such reason is when an agency is undergoing a major reduction-in-force due to budget reductions. In these cases, at least 5 percent of the affected workforce must be subject to separation or an immediate reduction in the rate of basic pay. Employees are eligible to voluntarily elect early retirement in these cases if they have 25 or more years of service regardless of age, or are age 50 or older with 20 or more years of service.

The following table shows the number of employees eligible for early retirements for DOD agencies for all reasons for fiscal

year 1988 and the number who actually elected retirement. It also shows that DOD authorized most of the retirements, with OPM approval, because of budget reductions.

Table 1: DOD Early Retirement Authorizations in FY88

<u>Organizations</u>	<u>Number of employees eligible to elect early retirement</u>	<u>Number of employees electing retirement</u>	<u>Percent of employees eligible due to budget reductions</u>
Army	30,800	4,297 ^a	99
Air Force	25,473	4,090 ^a	99
Navy	8,147	1,123 ^a	76
Other Defense agencies	<u>796</u>	<u>101</u>	86
Totals	<u>65,216</u>	<u>9,611</u>	96

^aAs of mid-February 1989, a total of eight commands in these services had not reported the number of employees electing retirement.

At the Army Materiel Command, including all of its subordinate commands, 15,763 employees were eligible for early retirement because of budget reductions and 2,877 retired. At the Air Logistics Center, 2,345 employees were eligible because of budget reductions and 634 retired.

EFFECT OF RETIREMENTS ON BUDGET

Data from the two subordinate Army commands showed that the Army achieved budget savings of about \$6.6 million (\$23,076 per retiree) in fiscal year 1988 as a result of a total of 288 employees electing early retirement. The savings were achieved by avoiding salary outlays and agency contributions toward employees' benefits (retirement, health and life insurance). However, when budget outlays from the Civil Service Retirement Fund are considered, there was a net cost to the overall federal budget in fiscal year 1988 of about \$2.6 million, or \$9,146 per retiree. Because there was a net cost, the budget deficit increased accordingly. (See app. I for details.)

Long-term savings or costs cannot be determined because of the uncertainties about future hiring and promotions to fill vacancies. As discussed below, the military commands have moved to fill many or all of the vacancies through hiring and promotions.

WHAT HAPPENED TO VACANCIES

The total employment levels in the three Army commands and the Air Force Center we visited were only temporarily affected by early retirements. As funds became available, the commands and the Center filled all or part of the vacancies created by early retirements.

Employment levels are limited by ceilings set by higher military commands on the basis of available funds. Each command had already identified more requirements than it could support with funds, and the additional vacancies created by early retirement were added to other existing vacancies. For example, the Army Materiel Command had requirements for 124,714 positions at the beginning of fiscal year 1988, but because of funding constraints, its employment ceiling was set at 107,653 employees.

At the Army commands we visited, the vacancies were held until additional funds became available beginning in late fiscal year 1988, when the commands began hiring more employees. The increased funding levels for personnel were provided by fiscal year 1988 funds received after the early retirement authority and approved reprogramming of other fiscal year 1988 appropriations. The Army Materiel Command, including all of its subordinate commands, hired a total of about 6,900 employees during the year. (See app. II for details on monthly hiring and employment levels.) Furthermore, the Command planned to continue hiring in fiscal year 1989, as reflected in an employment ceiling for the end of the year that was 1,355 higher than its beginning employment level.

For the Army commands, we compared actual year-end employment levels to planned year-end levels adjusted for early retirements to see if the commands reduced their actual employment levels to reflect vacancies created by early retirements. For example, we determined that the Army Materiel Command filled 931 of the 2,877 early retirement vacancies during fiscal year 1988 as follows:

Planned year-end strength	105,638
Less early retirements	<u>2,877</u>
Planned year-end strength adjusted for early retirements	102,761
Actual year-end strength	103,692
Early retirement vacancies filled	931

Using the same methodology, we found that the Aviation Command filled all 169 of its vacancies, and the Troop Command filled 93 of its 119 vacancies created by early retirement.

The Air Force Logistics Center began fiscal year 1988 with 17,048 employees and ended the year with 15,511 employees. During that year, 634 employees elected early retirement, and the Center limited hiring to 170 new employees. However, when fiscal year 1989 funds became available, the Center increased its hiring in order to reach its pre-1988 strength levels. During the 3-month period ending December 1988, the Center hired 1,282 new employees. (See app. III for more details.)

ALTERNATIVE ACTIONS TO COPE WITH BUDGET CUTS

Besides granting early retirements in lieu of a reduction-in-force, agencies have other options available to achieve budgetary savings. Among these options are (1) adopting a hiring freeze, (2) releasing all temporary employees, and (3) eliminating overtime. Agencies can also seek congressional approval to reprogram other appropriated funds.

The Army Materiel Command and the Air Force Logistics Center took other actions to save money during fiscal year 1988 in addition to granting early retirements. The Army Materiel Command said that a partial hiring freeze (one new hire for each two employees leaving) saved \$25 million; release of some temporary employees saved \$10 million; and reductions in overtime, travel, and a summer hire program saved \$12 million. We observed that the Command did not further restrict hiring (6,900 were hired) or release more temporary employees (an average of 2,825 were retained throughout the year) to achieve additional savings.

The Army also received approval from Congress in July 1988 to reprogram other appropriated funds. As a result, the Army

Materiel Command received additional funds in August 1988, which it used to hire more employees.

The Air Force Center records showed that it substantially froze new hiring for fiscal year 1988. In addition, Center officials said they reduced the number of temporary employees on board by 75 percent, limited overtime, and reduced the amounts available for performance awards by 50 percent. Center officials did not estimate savings from these actions.

EFFECT ON MISSION FROM
EARLY RETIREMENT OF HIGHLY
SKILLED EMPLOYEES

OPM's early retirement authorization restricted DOD from offering early retirement to employees in positions covered by special salary rates or direct hire authority. The restrictions cover hard-to-fill occupations ranging from secretaries in Washington, D.C., to engineers, scientists, computer scientists, and accountants and, in general, cover only employees in grades GS-12 and below. OPM rules allowed agencies to broaden the scope of the restrictions to exclude or limit early retirements because of "critical skill" shortages.

The Army Materiel Command followed the OPM restrictions precluding employees in hard-to-fill positions in grades GS-12 or below from taking early retirement. However, 360 of the Command's scientists, accountants, and engineers in grades GS-13 and above took early retirement. Its officials said they could not identify any measurable effect on the Command's mission because components generally promoted or detailed other employees into vacated key positions.

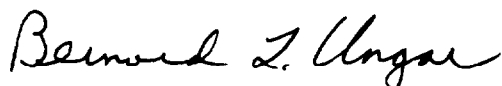
The civilian personnel officer for the Aviation and Troop Commands told us that the loss of 29 of their employees in hard-to-fill positions that had not been restricted created a drain on managerial and technical skills. However, she said they did not add restrictions because command officials believed the benefits of promotion opportunities (improved morale) outweighed the consequences of losing managers and skilled employees. According to the civilian personnel officer, the OPM restrictions on hard-to-fill positions have little effect on keeping highly skilled workers in the government because few of the employees who are both highly skilled and eligible for early retirement are still in grades 12 or below. If eligible employees in hard-to-fill positions are still in grades 12 or below, she said that they probably

have not progressed in their career for many years and would not adversely affect the agency's mission by retiring.

Besides following the OPM restrictions covering hard-to-fill occupations, the Air Force Center excluded other employees from its early retirement authorization. For instance, hospital employees, Senior Executive Service members, and employees at overseas locations were restricted from electing early retirement. The Air Force Center's personnel records showed only 8 of the 634 early retirees were in hard-to-fill positions at grades GS-13 or above. Officials said these retirements did not affect their mission.

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As arranged with the Subcommittees, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet for 7 days. At that time, we will send copies to the Acting Secretary of Defense; the Acting Director of OPM; the Director, Office of Management and Budget; and others who may have an interest in this matter. The major contributors to this fact sheet are listed in appendix IV.



Bernard L. Ungar
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Management Issues

FISCAL YEAR 1988 BUDGET SAVINGS/COST RESULTING
FROM 288 AVIATION SYSTEMS AND TROOP SUPPORT
COMMAND EARLY RETIREMENTS

	<u>Army's budget</u>	<u>Overall government budget</u>
<u>Budget outlays saved</u>		
Employees' salaries	\$7,096,780	\$7,096,780
Employers' benefit contributions:		
Retirement plans	502,514	502,514
Health insurance	241,946	241,946
Life insurance	16,382	16,382
Medicare	100,085	100,085
Thrift savings plan	2,147	2,147
Total gross savings	<u>7,959,854</u>	<u>7,959,854</u>
<u>Less budget receipts forgone</u>		
Employees' benefit contributions:		
Retirement plans		(502,514)
Life insurance		(32,764)
Medicare		(100,085)
Employers' benefit contributions:		
Retirement plans		(502,514)
Life insurance		(16,382)
Medicare		(100,085)
<u>Less additional budget outlays</u>		
Lump-sum annual leave	(1,313,985)	(1,313,985)
Monthly annuity payments		(3,295,521)
Lump-sum retirement payments		(4,488,199)
Retiree health insurance payments		<u>(241,946)</u>
Net savings/(costs)	\$6,645,869	(\$2,634,141)
Net savings/(costs) per retiree	\$23,076	(\$9,146)

NUMBER OF EMPLOYEES HIRED AND
TOTAL EMPLOYEES AT MONTH-END FOR ARMY MATERIEL COMMAND
DURING FISCAL YEAR 1988

	<u>Number hired during month</u>	<u>Total employees</u>
October 1987	977	109,255
November 1987	881	109,480
December 1987	484	109,712
January 1988	319	108,689
February 1988	250	106,799
March 1988	143	105,772
April 1988	275	104,284
May 1988	730	104,061
June 1988	845	104,152
July 1988	573	104,139
August 1988	568	103,848
September 1988	<u>846</u>	103,692
Total	<u>6,891</u>	

Note: The end of the month strengths were obtained from the U.S. Army Civilian Personnel Information System's monthly strength reports and include full-time and part-time permanent, full-time and part-time temporary, and intermittent employees.

NUMBER OF EMPLOYEES HIRED AND
TOTAL EMPLOYEES AT MONTH-END FOR AIR FORCE'S OKLAHOMA CITY AIR
LOGISTICS CENTER - OCTOBER 1987 THROUGH DECEMBER 1988

<u>Year and month</u>	<u>Number hired during month</u>	<u>Total employees</u>
Fiscal Year 1988:		
October 1987	5	16,973
November 1987	6	16,880
December 1987	2	16,412
January 1988	2	15,989
February 1988	5	15,939
March 1988	2	15,876
April 1988	12	15,792
May 1988	57	15,777
June 1988	12	15,704
July 1988	11	15,635
August 1988	24	15,586
September 1988	<u>32</u>	15,511
Total	<u>170</u>	
Fiscal Year 1989:		
October 1988	685	16,149
November 1988	104	16,169
December 1988	<u>493</u>	16,718
Total - 1st Qtr.	<u>1,282</u>	

Note: The end of the month strengths were obtained from the Air Logistics Center monthly strength reports and include full-time permanent and temporary employees. The Center does not employ any part-time employees.

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