
BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Director
Office Of Management And Budget

Reduction In Force Can Sometimes Be More Costly To Agencies Than Attrition And Furlough

GAO examined eight 1982 reductions in force (RIFs) in eight federal agencies. GAO found that when all quantifiable costs were considered, both budgetary and indirect, and when salary savings were assessed in relation to what could have been achieved by attrition, six of the eight RIFs were not cost-effective compared to attrition. When only budgetary savings and costs were considered, half of the RIFs were not cost-effective compared to attrition.

GAO also found that in many of the eight RIFs, the number of employees who were downgraded was high and the costs associated with downgrading were substantial. In general, women, except in two agencies, and minorities, except in one, were overrepresented among employees affected by the RIFs. However, some of the cases of overrepresentation were small.

Overall, GAO found that agencies often resort to RIF as a means of reducing costs, although RIFs can cost more than they save. When they do, attrition is the more cost-effective strategy for reducing the size of the work force. Further, when RIF budgetary savings are small, furlough coupled with attrition may be an effective alternative for avoiding budgetary deficits.



032636/127459

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20877**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D. C. 20548

PROGRAM EVALUATION
AND
METHODOLOGY DIVISION

B-217419


The Honorable David A. Stockman
Director, Office of
Management and Budget

Dear Mr. Stockman:

This report documents an analysis of the savings and costs of eight RIFs and provides a methodology for agencies to use to compare the potential fiscal impacts of RIF and attrition when faced with the need to reduce staff size. It also contains an assessment of the extensiveness of downgrading that resulted from these RIFs. Finally, it includes a detailed analysis of the effects of these RIFs on the employment status of women and minorities.

We are sending copies of this report to the agencies whose RIFs we reviewed. Copies will also be made available to others who are interested.

Sincerely,


Eleanor Chelimsky
Director

D I G E S T

Since fiscal year 1981, more than 11,500 federal workers have lost their jobs from reductions in force (RIFs). These RIFs are part of a broader program spanning the past few years that was designed to reduce the size of the federal work force. The greatest reliance was placed on attrition, with a partial freeze on hiring. However, RIFs accounted for about 10 percent of the overall 1982 reduction. There seems to be general agreement that RIFs are the least humane method of reducing the work force, but their cost-effectiveness in relation to other factors has not been well established.

OBJECTIVES, SCOPE, AND METHODOLOGY

GAO examined in detail three aspects of the RIF process in eight agencies in fiscal year 1982: (1) savings and costs and how the net savings for agencies compare with what could have been achieved by attrition and furlough, (2) the extent and duration of RIF-related downgrading, and (3) the effect on the employment of women and minorities. The results cannot be generalized to all RIFs, but they reflect a range of outcomes of the RIF process and provide some lessons that GAO believes should be considered when future RIFs are contemplated.

GAO's assessment included the measurement of saving and cost factors that affect agency budgets and that have an indirect effect on an agency's actual expenditures. Budgetary savings are the salary savings from RIFs. Costs include severance pay, lump-sum annual leave, unemployment compensation, transfers, and contracts for job-search assistance. Indirect costs are the consequences of the RIF process that do not alter an agency's budget but do affect its efficiency in achieving its mission. They include the costs of processing and administering the RIF, providing job-search assistance, resolving appeals and grievances, and hiring employees to fill jobs unintentionally left vacant by the RIF. They also include the costs of downgrading--that is, the overpayment to employees who retain their

pre-RIF salaries after being assigned, because of the RIF, to positions whose salaries are normally lower. GAO also analyzed RIF-related savings and costs for the civil service retirement system. (pp. 7-17)

Some saving and cost factors could not be quantified. One of the most significant may be the costs related to reduction in productivity caused by a RIF. Most of the factors excluded from the analysis were costs; thus, net savings may be overestimated. (pp. 7-9)

GAO examined RIFs at five agencies in Washington, D.C.,

- Economic Regulatory Administration, U.S. Department of Energy,
 - Employment and Training Administration, U.S. Department of Labor,
 - Federal Railroad Administration, U.S. Department of Transportation,
 - General Services Administration, and
 - Office of Personnel Management
- and at three others
- Consumer Product Safety Commission, Bethesda, Maryland,
 - Occupational Safety and Health Administration, U.S. Department of Labor, Dallas, Texas, and
 - Transportation Systems Center, U.S. Department of Transportation, Boston, Massachusetts.

RIFs in these eight agencies in fiscal year 1982 affected 2,049 federal employees with some type of job change, including 557 who were separated from the agencies.

RIFS WERE NOT ALWAYS A COST-EFFECTIVE STRATEGY FOR AGENCIES IN REDUCING THE SIZE OF THE WORK FORCE

When all quantifiable savings and costs were considered, budgetary and indirect, and when salary savings were assessed in relation to what could have been achieved through attrition, six of the RIFs were not as cost-effective as attrition.

When savings and costs were considered only for the fiscal year in which a RIF occurred, seven RIFs were found to result in net costs. This means that attrition would have been more cost-effective than most of the RIFs. When the analysis focused only on budgetary costs and savings (in excess of potential savings from attrition), the findings were somewhat different: the RIFs in four agencies were cost-effective, and three of these were cost-effective when the analysis was confined to the year of the RIFs. In sum, GAO found that RIFs do not always result in budgetary savings beyond what might be achieved through attrition. (pp. 18-22)

WHEN NET BUDGETARY SAVINGS WERE SMALL,
ATTRITION AND A SHORT FURLOUGH COULD
HAVE ACHIEVED THE SAME RESULT

For the three agencies that had budgetary savings during the RIF fiscal year, GAO determined the number of furlough days that would have been required for an agency as a whole, given average attrition, to match the RIF savings. In one of the three agencies, less than a day of furlough could have achieved the same budgetary savings. In the two other agencies, where net savings were larger, longer furloughs would have been necessary: more than 9 days in one agency and more than 29 days in the other. Thus, furloughs may be a feasible alternative to RIFs in some instances but not in others. (pp. 22-23)

PATTERNS OF RIF SAVINGS AND COSTS
ARE NOT CONSISTENT ACROSS AGENCIES

Each RIF seems to be unique in its saving and cost record. In the eight RIFs, cumulative salary savings per employee leaving the agency ranged from slightly more than \$120,000 to as little as \$2,300. Severance pay for each employee separated by a RIF cost from \$1,600 to \$13,600. Although economies of scale might have been anticipated in RIF processing, cost per employee ranged from \$172 to \$2,069 and had no direct relationship to the size of the RIFs. (pp. 23-25)

RIFs RESULT IN BOTH SAVINGS FOR AND
COSTS TO THE CIVIL SERVICE RETIREMENT
SYSTEM

RIFs affect the civil service retirement system in three ways. (1) Employees who are separated

by a RIF either withdraw their funds from the system (most do) or remain in the system to receive a pension benefit when they become eligible for it later. The withdrawal of funds for employees being separated is an immediate cash outlay from the system. GAO estimates that the eight RIFs combined required cash outlays of about \$3.2 million.

(2) The long-term liability of the retirement system to pay benefits to separated employees is eliminated for those who withdraw their funds and is diminished (compared to what might have happened without the RIF) for those who keep their funds in the system. No exact estimate of reduced liability could be made, but for these eight RIFs combined, it could be as much as \$24.8 million. Although there are several reasons why the curtailment in liability is very unlikely to be as high as the upper limit, it may well be a sizable proportion of that total. (pp. 29-33)

(3) When RIFs result in early retirements--five of the eight did--the cost in benefits to early retirees is higher than if the RIF-related early retirement had not been granted. GAO estimates that the net increase in the present value of future benefits that the retirement system will pay to early retirees in the five agencies is \$3.4 million. (pp. 29-33)

There is a short-term outlay from the retirement system in the return of employees' contributions and an additional cost for early retirement, but the reduced liability from the RIF separations may well exceed these costs in the long term. The savings accrue to the retirement system, not the agencies that have conducted RIFs. (pp. 29-33)

**RIF DOWNGRADING IS EXTENSIVE, BUT
MANY DOWNGRADED EMPLOYEES DO NOT
REMAIN LONG IN THEIR POST-RIF JOBS**

As with savings and costs, the extent of downgrading varied. In one agency, the number of downgraded employees exceeded the total of all those who were separated, reassigned, and transferred and who retired because of the RIFs. In one agency at the other extreme, downgrading made up less than 12 percent of all RIF actions. (pp. 34-35)

In all eight agencies, more than 55 percent of the downgraded employees dropped not more than two grades. Also, in some agencies, many downgraded employees were promoted between the time of the RIF and GAO's data collection (summer 1983). In three agencies, more than half of the downgraded employees were promoted after the RIFs. In contrast, in two other agencies, the rates were 5 percent and 20 percent. The post-RIF attrition of downgraded employees exceeded 20 percent in five agencies. The combination of post-RIF promotions and attrition resulted in few downgraded employees' remaining in their post-RIF job at some agencies, although the pattern varied substantially. (pp. 36-39)

WOMEN AND MINORITIES WERE
DISPROPORTIONATELY AFFECTED BY THE
RIFS BUT NOT IN ALL AGENCIES

In six agencies, women (minority and nonminority) were overrepresented among the employees affected by the RIFs (those who were separated, downgraded, reassigned, and transferred and who resigned and retired) compared to their representation in the agencies; in two they were underrepresented. In four agencies, the overrepresentation was 4 percentage points or less. In two other agencies, the difference was 12 percentage points. However, with regard only to separations--that is, job loss--women were overrepresented in all eight agencies. (pp. 40-44)

Comparable analysis of minorities (disregarding sex) showed overrepresentation of those affected by RIFs in seven agencies. In two agencies the difference was only 1 percent. In three, there was a difference of 10 percent or more. As for separations, minorities were overrepresented in all but one agency. (pp. 40-44)

To determine whether attrition would have resulted in the separation of women and minorities at rates similar to those resulting from the RIFs, GAO compared data on attrition for the 12 months prior to the RIFs with data on separations because of RIFs in the six agencies from which data were available. In four agencies, more women were separated by the RIFs than would have been likely to leave on their own. In two agencies, the pattern was reversed. In five agencies, the RIFs resulted in a greater loss of minority employees than would have been expected from attrition. (pp. 47-49)

CONCLUSIONS

Each RIF that GAO examined had a distinctive pattern of saving and cost, downgrading, and consequences for women and minorities. This means not that agencies cannot predict what the effect of a RIF will be but that each prediction will have to be specific to the agency considering a RIF. (pp. 23-49)

Given the consensus that RIFs are the least humane method of achieving budgetary reductions, it is important that they be at least cost-effective. However, GAO's finding is that when both budgetary and indirect costs are considered, many RIFs were not cost-effective for the agencies compared to attrition. When budget alone is considered, more RIFs show net savings, yet in some cases the savings were small. (pp. 18-20)

When both budgetary and indirect costs are considered, attrition in six of the eight agencies GAO examined would have been a more cost-effective personnel-reduction strategy than the RIFs. In these agencies, attrition could have reduced staffing to the post-RIF levels in 12 months or less even at their lowest recent attrition rates. When budgetary costs alone are considered, half of the agencies would have fared better with attrition than with the RIF. (pp. 18-22)

Of the three agencies whose RIFs resulted in a budgetary saving during the fiscal year of the RIF, one could have matched the saving with less than 1 day of furlough. The net budgetary saving from RIFs can be small enough in some cases to make furlough a reasonable alternative. (pp. 22-23)

The RIFs GAO examined had positive and negative effects on the civil service retirement system. The structure of the system results in a substantial loss in future retirement benefits to many employees separated by RIFs but a saving for the system. Early retirements, however, increase the cost to the system. (pp. 27-33)

The cost of downgrading--the payment of pre-RIF salaries to employees who move to positions normally held by lower-salaried staff--was one of the highest costs in all the RIFs GAO examined. (pp. 25-26)

Most downgraded employees fell not more than two grades. There was a high incidence of the post-RIF promotion of downgraded employees in many agencies but not all. Some agencies also experienced substantial attrition of downgraded employees. Thus, RIFs may lead to substantial disruption to the agencies in the future as some downgraded employees are promoted and others voluntarily leave. (pp. 34-39)

GAO found that in most (but not all) agencies, women and minorities were overrepresented among the employees affected by RIFs compared to their overall representation in the agencies. However, some overrepresentation was by only a few percentage points. An examination of separations caused by RIFs showed larger disparities between women and men and between minorities and nonminorities. Further, given historical attrition patterns, the rates at which women and minorities were separated from the agencies in some of these RIFs were higher than the likely rates at which they would have left voluntarily. (pp. 40-49)

MATTERS FOR CONSIDERATION

Agencies faced with the necessity of budgetary or personnel reductions cannot pinpoint the exact net savings for or costs of a proposed RIF, but they can make reasonable estimates of the budgetary consequences and indirect costs. These estimates could then be compared with likely consequences of attrition and furlough. Most of the information necessary to make these comparisons is available in agency payroll and personnel records. Data on attrition by job series and grade--needed for both the calculation of salary savings and the comparison of RIF and attrition--are obtainable from a careful review of agency records. However, more systematic retention of these records would facilitate analysis. (pp. 55-58)

More thoroughly assessing the savings and costs prior to a RIF, in comparison to savings and costs for attrition and furlough, would provide a stronger basis for choosing alternatives when staffing or budgetary reductions are required. Although agencies have the raw data with which to make assessments, analyses would be simplified if agency records on attrition were reorganized and if specific steps were followed in comparing the

likely saving from RIF, attrition, and furlough.
(p. 57)

AGENCY COMMENTS AND GAO'S RESPONSE

GAO received comments on a draft of this report from the agencies whose RIFs were reviewed and from the U.S. Office of Management and Budget. All the agencies agree that attrition may be more cost-effective than a RIF in some cases, but several emphasize that there are some situations in which a RIF is the only reasonable alternative. The Office of Personnel Management suggests that a RIF may be the only practical solution for reducing work loads and eliminating job functions. GAO agrees that RIFs are essential in some circumstances but believes that attrition may be feasible and more cost-effective in others and concludes that a cost-effectiveness analysis of alternatives is necessary in almost all situations. (pp. 75-93)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	The recent use of RIF	1
	Objectives, scope, and methodology	3
	The organization of this report	6
2	A METHODOLOGY FOR ANALYZING RIF SAVINGS AND COSTS	7
	Identifying and categorizing saving and cost elements	7
	Categorizing RIF factors by type, place, and time	9
	Finding the data for measuring the saving and cost elements	10
	Comparing RIF and attrition	15
	Patterns in the RIF data	16
	Assessing the effects of RIFs on retirement	17
	Limitations and strengths of the methodology	17
3	OUR FINDINGS ON AGENCY SAVINGS AND COSTS	18
	What were the net savings and costs of the eight RIFs when all savings and costs are considered?	18
	What were the fiscal-year savings and costs of the eight RIFs?	20
	What were the multiyear budgetary savings and costs of the RIFs?	20
	What were the RIF-year budgetary savings and costs of the RIFs?	21
	Were the eight RIFs cost-effective compared to attrition in reducing personnel levels?	21
	Could furlough have been an effective alternative in achieving budgetary savings?	22
	Were any consistent patterns of savings and costs evident across the eight agencies?	23
	What did the downgrading created by RIF actions cost the agencies?	25
	How would OPM's proposed changes to the RIF regulations affect RIF savings and costs?	26
	Summary	28

		<u>Page</u>
CHAPTER		
4	ESTIMATES OF SAVINGS FOR AND COSTS TO THE RETIREMENT SYSTEM	29
	How RIFs affect the retirement system	29
	A method of assessing retirement-system savings and costs	30
	Findings related to the retirement system	31
	Conclusions on the retirement system	32
5	RIF-RELATED DOWNGRADES	34
	RIFs result in downgrading	34
	A methodology for assessing downgrades	35
	The number of downgraded employees	35
	Downgrades are short-lived	37
	Summary	39
6	THE EFFECTS OF RIFs ON WOMEN AND MINORITIES	40
	Did the eight RIFs have a disproportionate effect on women and minorities in comparison to their representation in each agency as a whole?	41
	Did the RIFs result in a greater number of separations of women and minorities than would have resulted if the post-RIF staffing levels had been achieved by attrition?	47
	Summary	49
7	SUMMARY, CONCLUSIONS, AND MATTERS FOR CONSIDERATION	50
	Summary	50
	Conclusions	54
	Matters for consideration	55
APPENDIX		
I	Glossary	59
II	A description of RIF procedures	62
III	Saving and cost elements not included in the analysis	64
IV	Rates of attrition in positions abolished by RIFs in eight agencies	66
V	How we estimated the effect on federal pension costs of reducing employment by RIF rather than attrition	67

		<u>Page</u>
APPENDIX		
VI	Dollar summary of RIF effects: savings calculated with lowest attrition rate	70
VII	Dollar summary of agency RIF cost items	71
VIII	Number of employees affected by the RIFs by category	72
IX	Potential effects of OPM's proposed changes to the RIF regulations on saving and cost elements	73
X	Agency comments and our response	75
FIGURE		
1	The relationship between RIF savings and attrition savings: a hypothetical example	13
2	The RIF saving-cost formula	15
3	Women employed in agencies before the RIFs compared to women employees affected by the RIFs	42
4	Minorities employed in agencies before the RIFs compared to minority employees affected by the RIFs	42
5	Women employed in agencies before the RIFs compared to women in positions abolished by the RIFs	43
6	Minorities employed in agencies before the RIFs compared to minorities in positions abolished by the RIFs	43
7	Women employed in agencies before the RIFs compared to women separated from agencies by the RIFs	45
8	Minorities employed in agencies before the RIFs compared to minorities separated from agencies by the RIFs	45
9	Women employed in agencies before the RIFs compared to women downgraded by the RIFs	46
10	Minorities employed in agencies before the RIFs compared to minorities downgraded by the RIFs	46

		<u>Page</u>
FIGURE		
11	Women leaving positions abolished by the RIFs compared to women separated from agencies by the RIFs	48
12	Minorities leaving positions abolished by the RIFs compared to minorities separated from agencies by the RIFs	48
TABLE		
1	RIFs related to the president's program to reduce the size of government	2
2	The saving and cost elements in our analysis	8
3	The units and sources of data collected on agency RIF saving and cost elements	11
4	Dollar summary of RIF effects: savings calculated with mean attrition rate	19
5	The number of days necessary to achieve with the furlough the net savings achieved with the RIF in the RIF fiscal year in three agencies	22
6	The dollar savings and costs per employee in eight agency RIFs	24
7	The cost of downgrading in eight agency RIFs	25
8	A comparison of current and proposed RIF regulation provisions	27
9	Number of downgraded employees and proportion affected in relation to total in eight agency RIFs	35
10	Average grade drop of downgraded employees and the most extreme grade drop in eight agency RIFs	36
11	Promotions subsequent to downgrading in eight agency RIFs	37
12	Post-RIF attrition and retention of downgraded employees in eight agencies	38

TABLE

13	A checklist for assessing and comparing the savings and costs of RIFs, attrition, and furlough	57
----	--	----

ABBREVIATIONS

CPSC	Consumer Product Safety Commission
DOE	Department of Energy
DOL	Department of Labor
ERA	Economic Regulatory Administration
ETA	Employment and Training Administration
FRA	Federal Railroad Administration
FTE	Full-time equivalent
GAO	U.S. General Accounting Office
GM	General merit
GS	General schedule
GSA	General Services Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
RIF	Reduction in force
TSC	Transportation Systems Center

CHAPTER 1

INTRODUCTION

In this report, we present the results of our study of the saving from and cost of reductions in force (RIFs) at eight federal agencies in 1982 and our comparison of RIF with attrition and furlough as alternative means of reducing staff and budgets. We include an assessment of the downgrading that accompanied these RIFs and the results of our investigation of the effect of RIFs on women and minorities.

THE RECENT USE OF RIF

"Retrenchment" has become the watchword of the 1980's for nondefense civilians in the federal government, and it seems a likely rubric for the near future. Its aim is to reduce the size of the federal government, both its spending and the number of its employees. The administration's specific target, set in fall 1981, was to reduce employment in civilian agencies by 75,000 positions by the end of fiscal year 1984. This required personnel cutbacks of 10 percent or more in 13 agencies and lesser cutbacks in almost all others. By the close of fiscal year 1983, Office of Personnel Management (OPM) statistics showed that 71,177 full-time equivalents had been trimmed from civilian agencies.¹ With 1 year remaining to the target, nearly 95 percent of the reduction had been achieved.

Most of the reduction in the size of the federal work force was from attrition--the voluntary separation of employees from their jobs--and a concurrent hiring freeze. Calling attrition the most humane method of reducing the size of the work force, the director of OPM pledged that agency's commitment to insuring "that all reductions are achieved in the most compassionate, cost effective manner and in accordance with civil service rules and regulations."²

Even though the agencies relied on attrition to reach most of the president's personnel-reduction goal, more than 42 agencies conducted RIFs between 1981 and 1983. Analogous to a layoff in the private sector, a RIF is for the employees an involuntary separation from service. In the RIFs since fiscal year

¹The work year of a full-time employee (FTE) who is subject to a career ceiling is 2,080 hours, or 52 weeks of 40 hours of paid work. The work years of part-time and intermittent employees subject to career ceilings are also expressed in terms of "full-time equivalents," or FTEs. See appendix I for a glossary of terms related to federal reductions in force.

²Office of Personnel Management, News, December 6, 1982, p. 2.

Table 1

RIFs Related to the President's Program
to Reduce the Size of Government^a

<u>Number</u>	<u>1981^b</u>	<u>1982</u>	<u>1983</u>
Agencies	20 ^c	31	24
Separated employees	2,629	8,059	907

^aExcludes RIFs unrelated to the administration's program.

^bJanuary 1981 through September 1981.

^cThe total number of agencies may have exceeded 20. OPM's figures grouped smaller agencies into a single, "miscellaneous" category.

1981, more than 11,500 federal employees have involuntarily lost their jobs under the president's program to reduce the size of government.³ Table 1 shows the number of agencies and positions affected by RIFs that were related to the president's program in fiscal years 1981-83. The table shows the number of employees separated by RIFs under the program, but the RIFs affected a significant number of other employees through downgrades, reassignments, transfers, retirement, and voluntary resignations following the notification of a RIF. In fact, the number of these actions from agency to agency is double or more than double the number of RIF separations.

The decline in the number of RIFs between fiscal years 1982 and 1983 cannot be construed to mean that RIFs are a thing of the past. It appears that RIFs will continue to be considered a way of alleviating budgetary and personnel pressures. Several RIFs have been undertaken since fiscal year 1983.

In some situations, a RIF may be the only alternative. For example, when an entire program is abolished and dismantled within a restricted time, a RIF may be necessary. In other situations, a RIF may be one of several options. When it is, its effects must be considered in relation to the effects of the other options.

There is little doubt that the involuntary loss of a job is highly stressful. Indeed, OPM's director has indicated that for this reason, as well as others, RIFs are to be avoided whenever possible. Among the other reasons to avoid RIFs is cost. While a RIF may entail saving from the cessation of salaries and fringe

³Office of Personnel Management, "Staffing Status Report January 1984," March 14, 1984, chart 1.

benefits, it also involves the cost of severance pay, lump-sum annual-leave payments, and unemployment compensation. RIFs are also expensive to administer. There may be less quantifiable costs also; RIFs may have adverse effects, for example, on organizational effectiveness. (A description of RIF procedures is included in appendix II.) Whether the net effect of a RIF is a saving or a cost has not previously been examined thoroughly.

Another reason to avoid RIFs is that they produce a substantial "ripple effect" that disrupts far more people than those who are separated. Not only are some employees separated from the federal personnel system, but also many others move during a RIF within an agency from one position to another. Frequently, higher-graded staff are reassigned to positions normally filled by others in lower grades. Usually, the reassigned staff continue to receive the salaries they had been paid before the RIF, which means that an agency pays a higher salary than is usual at the lower grades for at least 2 years.

Additionally, RIFs may affect women and minorities adversely. Their vulnerability in the RIF process is related partly to veterans' preference and seniority. More men and nonminorities than women and minorities have veterans' preference; it is also likely that men and nonminorities have greater seniority than women and minorities. Therefore, RIFs may be inconsistent with affirmative action.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this project was to develop insight into the effects of RIFs on (1) savings and costs, (2) downgrading, and (3) the retention of women and minorities. Recognizing that budgetary and personnel cutbacks will continue, we compared RIFs with what might be achieved by alternative means. Our principal comparison was with attrition. We also compared RIFs with furlough as a way of cutting back when budgetary concerns are important. Specifically, we sought to achieve the following objectives:

1. develop a methodology for assessing the savings from and costs of RIFs,
2. assess and compare the savings from and costs of RIFs with those of attrition and furlough,
3. determine whether agencies can estimate the relative savings from and costs of RIFs in relation to attrition and furlough, in order to make this information available for decisionmaking,
4. measure the extent of the downgrading caused by RIFs, and

5. assess the proportions of women and minorities who have been separated from employment by RIFs with the proportions of those who had been employed before the RIFs and to make a similar assessment for attrition in similar job series.

We began with a search of the literature on RIFs, including earlier reports by the U.S. General Accounting Office, analyses issued by executive agencies, and academic research material.⁴ We combined this information with data from preliminary visits to several agencies that had conducted RIFs, in order to design a methodology for assessing savings and costs. We describe our methodology in detail in chapter 2. In summer 1983, we collected data related to costs, savings, downgrading, and the effect on women and minorities of RIFs conducted in eight agencies in fiscal year 1982:

1. Consumer Product Safety Commission (CPSC), Bethesda, Maryland,
2. Economic Regulatory Administration (ERA), U.S. Department of Energy, Washington, D.C.,
3. Employment and Training Administration (ETA), U.S. Department of Labor, Washington, D.C.,
4. Federal Railroad Administration (FRA), U.S. Department of Transportation, Washington, D.C.,
5. General Services Administration (GSA), Washington, D.C.,
6. Occupational Safety and Health Administration (OSHA), U.S. Department of Labor, Dallas, Texas,
7. Office of Personnel Management (OPM), Washington, D.C., and
8. Transportation Systems Center (TSC), U.S. Department of Transportation, Boston, Massachusetts.

⁴Among the U.S. General Accounting Office reports were Staff Reductions in the Office of the Solicitor, Department of the Interior, GAO/FPCD-82-3 (Washington, D.C.: January 27, 1982), and Savings from 1981 and 1982 Personnel Ceiling Reductions, GAO/FPCD-82-23 (Washington, D.C.: January 15, 1982). Other material included Leonard Greenhalgh and Robert D. McKersie, "Cost-Effectiveness of Alternative Strategies for Cut-back Management," Public Administration Review, 40 (November-December 1980), 575-84, and Harry C. Dennis, Jr., "Reductions in Force: The Federal Experience," Public Personnel Management Journal, 12 (Spring 1983), 52-62.

Our selecting these agencies was not based on any indication of deficiency of any nature on their part. We made our selection with the following criteria. We selected only

- 1982 RIFs, since data for 1981 RIFs were inaccessible,
- RIFs that affected 50 or more employees, thus including more than 80 percent of the employees separated by RIFs in 1982,
- RIFs in fairly common job series (we excluded public-health service physicians, for example), striving for an illustrative rather than atypical sample, and
- RIFs in which budgetary saving was among the official reasons. We thought that since one of our areas of interest was savings and costs, we should select RIFs that had been officially intended, at least in part, to save money.⁵

RIFs in 15 agencies met all our criteria. We selected the 8 agencies that allowed for the widest diversity and the inclusion of some regional offices. Across all 8 agencies, 2,049 employees were affected by these RIFs.

We made a series of visits to each agency. Our initial meetings were to get an overview of RIF operations, to determine which staff would know the agency's effort in processing the RIF, and to identify the location of the payroll and personnel records of the employees whom the RIF had affected. Then we collected from the agencies' records data such as severance pay and unemployment compensation. We used structured worksheets to collect data such as the cost of processing RIFs. Data for the analysis of savings and costs related to the retirement system were collected from OPM. We found that several of the agencies had collected and assessed some of the costs of their RIFs. GSA, for example, kept track of RIF processing and administration costs. None of the agencies, however, had conducted a complete assessment of savings and costs. (We conducted our review in accordance with generally accepted government auditing standards.)

⁵Our initial screening interviews indicated that all the RIFs we selected were conducted at least in part for budgetary reasons. ERA, however, in its comments on the draft report, indicated that ERA's RIF was conducted for the purpose of a reorganization. The assessment of the savings and costs of this RIF are still important, since the agency would want to conduct its staffing changes, regardless of purpose, as cost effectively as possible.

THE ORGANIZATION OF THIS REPORT

Six chapters follow. In chapter 2, we describe the methodology of our analysis of savings and costs. In chapter 3, we present our findings from the analysis of savings and costs for the eight agencies. Chapter 4 covers the savings for and costs to the retirement system. In chapter 5, we provide information on downgrading related to RIFs and, in chapter 6, we provide information on the effect of RIFs on women and minorities. Finally, in chapter 7, we summarize our findings and discuss an approach that agencies could use in assessing the savings from and costs of RIFs, in comparison with alternatives, when personnel cutbacks are being made.

CHAPTER 2

A METHODOLOGY FOR ANALYZING

RIF SAVINGS AND COSTS

In this chapter, we discuss our methodology for assessing RIF savings and costs. We describe how we conceptualized their elements and how we measured them. The process of comparing net savings from RIFs with what could have been saved by attrition is also presented. Our strategy for analyzing savings and costs involved several steps. First, we collected data on savings and costs from each agency's RIF. Then we estimated agency attrition from historical rates and compared the cost-effectiveness of the RIF to our attrition assessments. Further, since budgetary saving was an important goal of these RIFs, we calculated the length of furlough that would have been required for budgetary saving comparable to saving from the RIF.

IDENTIFYING AND CATEGORIZING SAVING AND COST ELEMENTS

An overall assessment of RIF savings and costs requires the identification of the individual saving and cost elements that contribute to the total. We gathered information on saving and cost factors from a search of the literature and coupled this with information from discussions with agency staff who had been involved in the RIF process. As we developed a list of factors, we assessed each item on two dimensions: how collectible it was and its magnitude. We were aware from the outset that some saving and cost elements relevant to the RIF process could or should not be included in the analysis because they fall short on one or both of these dimensions. We wanted to examine these factors carefully for their effect on the quantitative analysis.

The federal income tax that is lost with the loss of jobs in a RIF is an example of uncollectible costs in our study. The actual dollar value of this tax loss is elusive. Although tax-withholding amounts may be available from agency payroll records, the actual end-of-year tax liability attributable to the unemployment or underemployment of employees separated in a RIF would not have been collectible within the scope of our effort.

Productivity was also not a collectible item within the scope of our study. While there is no widespread agreement on whether a RIF increases or decreases productivity in an agency in the long term, there is general agreement that a RIF results in a short-term loss of productivity and, thus, a cost to the agency. The short-term loss comes from diminished morale with consequent lower levels of work, among other things. To assess the loss of productivity from a RIF would require the measurement and comparison of productivity before, during, and after the RIF, but measures of productivity were not available in the RIF settings we examined.

The magnitude of savings and costs was our second consideration. Some costs are too small to justify a collection effort--the cost of the paper on which RIF notices are printed, for example. We might have been able to determine the number of reams of paper that were used to print RIF notices, and we might have translated cost per ream into a dollar total, but the effect of this expense on overall saving and cost seemed minimal.

Our goal was to include in our list as many nontrivial saving and cost elements as possible. The final list is in table 2.

Table 2
The Saving and Cost Elements
in Our Analysis^a

<u>Element^b</u>	<u>Type</u>	<u>Place</u>	<u>Time</u>	
			<u>Within RIF FY</u>	<u>After RIF FY</u>
Saving				
Retirement fund	Direct	Retirement system	no	yes
Salary	"	Agency	yes	yes
Cost				
Appeals and grievances	Indirect	Agency	yes	yes
Early retirement	Direct	Retirement system	yes	yes
Job-search assistance	Indirect	Agency	yes	yes
Job-search assistance contracts	Direct	"	yes	no
Lump-sum annual leave ^c	"	"	yes	no
Processing and administration	Indirect	"	yes	no
Rehiring	"	"	yes	yes
Relocation and transfer	Direct	"	yes	no
Retirement fund	"	Retirement system	yes	yes
Severance pay	"	Agency	yes	yes
Skills imbalance	Indirect	"	yes	yes
Unemployment compensation	Direct	"	yes	yes

^aDefinitions of type, place, and time are in the next section.

^bEach element related to salary includes 12.6 percent fringe benefits: 7 percent retirement-fund contribution, 3.7 percent health insurance, and 1.9 percent awards, bonuses, and workmen's and unemployment compensation. As unemployment compensation is being counted separately as a cost, its inclusion here results in a small amount of double counting. We could not, however, separate this item out of the 1.9-percent fringe-benefit factor, and so we proceeded to include it. The table excludes 1.3 percent Medicare, which was not in effect during the RIFs.

^cIn principle, an agency has an obligation to fund annual leave for all employees as it is accrued. In the long term, the cost of all earned and unused annual leave will be paid. A RIF accelerates the payment of lump-sum annual leave. Because we are concerned with the effects of the RIF on agency budgets, and because a RIF adds to budget outlays for lump-sum leave, we have included it as a cost.

Also of importance was a second list of saving and cost factors that appear to be associated with RIFs but could not be included in our quantitative assessment. (See appendix III; most of the elements in appendix III are cost elements.) A review of the two lists shows that our saving-cost assessment is likely to understate costs more than it understates savings, overall, since some of the uncollectible cost elements may be substantial while the uncollectible saving element seems comparatively small. That is, in our analysis, a RIF that appears to have saved more than it cost may in fact have cost more than it saved, had all elements been collected and accounted for.

CATEGORIZING RIF FACTORS BY TYPE, PLACE, AND TIME

The saving and cost factors that were collectible and of sufficient magnitude were classified in relation to three dimensions. The first is "type." Some elements--lump-sum annual leave and severance pay, for example--are direct costs. They require an agency's expenditure of funds. The saving in salary attributable to the separation of employees in a RIF is direct budgetary saving or a reduction in expenditures. It is these savings and costs that are of significance to an agency when it conducts a RIF for budgetary reasons, because they have a direct effect on the budget of that agency.

An indirect cost does not alter an agency's budget but does drain the agency's resources for accomplishing its mission efficiently. The cost of processing and administering a RIF is an indirect cost, for example. It may be that no additional salary is paid to the staff who process a RIF, but their time, and thus their salary, are diverted from the activities related to the agencies' mission that they might otherwise have performed. We classified each cost element as either a direct item or an indirect item.

The second dimension is the place or the location of the entity that experiences the saving or cost. For most elements, it is within an agency that the savings and costs appear. Severance pay and processing and administration, among others, are examples of agency costs. Some factors are outside the agency's purview, however. Savings and costs related to an employee's retirement affect not the agency but the civil service retirement system. We classified the saving and cost elements as occurring either within an agency or within the retirement system.

The third dimension for classifying elements is time. Agencies that implement RIFs for budgetary reasons have an interest in savings and costs within the budget cycle, being particularly concerned with their budgetary status at the close of the fiscal year. This is true whether a RIF takes place early in the fiscal year--when it is thought to maximize net budgetary savings with a minimum of separations--or later in the year. We

directed some of our effort toward assessing savings and costs for an agency within the fiscal year.

However, not all the savings and costs related to RIFs occur during the fiscal year in which a RIF is conducted. Many elements extend into the following year or beyond. The cost of processing appeals and grievances that arise from a RIF, and the salary savings from separating employees, may extend well beyond the close of the budgetary year. Therefore, we made sure that we assessed all savings and costs, both those that occurred within the fiscal year of the RIF and those whose effect was felt after it. Table 2 thus indicates the type, place, and time of each element we examined.

FINDING THE DATA FOR MEASURING THE SAVING AND COST ELEMENTS

Table 3 lists our sources of data for each saving and cost element. The measurement of many of these elements and, thus, the data collection are straightforward once the employees affected by a RIF have been identified. The cost of RIF-related severance pay, for example, was collected from agency payroll records for each employee who was separated from the agencies. The amount of unemployment compensation paid to these employees was available from quarterly unemployment assessments, sent to agencies by the U.S. Department of Labor, listing each person for whom unemployment was paid during the quarter and the amount that was paid. Determining total unemployment-compensation costs required us to identify on the quarterly reports the employees who had been separated by the RIF and to total the amounts paid to them.

The costs of processing and administration

Measuring and collecting other saving and cost elements was more complex. For example, there was no specific source for the costs of processing and administering a RIF. We reconstructed these from the agencies' estimates of the time staff spent on RIF activities and the salaries that were paid for that time. However, data on some RIF costs were lost: although the agencies were able to give us numbers on the payroll, personnel, and budget staff who had been specifically assigned to RIF tasks, they were unable to estimate the time line-managers spent deciding which positions to eliminate, counseling employees affected by the RIF, and reassigning their work. Our figures on the cost of processing and administering RIFs are therefore conservative, and the same must be said about appeals, grievances, and job-search assistance.

The cost of downgrading

Most employees who are downgraded by a RIF continue to receive the same salaries they would have received had the RIF not occurred. This means they are paid more than what is

Table 3

The Units and Sources of Data Collected
on Agency RIF Saving and Cost Elements

<u>Element^a</u>	<u>Unit</u>	<u>Source</u>
Saving		
Salary	Separated employees	Agency payroll
Cost		
Appeals and grievances	Entire RIF	Agency records on salary of staff processing and administering RIF
Job-search assistance	Separated employees	Agency records on salary of staff in job-search assistance
Lump-sum annual leave	"	Agency payroll
Processing and administration	Entire RIF	Agency records on salary of staff processing and administering RIF
Rehiring	"	Agency records on salary of staff in RIF-related hiring
Relocation and transfer	"	Agency records on relocation and moving expenses
Severance pay	Separated employees	Agency payroll
Skills imbalance	Downgraded employees	Agency payroll data on pre-RIF and post-RIF grades and salaries
Unemployment compensation	Separated employees	Unemployment-compensation quarterly billing to agency

^aEach element related to salary includes 12.6 percent fringe benefits.

considered normal for the lower-level positions they fill. A downgraded GS-13 employee earning \$1,390 biweekly may displace a GS-9 employee whose salary is \$806 biweekly. The \$584 difference is the biweekly cost of the downgrading--that is, the overpayment for the job.

To determine the total cost of downgrading, we ascertained the pre-RIF salary of each downgraded employee and the salary that was appropriate to the grade of the employee being thus displaced. Because downgraded employees can be promoted again, reducing or eliminating the salary differences, we had to track the promotions of downgraded employees to avoid overestimating the cost. We also tracked the resignations of downgraded employees to avoid overestimating the cost of downgrading for those leaving an agency. These procedures gave us a measure of the difference between pre-RIF and post-RIF salaries during the time the downgraded employees held their post-RIF positions.

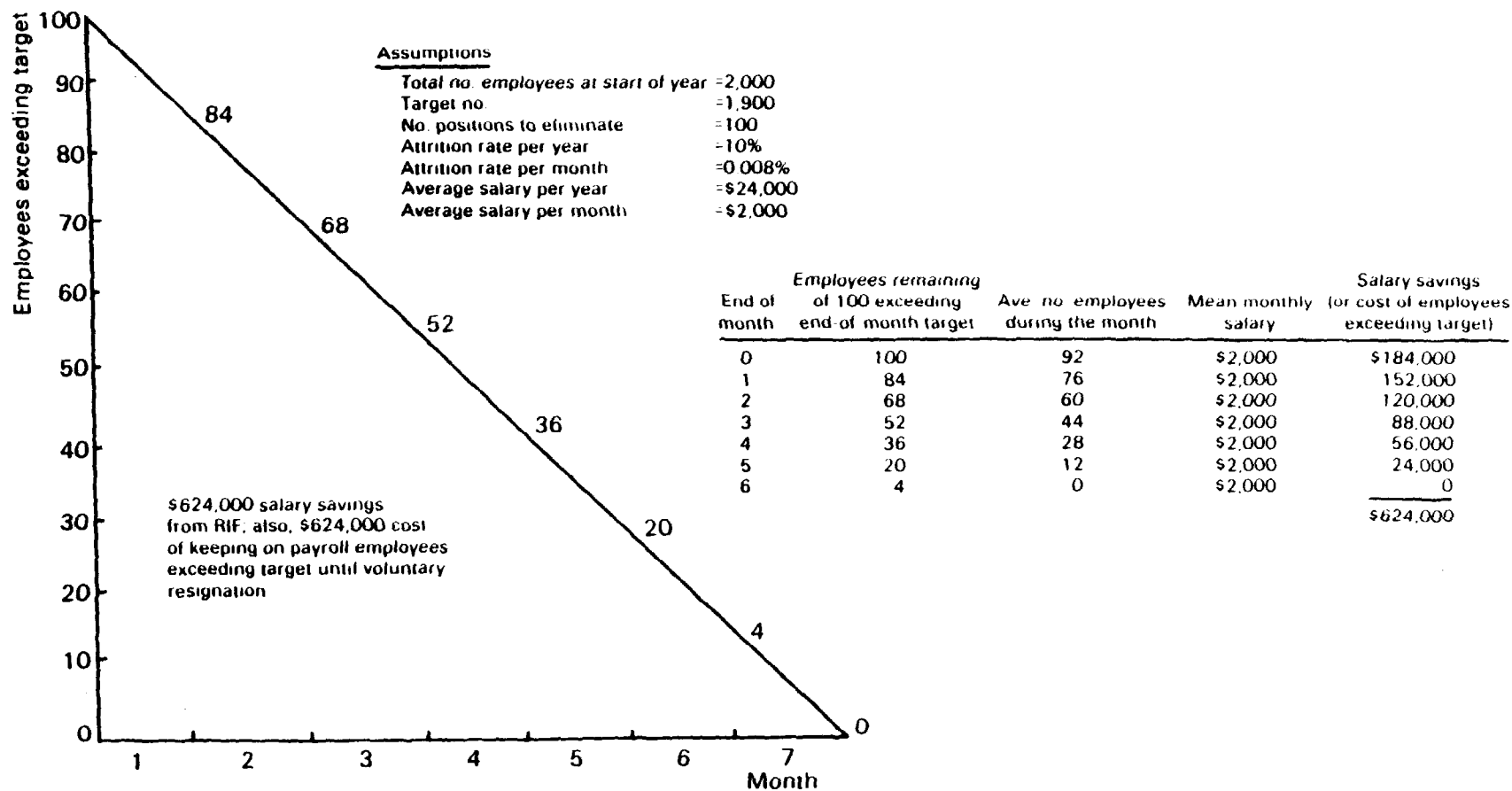
We could not measure this cost for the entire 2 years during which the downgraded employees continued to receive their prior salaries, because insufficient time had elapsed between the RIFs and our data collection. Therefore, we worked with only 12 months of downgrading costs, which correspond approximately to the period of time for which we could collect data. Further, many downgraded employees were promoted from their post-RIF grades to grades that were higher, although these were lower than their initial grades. To simplify the analysis, we counted no downgrading costs beyond the first post-RIF promotion. This means that our calculations underestimate actual downgrading costs.

Salary savings

Perhaps our most complex measure is that of salary savings associated with a RIF. The salaries of employees separated by RIFs were readily available from agency payroll records, and we know that the salary outlay for employees who are separated by a RIF ceases immediately. What was hard to determine was the appropriate length of time for which to count the savings. Counting the salary of employees for 1 year or some other arbitrary length of time assumes no turnover in agency personnel. All agencies have some attrition, although they vary in their attrition rates. Attributing salary savings to a RIF must be related to what would have occurred in the absence of the RIF. The length of time for which the salary saving is calculated depends upon how long it would have taken attrition to eliminate the staffing of positions abolished by the RIF.

An agency that cuts staffing levels by means of attrition must bear the cost of the salaries of the employees who exceed the staffing goal until they, or their equivalents, leave. The salary cost of reducing staff by attrition is equal to the gross salary savings from a RIF. As shown in figure 1, once staffing is reduced to the targeted level, the savings in salary are the

Figure 1
The Relationship Between RIF Savings and Attrition Savings: A Hypothetical Example^a



13

^a The actual relationship of the reduction of employees over time is slightly curvilinear, as the base number of remaining employees (to which the attrition rate is applied) is reduced each month. The relationship has been shown here for simplification as a straight line. The actual calculation of salary savings as reported in chapter 3 uses the more accurately curvilinear approach.

same from that point on, regardless of how the reduction was accomplished.

We collected actual data for attrition in the job series and grades of the positions abolished in each agency. We calculated the rate of attrition in these categories combined. We used this rate to reduce the salary savings per month until such time as salary savings were zero.¹ Because we know that attrition rates are variable in an agency, we made two salary savings calculations for each agency. The first was the salary savings had attrition remained at the mean of the yearly attrition rates that were available for the calculation. The second attrition rate was the lowest yearly rate during the time periods from which historical attrition rates were available. This provided an indication of the relationship between RIF and attrition in terms of savings and costs under conditions in which attrition was lower than "normal." In two agencies in which the attrition rate for only 1 year was available, we created a lower rate by calculating a 20-percent reduction in attrition compared to the year for which we had data. (A table of attrition rates for the eight agencies is in appendix IV.)

In calculating salary-related savings and costs, we did not make adjustments for the step increases and other pay raises that may have become effective subsequent to the RIFs. Further, we did not discount agency saving and cost figures to adjust for inflation and other factors that affect the value of money in the future. These adjustments would not make a substantial difference in the overall findings because relatively brief amounts of time are involved in the analysis. We did, however, adjust all appropriate saving and cost amounts to include the fringe benefits paid by agencies on behalf of employees at a rate of 12.6 percent, as indicated in table 3.

For analysis purposes, we treated each RIF as though it occurred on the last day of the month in which it took place. In fact, the actual dates varied. This simplification does not alter the total saving and cost figures but does slightly affect the allocation of savings and costs between the RIF fiscal year and subsequent years. It does not alter the tenor of the basic findings. When we had to use estimated costs, such as for processing and administering a RIF, we chose to err on the side of underestimation. This means that our figures for costs are the minimum, so that net savings (total savings minus costs) tend to be overestimated.

The saving-cost formula

The basic formula for determining RIF savings and costs is straightforward, as shown in figure 2. Given the groupings of

¹The rate of attrition approximates the rate of salary reduction resulting from attrition.

Figure 2
The RIF Saving-Cost Formula

$$\text{Net RIF savings} = (\text{Salary savings}_{\text{RIF FY}} + \text{Salary savings}_{\text{following FYs}}) - (\text{Budget outlays}_{\text{RIF FY}} + \text{Budget outlays}_{\text{following FYs}}) - (\text{Indirect cost}_{\text{RIF FY}} + \text{Indirect cost}_{\text{following FYs}})$$

Where

Budget outlays_{RIF FY} = Severance pay + Unemployment compensation + Employee transfers + Lump sum leave + Job search assistance contracts

Budget outlays_{following FYs} = Severance pay + Unemployment compensation + Employee transfers

Indirect cost_{RIF FY} = Downgrading + Appeals and grievances + Processing and administration + Job search assistance (in house) + Retraining

Indirect cost_{following FYs} = Downgrading + Appeals and grievances

savings and costs that are shown in the figure, we made four major calculations:

--net savings and costs, including savings and costs from all sources,

--net budgetary savings and costs, including only budgetary savings and costs,

--net savings and costs during the fiscal year of the RIF, including savings and costs from all sources during that fiscal year, and

--net budgetary savings and costs during the fiscal year of the RIF, including only budgetary savings and costs during that fiscal year.

COMPARING RIF AND ATTRITION

Once we had determined the net saving or cost of a RIF, we compared the findings with what could have been achieved through attrition. As we discussed earlier in this chapter, the major cost of attrition is the "holding cost" of keeping on the payroll employees who exceed the staffing goal until such time as they or their equivalents voluntarily leave.² As shown in two hypothetical examples on the next page, this holding cost is always equivalent to the gross salary savings from a RIF. This relationship makes the calculation of RIF net savings or loss identical to the calculation that compares RIF costs to attrition costs.

The two examples demonstrate the relationship. In RIF A, there is a positive net saving. This corresponds to the RIF's costing less than attrition to achieve the desired staff

²Employees who separate for "good cause" can be eligible for unemployment compensation. Since this happens infrequently, we have not considered this attrition cost.

reduction. In RIF B, the RIF results in a net cost, and attrition would have cost less than the RIF to reduce staff levels.

RIF A

If RIF cost (total) = \$140,000
 RIF saving (salary) = \$200,000
 Attrition cost (salary) = \$200,000

Then

<u>RIF saving vs. RIF cost</u>		<u>RIF cost vs. attrition cost</u>	
RIF saving	\$200,000	Attrition cost	\$200,000
Minus RIF cost	140,000	Minus RIF cost	140,000
Net saving	\$ 60,000	Cost difference	\$ 60,000

RIF B

If RIF cost (total) = \$240,000
 RIF saving (salary) = \$200,000
 Attrition cost (salary) = \$200,000

Then

<u>RIF saving vs. RIF cost</u>		<u>RIF cost vs. attrition cost</u>	
RIF saving	\$200,000	Attrition cost	\$200,000
Minus RIF cost	240,000	Minus RIF cost	240,000
Net saving	\$(40,000)	Cost difference	\$(40,000)

These examples demonstrate that when there is a net saving from a RIF, the RIF costs less to achieve the staff reductions than attrition would have. Conversely, when the RIF results in a net cost, attrition would have been a less costly strategy. In the RIF-attrition comparisons in chapter 3, the net savings and loss figures are the key to determining whether RIF or attrition is more costly.

PATTERNS IN THE RIF DATA

We not only made an overall analysis of RIF savings and costs; we were also interested in looking for patterns in savings and costs across the eight agencies. For instance, we wanted to determine if RIF processing and administration costs per employee affected by a RIF were consistent across agencies. We also wanted to see if the savings from a RIF were related to the size of the RIF.

The search for patterns in the saving and cost data required first that the values be standardized for comparability across agencies. For each category, we divided the total savings or costs by the number of employees who were affected by the RIF (separated, downgraded, transferred, resigned, reassigned, or retired). In cases in which a value would be associated only

with a subset of employees affected by the RIF, we standardized the value in relation to the subgroup. Severance pay, for example, is paid only to employees separated by a RIF. To compare severance pay across agencies, we compared severance pay per employee separated by the RIF. In chapter 3, we report the results of these analyses as well as our overall findings on agency savings and costs.

ASSESSING THE EFFECT OF RIFS ON RETIREMENT

Our data collection, analysis, and methods for assessing the effects of RIF on the retirement system are discussed in detail in chapter 4 and appendix V. We want to note here that in the course of identifying saving and cost elements, we identified some that are related to the civil service retirement system. We also found that early retirement can be a part of the overall RIF process. When agencies are faced with the prospect of conducting a RIF, they can apply to the Office of Personnel Management for permission to reduce the size of the work force by means of voluntary and involuntary early retirements. Thus, early retirements related to RIFs are integral to the assessment of a RIF's savings and costs. However, because savings and cost related to the retirement system accrue not to the agency but to the retirement system, they are not factors in our RIF savings and cost formula for either the agencies or our checklist for assessing and comparing the savings and costs of RIF, attrition, and furlough (see figure 2).

Three aspects of the effect RIFs have on the retirement system were estimated:

1. the short-term cost of refunding retirement contributions to employees separated by a RIF,
2. the long-term savings to the retirement system from eliminating or reducing liability for retirement costs for employees separated by a RIF, and
3. the cost of early retirement compared to costs had early retirement not been granted in conjunction with a RIF.

LIMITATIONS AND STRENGTHS OF THE METHODOLOGY

As we discussed in chapter 1, we have not examined a representative sample of RIFs for our assessments of savings and costs. Therefore, we cannot generalize to the universe of RIFs, nor can we conclude from this analysis that RIFs do or do not cost more than they save. We do, however, have detailed assessments of savings from and costs of eight diverse RIFs. The process of making these assessments has both led to the findings we present in chapter 3 and allowed the development and testing of a methodology that agency managers can use for comparing the savings and costs of RIFs with their alternatives.

CHAPTER 3
OUR FINDINGS ON AGENCY SAVINGS
AND COSTS

The results of our analyses of the saving and cost data collected at the eight agencies in our study are reported in this chapter. Our findings attest to the practicality of the methodology we used, address the basic questions regarding RIF savings and costs, and show how the savings and costs compare with what could have been achieved by attrition or furlough. Included in this discussion are

- the total savings and costs of RIFs at the eight agencies for the RIF fiscal year and subsequent years and
- the savings and costs viewed separately in terms of direct and indirect costs.

The chapter also reports our comparison of RIF net savings and costs with attrition and furlough as potential budgetary saving options. The consistency of individual savings and costs across agencies is also explored. Special attention is focused on the cost of downgrading, an item that has not previously been measured. Finally, the potential effects of OPM's proposed changes to the RIF regulations are discussed briefly in the light of our findings.¹

This chapter is organized by nine main questions. Tables for our results with salary savings calculated in relation to the mean attrition rates are presented in the chapter, and other related data are presented in appendixes VI-VIII. The appendix tables include information on the size of the eight RIFs we examined, give a complete breakdown of their costs, and show net savings and cost when salary savings are assessed in relation to the lowest attrition rate.

WHAT WERE THE NET SAVINGS AND COSTS
OF THE EIGHT RIFs WHEN ALL SAVINGS
AND COSTS ARE CONSIDERED?

When all saving and cost factors, both direct and indirect, are considered, we find that the RIFs were not always cost-effective as a personnel-reduction strategy compared to attrition. We found a net cost from the RIFs in six of the eight agencies we examined. This finding holds both when savings are calculated in relation to the mean attrition rate (see table 4, line 12) and when they are calculated at the lowest rate (see

¹48 Fed. Reg. 49464.

Table 4

Dollar Summary of RIF Effects: Savings
Calculated with Mean Attrition Rate^a

<u>Item</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Budgetary savings								
1. RIF FY	462,576	5,028,808	430,223	0	187,767	254,486	1,081,924	201,117
2. Following FYs	0	24,330,440	0	124,928	52,440	0	249,312	157,875
3. Total	<u>462,576</u>	<u>29,359,248</u>	<u>430,223</u>	<u>124,928</u>	<u>240,207</u>	<u>254,486</u>	<u>1,331,236</u>	<u>358,992</u>
Direct costs								
4. RIF FY	635,859	1,666,454	493,530	32,561	217,541	226,907	622,938	250,831
5. Following FYs	19,937	19,420	65,532	188,167	13,579	0	63,339	192,725
Indirect costs								
6. RIF FY	1,476,621	1,425,901	1,470,672	147,450	103,960	464,367	400,541	111,605
7. Following FYs	105,857	260,533	572,364	842,777	75,149	63,730	47,691	220,749
8. Total	<u>2,238,274</u>	<u>3,372,308</u>	<u>2,602,098</u>	<u>1,210,955</u>	<u>410,229</u>	<u>755,004</u>	<u>1,134,509</u>	<u>775,910</u>
Net								
9. Savings less RIF FY direct costs (line 1 minus line 4)	(173,283)	3,362,354	(63,307)	(32,561)	(29,774)	27,579	458,986	(49,714)
10. Savings less all costs RIF FY (line 1 minus lines 4 and 6)	(1,649,904)	1,936,453	(1,533,979)	(180,011)	(133,734)	(436,788)	58,445	(161,319)
11. Savings less direct costs all years (line 3 minus lines 4 and 5)	(193,220)	27,673,374	(128,839)	(95,800)	9,087	27,579	644,959	(84,564)
12. Total savings less all costs all years (line 3 minus line 8)	(1,775,698)	25,986,940	(2,171,870)	(1,086,027)	(170,022)	(500,518)	196,727	(416,918)

^aCosts and savings have not been discounted because, in almost all cases, the time during which the amounts accumulated was brief. The amounts reported show total budgetary savings and costs from the RIFs during fiscal year 1982 (the year they occurred) and subsequent fiscal years. Since our interest was in the overall effect of RIFs in terms of savings and costs, we have not reported savings separately for each subsequent year.

appendix VI, line 12), a more conservative estimate of agency attrition. The range in results is wide. One agency saved almost \$26 million; another lost more than \$2 million. (At the lowest attrition rate, the range was even wider.)

WHAT WERE THE FISCAL-YEAR SAVINGS AND COSTS OF THE EIGHT RIFS?

When we considered the savings and costs incurred only during the RIF fiscal year, we found that the costs of the RIFs at six of the eight agencies exceeded the savings. In two agencies, the net costs amounted to more than \$1.5 million, as we show in this display (line 10 from table 4):

GSA	ETA	OPM	ERA	OSHA	CPSC	TSC	FRA
\$(1,649,904)	\$1,936,453	\$(1,533,979)	\$(180,011)	\$(133,734)	\$(436,788)	\$ 58,445	\$(161,319)

We found the most striking differences between net costs and net savings for the fiscal year only in comparison to the longer period of time (line 12 of table 4) at ETA and ERA. ETA was one of the two agencies that saved money during the RIF fiscal year--slightly more than \$1.9 million--but the greatest proportion of total savings came in the "out" years--almost \$26 million. ERA, in contrast, experienced most RIF costs after the close of the RIF fiscal year. The net cost of the RIF jumped from \$180,011 in the RIF year to a net cost of more than \$1 million in the following period. This is attributable to the timing of ERA's RIF--the last month of the fiscal year, which left many RIF costs to be paid in the months that followed.

WHAT WERE THE MULTIYEAR BUDGETARY SAVINGS AND COSTS OF THE RIFS?

When only savings and costs that affect the budget are considered, the results change substantially. Looking at net direct costs and savings only, we see that four of the eight agencies saved money from their RIFs:

GSA	ETA	OPM	ERA	OSHA	CPSC	TSC	FRA
\$(193,220)	\$27,673,374	\$(128,839)	\$(95,800)	\$9,087	\$27,579	\$644,959	\$(84,564)

GSA, OPM, ERA, and FRA lost money, ranging in net cost from about \$84,500 at FRA to about \$193,000 at GSA. ETA saved almost \$28 million. The next highest savings were at TSC with about \$645,000. The two other agencies that saved money each had net savings of less than \$30,000. When we calculate the salary savings at the lowest attrition rate, net savings are of course higher. The overall outcome in terms of net savings and net costs is unchanged, except at OPM. For OPM, at the mean rate, there was a net cost of \$128,839; at the lowest rate, a saving of \$35,425.

WHAT WERE THE RIF-YEAR BUDGETARY SAVINGS AND COSTS OF THE RIFS?

Looking at the budgetary savings during the RIF fiscal year for each of the eight agencies, we found that five agencies experienced net costs from their RIFs:

GSA	ETA	OPM	ERA	OSHA	CPSC	TSC	FRA
\$(173,283)	\$3,362,354	\$(63,307)	\$(32,561)	\$(29,774)	\$27,579	\$458,986	\$(49,714)

The timing of the RIF at ERA, the last day of the fiscal year, did not allow for any salary savings during fiscal year 1982. Thus, since the RIF incurred costs, the net effect had to be a net loss. These numbers will be referred to again in the section on furlough as an alternative to RIF. These savings figures would be the target when considering furlough savings.

WERE THE EIGHT RIFS COST-EFFECTIVE COMPARED TO ATTRITION IN REDUCING PERSONNEL LEVELS?

When savings and direct costs are considered exclusively, the RIFs were cost-effective, compared to attrition, to some extent in four of the eight agencies. When indirect costs are added to the calculation, however, most of the agencies, but not all, would have achieved greater savings by attrition than they did with their RIFs.

ETA and TSC, the two agencies that saved money even when indirect costs are considered, are different from the other agencies in that they would have required lengthy time periods to reduce staffing to post-RIF levels by attrition. Thus, the salary savings from the RIFs accumulated over a longer period of time. ETA had an extremely low attrition rate; TSC, while having a higher attrition rate, would have had to lose a large

proportion of its total work force to reach the post-RIF staffing level. In contrast, OPM, which had a net loss, could have achieved the post-RIF staffing level by attrition in as little as 4 months.²

COULD FURLOUGH HAVE BEEN AN EFFECTIVE
ALTERNATIVE IN ACHIEVING BUDGETARY
SAVINGS?

Table 5 shows the number of furlough days it would have taken three agencies to save with a furlough the budgetary

Table 5

The Number of Days Necessary to Achieve with the Furlough
the Net Savings Achieved with the RIF in the RIF Fiscal Year
in Three Agencies^a

<u>Calculation</u>	<u>ETA</u>	<u>CPSC</u>	<u>TSC</u>
No. of employees on payroll	1,308	777	576
Multiplied by			
Average salary per day ^b	\$87.84	\$87.84	\$87.84
Equals			
Daily payroll	\$114,896	\$68,252	\$50,596
Net RIF fiscal-year savings	\$3,362,354	\$27,579	\$458,986
Dividing RIF savings by daily payroll equals			
Furlough days needed to equal RIF savings ^c	29.3	0.4	9.1

^aRIF savings calculated in relation to the mean attrition rate.

^b\$87.84 is the average federal salary. This figure does not take into account savings or costs in relation to fringe benefits that may result from a furlough.

^cThis analysis does not consider the effects of furloughs on fringe benefits. In some cases, furloughs can result in costs related to fringe benefits. Some furloughed employees, for example, can be eligible for unemployment compensation in some states.

expenditures that they saved with a RIF during the RIF fiscal year.³ The analysis assumes the mean attrition rate, as it did in the RIF-attrition comparison. The number of furlough days is

²The length of the attrition-related time period is a function of the attrition rate and the proportion of the total staffing level to be reduced.

³ERA could not be considered in this portion of the analysis because of the timing of the RIF--the last day of the fiscal year. Since GSA, OPM, OSHA, and FRA had no savings, no furlough would have been required.

obtained by dividing the net savings by the estimated daily payroll for the agency's pre-RIF staffing level. At CPSC, the number of furlough days that would have been necessary in order to save what the RIF saved is less than one. In contrast, at ETA, more than 29 days of furlough for all staff would have been required.

TSC and ETA accrued additional savings from the RIFs in subsequent years. At TSC, 6.1 additional days of furlough would have been required in the subsequent years to match the RIF savings in that time period. At ETA, more than 200 days would have been required.

Although these figures may understate the necessary furlough time because some essential employees might not be subjected to an agency's furlough, and although some administration costs would be incurred for a furlough, they do provide a strong indication that furlough could be an alternative to RIF in some cases and not in others.⁴ When the indirect costs of a RIF are considered, furlough definitely emerges as an alternative worthy of serious consideration.

WERE ANY CONSISTENT PATTERNS OF SAVINGS
AND COSTS EVIDENT ACROSS THE EIGHT
AGENCIES?

We have already shown in earlier sections of this chapter that RIF savings and costs varied across the eight agencies. How much of this variation is a function of differences in the size of the RIFs? To answer this question, we standardized the saving and cost figures for each RIF to cost per employee, in order to control for variations related to the size of the RIF.

The differences in salary savings per employee are substantial across agencies, with the highest figures, as could be expected, at the two agencies with the highest net savings. The substantially large figure at ETA, \$121,319, amounting to several years worth of salary for an employee at the average grade, is an additional indication of the lengthy time it would have taken ETA to reduce its staff size by attrition.

Severance pay for separated employees who received it ranged from \$1,626 to \$13,634. Severance pay is a function of salary, years of service, and age, and the figures indicate variability across the agencies on one of, or probably all, these dimensions. The variability in annual-leave payments is a function of salary and years of service. (See table 6 on the next page.)

⁴Some agencies conducted a furlough in addition to a RIF during fiscal year 1982. The furlough days necessary to achieve budgetary savings comparable to the RIF would have to have been more than those actually taken.

Table 6
The Dollar Savings and Costs per Employee
in Eight Agency RIFs

<u>Element</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
No. of employees affected by RIF	(514)	(509)	(477)	(167)	(110)	(98)	(95)	(85)
Saving								
Salary per employee leaving agency ^a	\$2,409	\$121,319	\$2,431	\$4,030	\$6,863	\$7,271	\$22,187	\$7,804
Cost								
Severance pay per employee leaving agency	1,626	3,959	3,417	7,516	8,035	5,158	13,634	11,457
Annual leave per employee leaving government ^a	1,796	2,128	1,462	1,302	1,511	2,015	2,611	3,424
Downgrading per downgraded employee	5,026	8,813	7,826	8,302	10,392	10,821	12,439	13,414
Processing and administration per employee affected by the RIF	973	318	507	653	172	700	2,069	754

^aEach total for "leaving agency" and "leaving government" includes employees separated from the agency by the RIF and employees who transferred, retired, and resigned after receiving RIF notices.

We had expected some differences in the processing and administration costs for each employee affected by the RIFs. What we had anticipated was an economy of scale. That is, we expected that the per person cost of larger RIFs would be less than the per person cost of smaller RIFs. The RIFs in table 6 are arranged according to the number of employees affected by the RIFs, starting with the largest. We expected the per person processing and administration costs to increase from left to right across the table. However, the variability in these costs seemed to relate to other factors as well as size. Although two of the larger RIFs (at ETA and OPM) had relatively small per person processing and administration costs, the largest RIF (at GSA) had the third highest cost in this category. At the other extreme, TSC's small RIF had the highest processing and administrative costs but the smallest RIF, at FRA, had a far smaller cost.

In fact, the size of a RIF partly affects the magnitude of processing and administrative costs, but other factors seem to have a role as well. Among other factors, these could include previous experience in conducting RIFs, the size of the agency as a whole, and the configuration of the personnel assigned the task of conducting the RIF.

The individual saving and cost items exhibit the same lack of consistency that we found in examining overall net savings and costs. The degree of variability was greater than we had expected, and it underscores the uniqueness of each RIF.

WHAT DID THE DOWNGRADING CREATED
BY RIF ACTIONS COST THE AGENCIES?

Table 7 shows the cost of RIF-related downgrades at each of the eight agencies as well as the cost per downgraded employee. As we discussed in chapter 2, this cost represents the difference between what downgraded employees are actually paid and the usual salaries for their post-RIF positions. Previous assessments of the costs of RIFs have not measured this cost.

Table 7

The Cost of Downgrading in Eight Agency RIFs

<u>Downgrading cost element</u>	<u>Total</u>	<u>Per employee</u>
Single highest		
GSA	\$ 954,913	\$ 5,026
ETA	1,454,183	8,813
OPM	1,549,489	7,826
ERA	838,498	8,302
OSHA	135,096	10,392
CPSC	400,366	10,821
One of 3 highest		
TSC	248,771	12,439
FRA	268,289	13,414

In six of the eight agencies, downgrading was the highest cost element. In the other agencies, it was among the three highest costs. The table also shows that the downgrading cost per employee varied across agencies, from \$5,026 at GSA to \$13,414 at FRA. Although this difference is no doubt partly related to the average number of grades through which the downgraded employees dropped, it is likely to be affected also by the average pre-RIF grade levels of downgraded employees and the duration of the downgrades. (In chapter 5, we provide further statistics on these downgradings.)

HOW WOULD OPM'S PROPOSED CHANGES
TO THE RIF REGULATIONS AFFECT
RIF SAVINGS AND COSTS?

OPM's proposed changes to the RIF regulations are summarized in table 8. The major changes include an increase in the importance of performance as a factor in retention and a reduction in the significance of seniority. OPM would also limit the extent of downgrading. The Congress enacted legislation prohibiting the implementation of the new regulations until July 1985.

Should the changes in the regulations become effective, they would not alter the saving and cost factors involved in a RIF, but they could alter the magnitude of some of them. The exact effects, if any, cannot be predicted, but their likely direction can be estimated. Appendix IX lists all the cost factors and gives the anticipated direction of the effects of changes in the RIF regulations.

A few of the potential changes are particularly noteworthy. As indicated, the new regulations increase the importance of performance ratings in establishing preference in the RIF process. Because performance ratings are more debatable than other criteria, such as veterans' preference and years of service, the potential for appeals and grievances might increase, despite the proposed limits on the scope of appeal. The cost of RIF-related appeals and grievances might therefore increase. Similarly, this cost might increase if employees separated by a RIF become stigmatized as unsuccessful performers (whether or not they are in fact poor performers). An employee facing separation in this circumstance might be likely to try every channel available for appeal. Further, if performance appraisals take on added importance, they may be appealed more often, even outside the context of a RIF.

The changes in the regulations would set a limit on the number of grade levels employees could be downgraded. The effect of this rule might reduce the cost of downgrading, compared to what we found in our study. Because downgrading would be more limited, more employees at higher grades might be separated from employment than would be separated under the current regulations. This may mean increases in costs for severance pay, lump-sum annual leave, and unemployment compensation. Since employees at

Table 8

A Comparison of Current and Proposed
RIF Regulation Provisions

<u>Key provision</u>	<u>Current provision</u>	<u>October 1983 proposal</u>
Competitive area 351.402	At minimum, part of agency in which employees are under a single administrative authority, primary subdivision, or field installation	No smaller than bureau or major command directorate; in effect 90 days before RIF
Competitive level 351.403	Jobs sufficiently alike in qualifications, duties, responsibilities, pay schedules, and working conditions to allow interchange of employees without interrupting work	Jobs similar enough in qualifications, duties, pay, and working conditions to allow interchange of employees without loss of productivity
Retention order 351.501, 504	In descending order by tenure group, veterans' preference subgroup, and seniority with up to 4 years added for quality performance	In descending order by tenure group, veterans' preference, and seniority. Add years of service for each of last 3 annual ratings: 10 years for "outstanding," 7 for "exceeds fully successful," 5 for "fully successful." Current "unsuccessful" ranked with other employees unless they have received a final decision of removal
Assignment rights 351.705	No grade or time limitations on bump and retreat	2-grade interval bump but not for "unsuccessful"; professionals bump professionals, clericals clericals; 1-grade interval retreat, "minimally successful" displacing only other "minimally successful" and "unsuccessful"
Notice 351.801, 803	30-day minimum, 90-day maximum, except when agency determines longer period necessary; 5-day specific notice	30-day minimum, 90-day maximum; 10-day specific notice
RIF coverage 351.201	Reclassification because of job erosion	Reclassification because of job erosion dropped
Appeal rights 351.901	RIF assignment, separation, demotion, and furlough can be appealed; hearing at appellant's option	Reassignment dropped; hearing limited to material issues of disputed fact

higher grades have higher salaries, the budgetary savings related to a RIF are likely to be higher.

SUMMARY

When all savings and costs from the eight RIFs are considered, we find that six of the eight RIFs resulted in net costs rather than savings. When the analysis considered only budget-related saving and cost factors, four of the eight agencies showed net savings from RIFs. The answer to the question of the cost-effectiveness of RIFs depends in part on whether indirect costs are included. When they are included, they may tip the scales toward attrition as more cost-effective in reducing personnel levels.

Although four agencies saved money with their RIFs, in relation to budget only, in two of these agencies the savings were small: less than \$30,000. When budgetary consequences in the RIF fiscal year are considered, only three RIFs saved money. When these savings are translated into their equivalents in terms of a one-time furlough, the number of furlough days in one agency is very small.

The cost of downgrading has been shown to be substantial in overall RIF savings and costs. In five of the agencies we examined, it was the single highest cost. (We discuss this issue in chapter 5, in which we examine the extent of RIF-related downgrades in detail.)

Contrary to what we had anticipated, no consistent patterns of saving and cost factors emerged across the agencies. The saving and cost experiences of each agency seem to be unique. This should not be construed to mean that it is not possible for agencies to predict what a RIF will save or cost. It does mean that each prediction will have to be specific to each agency considering a RIF. In chapter 7, we discuss a process agencies could use to assess the relative costs of a proposed RIF.

CHAPTER 4

ESTIMATES OF SAVINGS FOR AND COSTS

TO THE RETIREMENT SYSTEM

HOW RIFS AFFECT THE RETIREMENT SYSTEM

As we discussed in chapter 2, in developing a list of saving and cost factors related to RIFs, we identified several factors that affect the civil service retirement system. Although these saving and cost factors do not alter the budgetary status of individual agencies conducting a RIF, they are nonetheless financial consequences of the RIF process. For this reason, we sought to quantify them.

A RIF affects the retirement system in several different ways. Employees subject to a RIF who are not eligible for retirement may, and often do, withdraw their contributions from the system. This results in an immediate outlay of employees' contributions from the system and, in some cases, interest on those contributions. The system's long-term liability for pension payments to these employees is terminated, however. Other employees separated by a RIF may elect to keep their funds in the system in order to receive retirement benefits later, when they become eligible for them. Because the retirement-benefit amount is a function of the employees' years of service and salary, the retirement benefits that are ultimately paid to these employees would be less than what they would have received had they remained in the system. Had they not been separated by the RIF, they would be likely, as a group, to accumulate more years of service and to earn increasingly higher salaries.

RIFs are often coupled with early retirement in order to reduce the number of involuntary separations necessary to achieve staffing goals. When an agency determines that it may have to conduct a RIF, it can apply to OPM for permission to grant voluntary early retirement to employees who meet eligibility requirements. Employees who face involuntary separation as a result of a RIF are eligible for involuntary early retirement if they meet certain age and service requirements. Of the eight agencies examined in this review, five granted early retirement to some employees. The total cost to the system of early retirement may be greater than it would have been had the same employees continued their careers without this particular interruption. Although early retirements are at slightly reduced benefit rates, pensioners are likely to receive benefits over a longer period of time, and, further, their payments into the system are terminated at an earlier date--when they end federal employment and begin their retirement.

There are three ways in which a RIF may affect the retirement system:

1. return of contributions, with or without interest, to employees separated by the RIF who choose to withdraw their funds,
2. terminated or reduced long-term liability for future retirement benefits of employees separated by the RIF, and
3. early retirement-related costs to the system above the costs that would have been incurred had early retirement not been granted.

We examined the effects of RIFs on the retirement system in each of these three areas.

A METHOD OF ASSESSING RETIREMENT-SYSTEM SAVINGS AND COSTS

In this section, we outline the assessment process and discuss the data we collected in order to make the assessment. The technical aspects of the actuarial calculation of the savings for and costs to the retirement system are in appendix V. The data for the calculation of the return of retirement-fund contributions of separated employees were collected in conjunction with the specific assessments of savings and costs for the agencies we studied. The average refund was based on an approximation of the years of federal service and salary history for each employee who was separated from an agency by a RIF.

The next calculation, that of the present value of the reduction in the system's long-term liability to the separated employees, used the estimates derived for the first calculation (return of contributions) as well as estimates of the present value of future retirement benefits to this group of former employees. The assumptions underlying this calculation were those of the dynamic model used in the report of the board of actuaries' retirement-system valuations (see appendix V).

The examination of the consequences of early retirement required the collection of additional data beyond what had been obtained from the agencies. Each agency that had granted early retirements provided us with a list of the names and Social Security numbers of early retirees. We requested and received from OPM's actuarial office the following pieces of information for each retiree:

- date of birth,
- years of federal service,
- sick-leave time,
- military service time,

- the average of the 3 highest years of salary, and
- final salary.

These data were the ingredients for the calculation of the three estimates needed to arrive at a calculation of the effect of early retirements resulting from these RIFs:

1. the net present value of future (long-term) benefits received with early retirement,
2. the net present value of future (long-term) benefits that would have been received without the 1982 RIF-related early retirement, and
3. the present value of the normal cost contributions that would have been received without the 1982 RIF-related early retirements.

The sum of 1 and 3, minus 2, is the saving from or cost of RIF-related early retirement.

FINDINGS RELATED TO THE RETIREMENT SYSTEM

The display here shows our assessment of retirement-system savings from and costs of (1) the return of contributions, (2) the reduction in retirement-fund liability, and (3) early retirement for the eight RIFs we examined:

Return of contributions	= cost	= \$ 3.2 million
Reduction in retirement-fund liability	= saving	= \$24.8 million or less
Early retirement	= cost	= \$ 3.4 million

The first item, return of contributions, is a short-term cash outlay. This would have been paid immediately following the RIF to separating employees who either were ineligible to remain in the retirement system or elected to withdraw.

We were unable to calculate a specific number for the reduction in retirement-fund liability associated with the RIF separations in our sample. The precise amount of these savings could be as high as \$24.8 million but is likely to be somewhat less.

There are several reasons why this number cannot be ascertained precisely. These reasons are discussed in more detail in appendix V, but two factors merit mention here. First, if the employees separated by the RIFs we examined were to return to federal service at a later date and deposit whatever retirement refunds they had received, they could eliminate much of the savings in liability attributable to their separation from employment. In December 1983, OPM records indicated that 30

employees separated in the eight RIFs we examined were current federal employees, indicating their reentry into the federal work force. While our estimates of the reduced liability do reflect the return to service of these employees, those who returned at any time after December 1983 were not considered in our analysis. Since it is very likely that more separated employees will return over time, the upper limit of the true reduction in retirement-fund liability is overestimated at the \$24.8 million figure. In the unlikely event that all the employees who were separated were to return to federal service and have their pre-RIF years of service credited in the system, the RIF-related savings in retirement-fund liability could approach 0. The amount of reduction in liability for employees returning after January 1, 1984, is highly dependent on provisions for past service in the new civil service retirement system, yet to be enacted.

Second, for the purposes of this calculation, our measure of years of federal service for each separated employee was calculated from the employees' severance pay. Although the bulk of severance pay is related to the number of years of service, additional severance pay was based on an employee's age in some cases. To the extent that this "age-related" severance pay was incorrectly categorized with "years of service-related" severance pay, the liability of the retirement system was overestimated.

The cost of early retirement is the total additional cost of early retirement compared to the total of what retirement would have cost had early retirements not been granted. For this particular set of early retirees, 86 of them, the additional cost was about \$3.4 million.

CONCLUSIONS ON THE RETIREMENT SYSTEM

Although our findings show a short-term outlay from the retirement system in the return of employees' contributions of \$3.2 million and an additional cost for early retirement of \$3.4 million, the reduced liability to the system resulting from the separations in these eight RIFs could well exceed this total cost of \$6.6 million in future years. The net result to the system is very likely to be a saving in the long term. The extent of this saving depends on several factors that cannot be sufficiently predicted for calculating a precise estimate.

While our assessment of the effects of these eight RIFs on the retirement system has shown that RIFs may save money for the retirement system in the long run, it must be kept in mind that these savings will accrue not to the agencies faced with a budgetary problem but to the retirement system.

It should be kept in mind also that the saving in retirement-fund liability is at the expense of the separated employees. These employees lose, in addition to their jobs, substantial retirement benefits. Their only return, aside from interest on their refunds, in some cases, is their own

retirement-fund contribution. They do not receive any portion of the funds that their employing agencies contribute for them to the retirement system. These funds are retained by the retirement system.

CHAPTER 5

RIF-RELATED DOWNGRADES

RIFS RESULT IN DOWNGRADING

The RIF regulations allow employees who occupy positions that are to be abolished in a RIF to displace other employees who have lower priority. Priority, or preferential status in the RIF process, is primarily a function of seniority (years of service) and veterans' preference. Employees are not intentionally placed in positions for which they are unqualified, but the RIF process can often result in their placement in jobs that are at lower grade levels than their pre-RIF positions. They are, in terms of grade level, overqualified for their post-RIF jobs.

Employees who are downgraded in a RIF may have either bumped or retreated into these lower-level positions. When employees "bump," they exercise their prerogative to take jobs that are occupied by employees of lower retention status. An employee who "retreats" takes the job of a lower-level employee, but the position is one that the "retreating" employee had previously held. In either case, the employees retain their pre-RIF grade levels and receive step increases and other pay raises for the grade for a period of 2 years.¹ The cost associated with this was discussed in chapters 2 and 3.

It is widely recognized that downgrading and its accompanying skills imbalance are by-products of RIFs. Anecdotal accounts of the extremes of the downgrading process are routine, yet there are few empirical data to measure the extensiveness of the effects of RIF downgrading. In fact, the apparent lack of statistical data on downgrades was a subject of discussion at the Merit Systems Protection Board roundtable in July 1983.

Our intent in this portion of the project was to measure the extent of downgrading in each of the eight RIFs. We also wanted to track what happened to the downgraded employees after the RIF.

¹At the end of the 2-year period, increases in salary are reduced until such time as the salary for the downgraded employee reaches the appropriate level of the new grade. The salary level can remain above the usual salary for the new position for an extended time after the end of the initial 2-year period. Appendix II provides a more detailed discussion of the bump-and-retreat process. It is interesting to note that the salary of a downgraded employee can actually increase when the employee moves to the post-RIF position. This can happen with general merit (GM) employees who move to non-GM positions and whose salaries fall between steps in the GS salary scale. The salaries of these employees are rounded up to the next appropriate step when they assume non-GM jobs.

A METHODOLOGY FOR ASSESSING DOWNGRADES

In measuring the extent of downgrading from the RIFs, we wanted to look at (1) the number of employees downgraded and the frequency of downgrading compared to other RIF actions, (2) the number of grades downgraded employees dropped, and (3) the record of post-RIF promotions and attrition among downgraded employees. To examine these factors, we obtained the following information for all downgraded employees in the eight agencies:

- pre-RIF and post-RIF grade levels,
- salary at the pre-RIF and post-RIF grade levels,
- date of promotion, new grade, and salary level,
- date of attrition for downgraded employees leaving an agency, and
- eligibility for saved grade and saved pay.

THE NUMBER OF DOWNGRADED EMPLOYEES

Table 9 shows the number of employees downgraded at each of the eight agencies in the study. Included for comparison purposes are the total number of employees affected by RIFs and the proportion of downgrades to the total. The employees who were affected by the RIFs include those who were separated, downgraded, transferred, or reassigned or who resigned (voluntarily after receiving a RIF notice) or retired as a result of a RIF.

Table 9

Number of Downgraded Employees and Proportion
Affected in Relation to Total
in Eight Agency RIFs

<u>Employees</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
No. downgraded	190	165	198	101	13	37	20	20
No. affected by RIF	514	509	477	161	110	98	95	85
% affected by RIF and downgraded	37	32	42	63	12	38	21	24

The percentage of employees who were downgraded, compared to the total number of employees affected by the RIF, ranged from 12 percent at OSHA to 63 percent at ERA. In five agencies, over 30 percent of the employees affected by the RIFs were downgraded. The data show that (1) the amount of downgrading that results from a RIF varies by the RIF situation and (2) statistics reporting the effects of a RIF with regard solely to separations

understate the total amount of staff movement (and hence work disruption), sometimes substantially.

Although we did find evidence that some grade reductions were considerable for some individuals affected by RIFs, the average grade reduction in most cases was more modest. Table 10 shows both the average grade drop and the most extreme drop at each agency.

Table 10
Average Grade Drop of Downgraded Employees
and the Most Extreme Grade Drop
in Eight Agency RIFs

<u>Grade drop</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Average	2.6	2.5	3.1	2.2	1.2	2.4	2.5	2.5
Extreme	9	8	11	6	2	8	7	7

In six of the eight agencies, the average grade reduction of downgraded employees was between 2.2 and 2.7 grades. One of the two other agencies showed greater divergence, at 3.1 grades (OPM). The average drop at OSHA was only 1.2 grades. The highest agency and the lowest agency in terms of average grade drop also showed, respectively, the highest (11) and lowest (2) grade drops for individual employees. A further examination of the OPM data showed that its high average grade drop was the result of greater grade reductions in general, not just a few extreme grades pulling up the average. We also determined the proportion of the total downgraded employees who dropped not more than two grades:

<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
<u>61</u>	<u>68</u>	<u>61</u>	<u>70</u>	<u>100</u>	<u>76</u>	<u>55</u>	<u>65</u>

In all eight agencies, more than half of the downgraded employees dropped not more than two grades. In half of the agencies, two thirds or more of the downgrades were not more than two grade levels.² In one agency, OSHA, no one dropped more than two grades. This seems to indicate that should OPM's proposed RIF regulations (discussed in chapter 3) on downgrading be adopted, fewer than half of all downgrades would be affected. The proposed rules allow for a maximum downgrade of two grade levels.

²In OSHA, CPSC, TSC, and FRA, the number of downgrades is small, so a shift of even a single employee makes a substantial difference in percentages.

Table 11

Promotions Subsequent to Downgrading
in Eight Agency RIFs

<u>Employees</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Months between RIF and data collection	(18)	(20)	(17)	(12)	(16)	(21)	(21)	(14)
No. downgraded	190	165	198	101	13	37	20	20
No. promoted after RIF	94	98	118	25	5	15	4	5
% downgraded and promoted after RIF	49	59	60	25	38	41	20	25

DOWNGRADES ARE SHORT-LIVED

After a RIF, employees affected by the RIF receive priority consideration for other positions that become available in their agency. Downgraded employees could be promoted within their agency and move back up to their former grade levels. In fact, if they meet the qualifications for positions at grades higher than their pre-RIF grades, they are eligible for promotion to these positions as well.

To measure the incidence of promotion within each agency in the study, we tracked downgraded employees' promotion records from the date of the RIF until the time our data collection was completed--the summer of 1983. Thus, our promotion figures may understate the total promotions these downgraded employees may eventually receive. Table 11 shows the data on the promotions of downgraded employees.

We found that many downgraded employees were promoted after the RIF. In two agencies (ETA and OPM), almost 60 percent of the downgraded employees were promoted after the RIF. At the other end of the scale, at TSC, 20 percent of the downgraded employees received a promotion. Greater elapsed time between the RIF and our data collection did not necessarily result in a higher proportion of promotions.³ The larger agencies in our study seemed to have greater incidences of promotion after RIFs. Possibly this is because at a larger agency the likelihood of positions becoming available is higher than at a smaller agency with fewer employees. The fairly large number of promotions may be an indication of the dynamic nature of the personnel situation

³Spearman's rho, a measure of correlation, was not statistically significant.

Table 12

Post-RIF Attrition and Retention of Downgraded
Employees in Eight Agencies

<u>Employees</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
(Months between RIF and data collection)	(18)	(20)	(17)	(12)	(16)	(21)	(21)	(14)
Leaving								
No. downgraded	190	165	198	101	13	37	20	20
No. downgraded post-RIF attrition	64	36	56	28	0	7	7	0
% post-RIF downgraded attrition	34	22	28	28	0	19	35	0
Staying in same position								
No. downgraded	190	165	198	101	13	37	20	20
No. downgraded still in position	33	45	44	48	8	16	9	15
% downgraded still in position	17	27	22	48	62	43	45	75

at the agencies. As other employees voluntarily left the agencies or agency needs changed for other reasons, employees in positions affected by the RIFs were needed in positions similar to their pre-RIF jobs.

Attrition of downgraded employees also tended to make downgrades short term. Table 12 shows the number of downgraded employees who had left the agencies by the summer of 1983, when our data were collected. Six of the eight agencies lost some of their downgraded employees during the time between the RIF and our data-collection period. The two others experienced no attrition among these employees during that period. TSC experienced the highest attrition rate (35 percent) for downgraded employees. As with promotions subsequent to downgrading, no relationship was found between attrition rates and time elapsed until data collection.⁴

⁴Spearman's rho was not statistically significant.

Since promotion and attrition in some agencies removed substantial numbers of employees from their post-RIF positions, we determined the number of downgraded employees remaining in their post-RIF positions. These data are also shown in table 12.

In one agency (FRA), 75 percent of downgraded employees remained in their post-RIF jobs, but in two other agencies (GSA and OPM) less than 25 percent remained. In these latter agencies, the high rate of movement was a function of both relatively high rates of promotion and attrition.

SUMMARY

In five agencies, downgrades were more than a quarter of the total RIF actions. In only one agency did downgrading make up less than 20 percent of the RIF actions; in three agencies, it was more than 35 percent of all actions.

When we examined downgrades in terms of the number of grades dropped, we found that in all eight agencies more than half of the downgraded employees were reduced no more than two grades. Although we did find some cases of extreme changes in grade, these were not the norm in any of the agencies.

In most cases (six of eight agencies), less than 50 percent of downgraded employees remained in their post-RIF positions approximately 18 months after the RIF. At two agencies, less than 25 percent remained in their post-RIF positions. The short-term nature of the downgrade process is a function of both post-RIF promotion and post-RIF attrition.

The data show that downgrading may have resulted in numerous disruptions to agency work flow. The initial disruption occurred when the RIF took place, moving downgraded employees to different positions within the agencies. This was followed in many cases by promotions of downgraded employees to either their former grade levels or levels intermediate between their pre-RIF and post-RIF grades. Each of these moves may have resulted in some disturbance in the work flow. Additionally, in several cases, post-RIF attrition of downgraded employees may have created disturbances in the work environment that could have affected the work flow. These data seem to indicate that the effect of a RIF on agency productivity extends substantially beyond the actual RIF date as downgraded employees move within or leave the agency.

CHAPTER 6

THE EFFECTS OF RIFS ON WOMEN AND MINORITIES

OPM's RIF regulations and U.S.C. 3502 contain two provisions that are generally considered to have a disproportionate effect on women and minorities. One of these provisions relates to seniority. Federal workers with more years of service are less vulnerable to RIF actions than employees with fewer years of service. Since women and minorities may have less seniority than men, and minorities less seniority than nonminorities, women and minorities are more likely to be vulnerable to RIFs.

A second provision of the RIF regulations allows veterans to be given preferential treatment in the RIF process. Since fewer women than men have veterans' preference status and more nonminorities have it than minorities, women and minorities are likely to be disproportionately affected by the RIF process. Women and minorities, then, are more likely to be affected by a RIF than men and nonminorities.

In light of these provisions, the Federal Government Service Task Force (also known as the Barnes Task Force) collected data on the effects of RIFs on women and minorities. The reports of the task force, published in 1982 and 1983, confirmed the general expectations. However, some of the reports' conclusions were based on agency estimates of the effects of RIFs rather than on actual post-RIF data. Our study afforded the opportunity to gather and examine post-RIF data on eight RIFs in fiscal year 1982 and to make additional analyses.

Our objective was to address two questions regarding the effects of RIFs on women and minorities:

1. Did the eight RIFs have a disproportionate effect on women and minorities in comparison to their representation in each agency as a whole?
2. Did the RIFs result in a greater number of separations of women and minorities than if the post-RIF staffing levels had been achieved by attrition?

To address these questions, we collected data on sex, minority status, grade, and job series at three points in time for

1. employees leaving each agency in the year prior to the RIF,
2. all employees immediately prior to the RIF,¹ and

¹For GSA, we were able to obtain data concerning sex and minority status for only the most populous job series; pre-RIF figures include data on 2,930 of GSA's 5,325 headquarters employees.

3. all employees affected by RIFs whose personnel actions were recorded up to the time of our data collection (summer 1983).

Our assumption was that if the percentages of the populations of women and minorities affected by the RIFs were higher than the percentages of their populations employed in an agency as a whole, then RIFs could be said to have had a disproportionate effect on women and minorities. Analysis consisted of comparing simple proportions of women to men (regardless of minority-nonminority status) and proportions of minorities compared to nonminorities (disregarding sex). Since our findings relate to the total population of employees affected by the RIFs, or the universe, rather than a sample at each of the agencies, we do not report statistical tests of significance.

DID THE EIGHT RIFs HAVE A DISPROPORTIONATE EFFECT ON WOMEN AND MINORITIES IN COMPARISON TO THEIR REPRESENTATION IN EACH AGENCY AS A WHOLE?

When the total of all employees affected by RIFs was compared to employment in an agency as a whole, women were found to have been overrepresented in the RIFs in six of the eight agencies we examined. In seven of the eight agencies, minorities were disproportionately affected. The range of difference varies across agencies: five of the eight agencies had a difference of 5 percent or less for women. In four of the six agencies in which women were disproportionately affected (ERA, ETA, GSA, OPM), the percentage was 5 or less. In the two other agencies (CPSC and FRA), the difference was 12 percent. And in two agencies (OSHA and TSC), there was less effect on women than on men. With regard to minorities, in three of the agencies that showed a difference (ERA, GSA, and OSHA), the disparity was 5 percentage points or less. In three other agencies, the difference was 11 percentage points or more, and in one agency (TSC) minorities were underrepresented in the population affected by the RIF.

Overall, in six agencies the RIF had a greater effect on women and minorities than their representation in the agency might have indicated, although the differences in most of these cases were small. There was a difference in proportion greater than or equal to 10 percent in relation to women in only two agencies and in relation to minorities in three. It should be noted that in one agency, TSC, women and minorities were both represented at a lower rate among employees affected by the RIF than would have been expected from their overall representation in the agency. (The data are summarized in figures 3 and 4 on the next page.)

Women and minorities may be disproportionately affected by RIFs because of seniority and veterans' preference regulations (as discussed earlier) and because they may be concentrated in

Figure 3
**Women Employed in Agencies Before the RIFs
 Compared to Women Employees Affected by the RIFs**

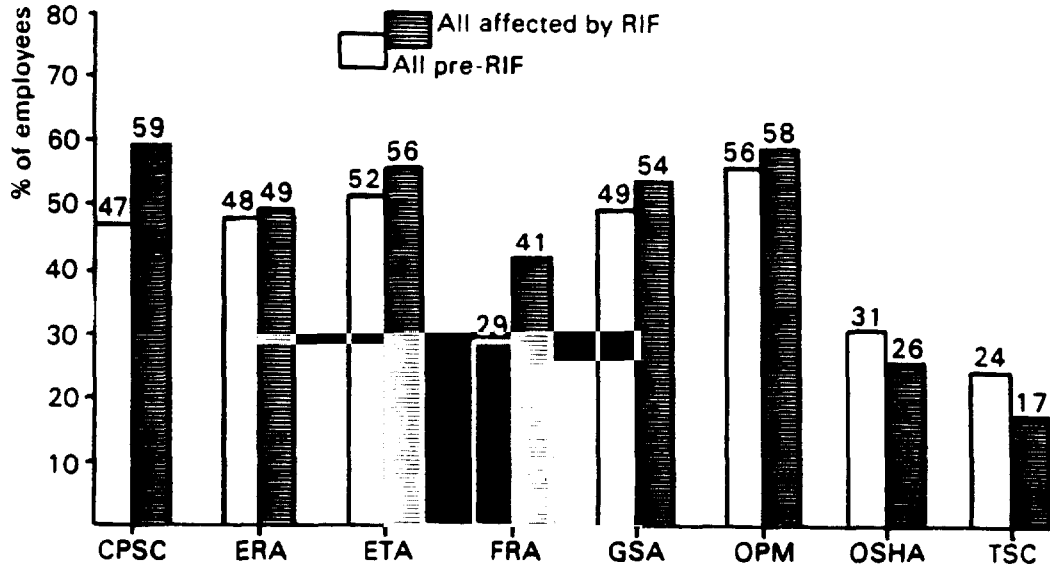


Figure 4
**Minorities Employed in Agencies Before the RIFs
 Compared to Minority Employees Affected by the RIFs**

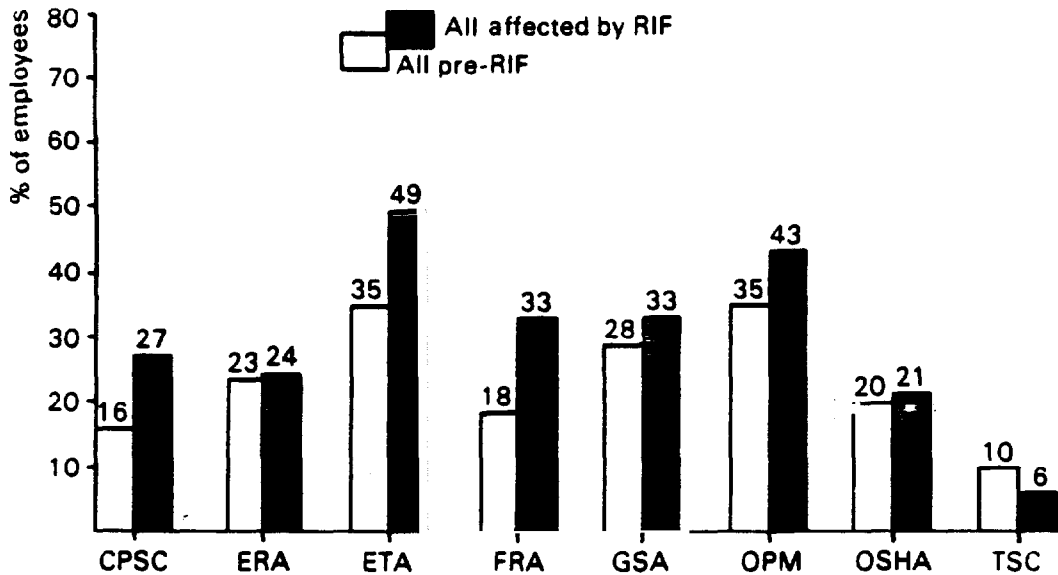
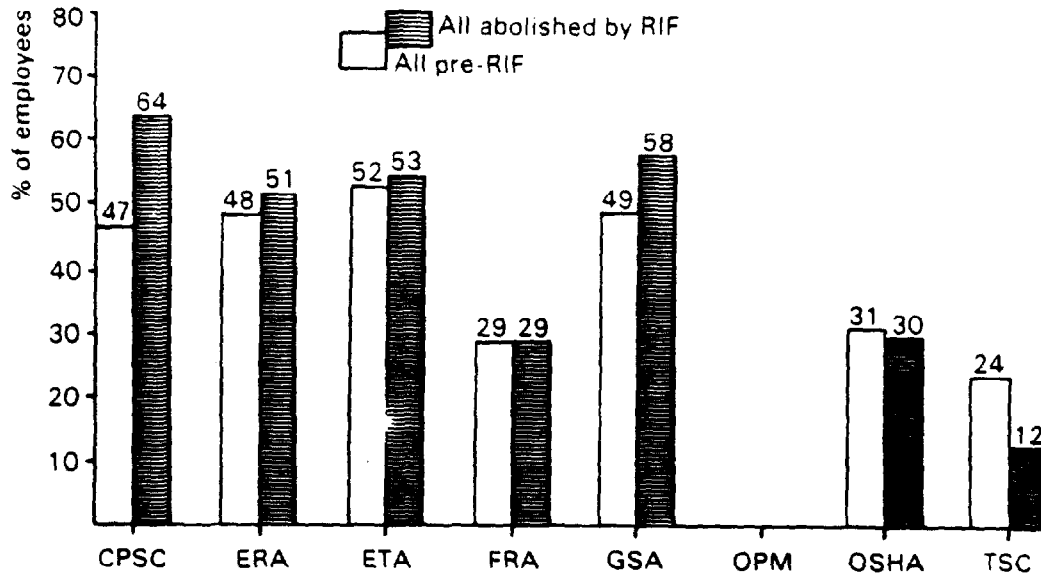
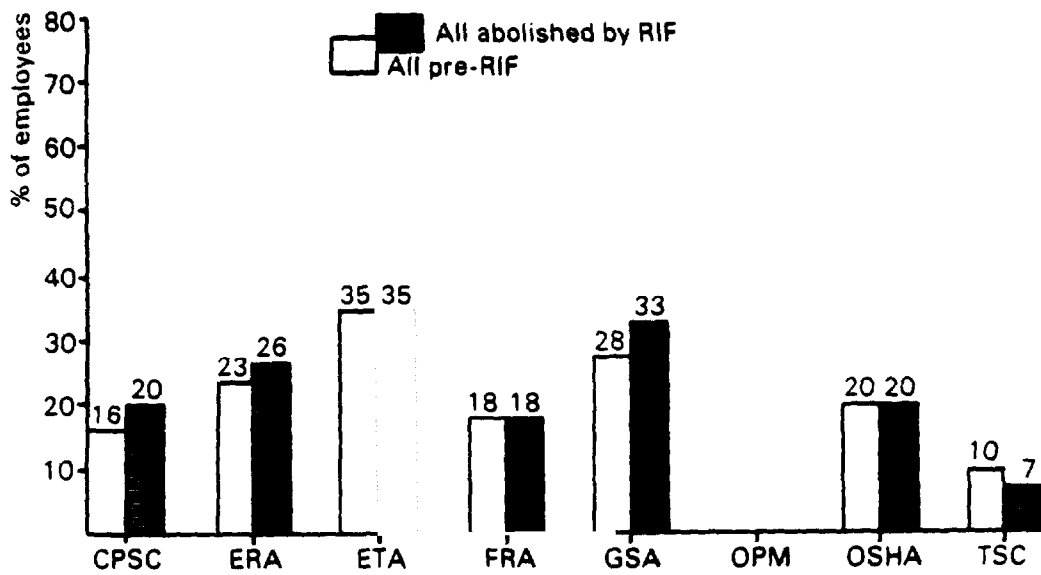


Figure 5
**Women Employed in Agencies Before the RIFs
 Compared to Women in Positions Abolished by the RIFs^a**



^a Appropriate data not available for OPM.

Figure 6
**Minorities Employed in Agencies Before the RIFs
 Compared to Minorities in Positions Abolished by the RIFs^a**



^a Appropriate data not available for OPM.

the types of jobs agencies select to abolish in a RIF. The first stage in the RIF process is the selection of positions to be eliminated. RIF regulations give agency managers flexibility in deciding which positions to abolish. We wanted to determine if the types of jobs more frequently held by women and minorities are also those that are deemed more dispensable to the agencies. We addressed this by looking at the proportions of women and minorities in abolished positions and by comparing these proportions to representation in the agencies as a whole. Figures 5 and 6 on page 43 display the results of this analysis.

In TSC, positions that men and nonminorities held were abolished at a greater rate than their proportion in the agency, although the difference for minorities is small. In contrast, there was substantially greater representation of women in abolished positions in CPSC and GSA than in these agencies generally (17 percent and 9 percent more, respectively). In the other agencies, there was either no difference or a very small difference in the representation of women. Figure 6 is notable in that it shows no difference in three agencies, or fairly small differences, in the proportions of minorities in abolished positions compared to proportions among the agency employees overall.

Whether women and minorities are or are not more vulnerable to a RIF because of the types of positions they hold is unique to each particular RIF. We did not find a pattern across agencies. Further, when we compared what happened to women and minorities in relation to abolished positions alone (figures 5 and 6) with corresponding proportions of employees affected by RIFs generally (figures 3 and 4), the proportions of the abolished positions seemed to be independent of the proportions of the employees affected by RIFs. That is, higher proportions of women and minorities in abolished positions did not necessarily mean higher proportions of women and minorities among the total affected by RIFs. Also, equal proportionality in relation to abolished positions did not insure proportional representation among the total numbers of employees affected by RIFs in all their aspects.

Sharper differences than shown above were evident when the separation of women and minorities by RIFs was compared to pre-RIF situations. In all eight agencies, women were separated disproportionately compared to their pre-RIF representation, as shown in figure 7. The range of this difference was from 1 percentage point (TSC) to 46 percentage points (OSHA). Three of the disparities were 11 to 12 percentage points (CPSC, GSA, and OPM), and two others were above this (ERA at 32 percentage points and FRA at 17 percentage points). For minorities, the separations were disproportionate in seven of the eight agencies. The range of differences was between 4 and 18 percentage points (see figure 8). ERA was the only agency in which minorities were separated at a lower rate (7 percent) than their proportion in the agency. Women and minorities in the eight RIFs appeared to bear the brunt of job loss, the severest aspect of a RIF.

Figure 7
**Women Employed in Agencies Before the RIFs
 Compared to Women Separated from Agencies by the RIFs**

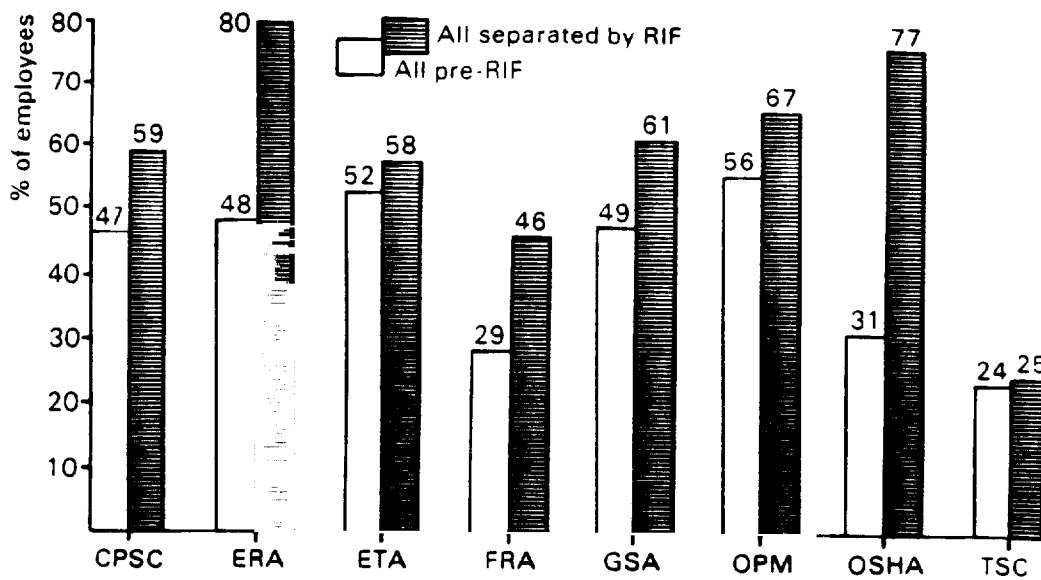
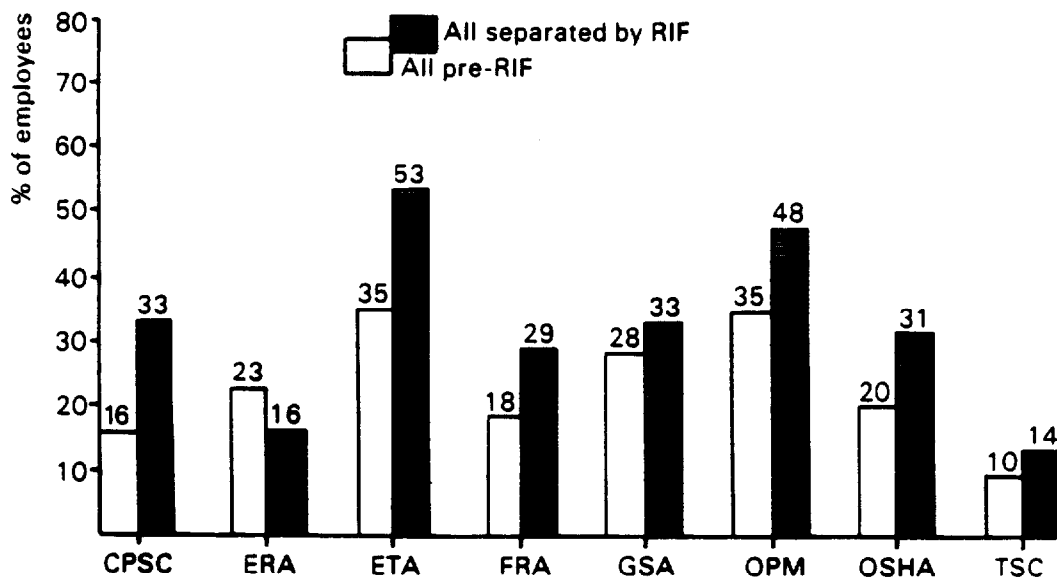


Figure 8
**Minorities Employed in Agencies Before the RIFs
 Compared to Minorities Separated from Agencies by the RIFs**



We examined also the proportions of women and minorities who were downgraded as a result of RIFs. Women were downgraded in greater numbers than their representation would have indicated in six of the eight agencies, minorities in three of the eight agencies. Figures 9 and 10 on page 46 show these relationships.

Figure 9
**Women Employed in Agencies Before the RIFs
 Compared to Women Downgraded by the RIFs**

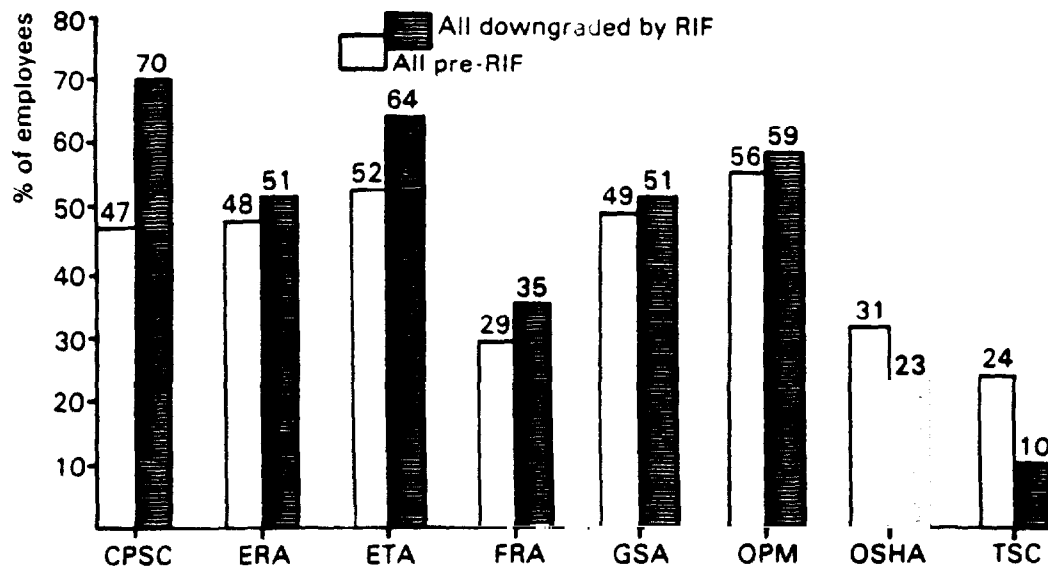
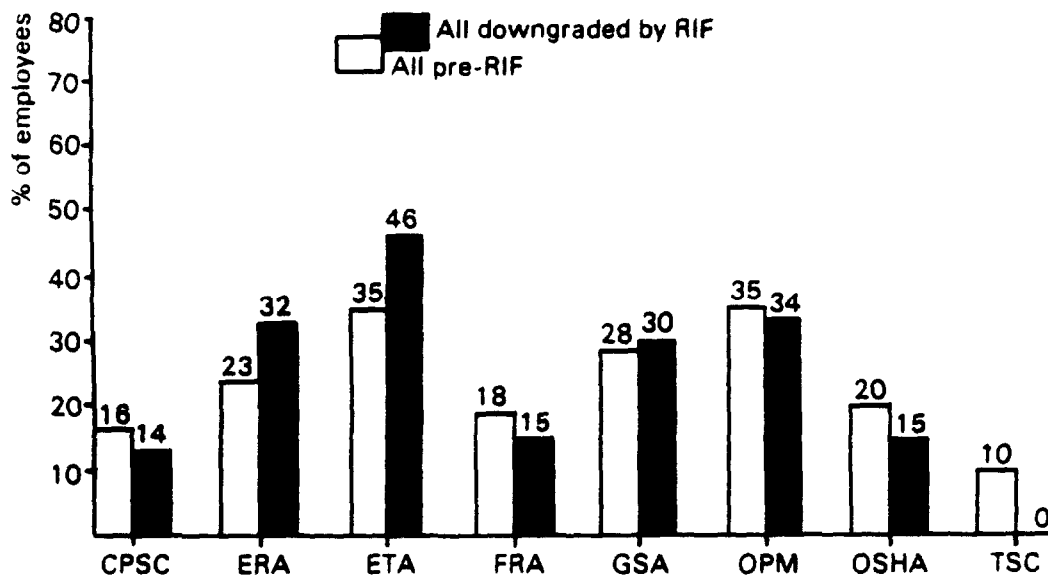


Figure 10
**Minorities Employed in Agencies Before the RIFs
 Compared to Minorities Downgraded by the RIFs**



In summary, women and minorities were disproportionately affected by the RIFs in many cases, although the disparity varied substantially across the agencies and although in many agencies the differences were fairly small. In one agency, TSC, men and nonminorities (rather than women and minorities) were overrepresented in some of the consequences of the RIF. It is interesting

to note that this is the only agency of the eight we examined in which women and minorities were underrepresented in abolished positions. Since the selection of positions to abolish in the RIF is under the control of agency managers, selection could have taken into account the comparatively small representation of women and minorities in the agency prior to the RIF. Only 24 percent of TSC's pre-RIF employees were women, 10 percent minorities. These are the lowest percentages in the eight agencies. Although we did not find a relationship across the eight agencies between representation in RIF actions and representation in abolished positions, this one instance in which many patterns are reversed is worthy of note. It is also important to note our findings on separations. With regard to job loss, women were disproportionately affected in all eight agencies, and minorities were disproportionately affected in seven agencies (ERA being the exception).

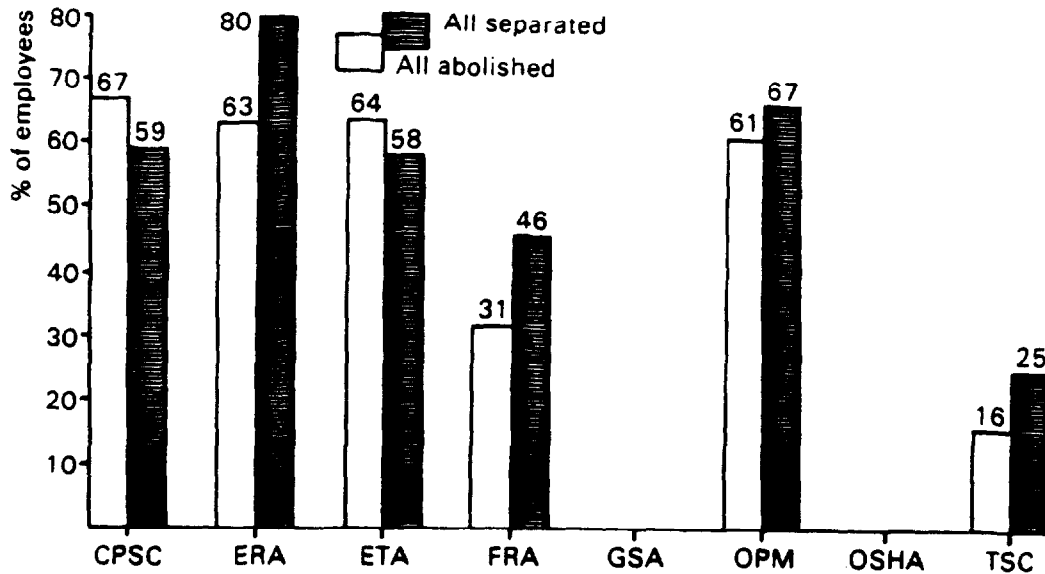
DID THE RIFS RESULT IN A GREATER NUMBER
OF SEPARATIONS OF WOMEN AND MINORITIES
THAN WOULD HAVE RESULTED IF THE POST-RIF
STAFFING LEVELS HAD BEEN ACHIEVED BY
ATTRITION?

Our data show that women and minorities were separated at higher rates as a result of the RIFs we examined. But it is also possible that women and minorities leave the federal work force voluntarily at higher rates than men and nonminorities do. Therefore, both usual attrition and RIF could result in disproportionate losses of women and minorities. Our next effort was to compare the effects of attrition and RIFs to determine which had the greater effect on the employment of women and minorities at the eight agencies. For this purpose, attrition at each agency was based on attrition rates for only jobs in the job series of positions abolished by the RIFs for the 12 months prior to the RIFs. Attrition for our comparison purposes is therefore the average historical rate for the time period prior to the RIF in the categories in which jobs were to be lost. We were able to obtain the appropriate data to make this comparison at six of the eight agencies.

In four of the six agencies, fewer women would have left by attrition, given historical patterns, than were separated in RIFs. Of these four agencies, ERA, with a difference of 17 percentage points, stands out among those that lost greater numbers of women in their RIFs. CPSC and ETA, however, reduced their losses of women compared to what they would have been likely to lose by attrition (by 8 and 6 percentage points, respectively).

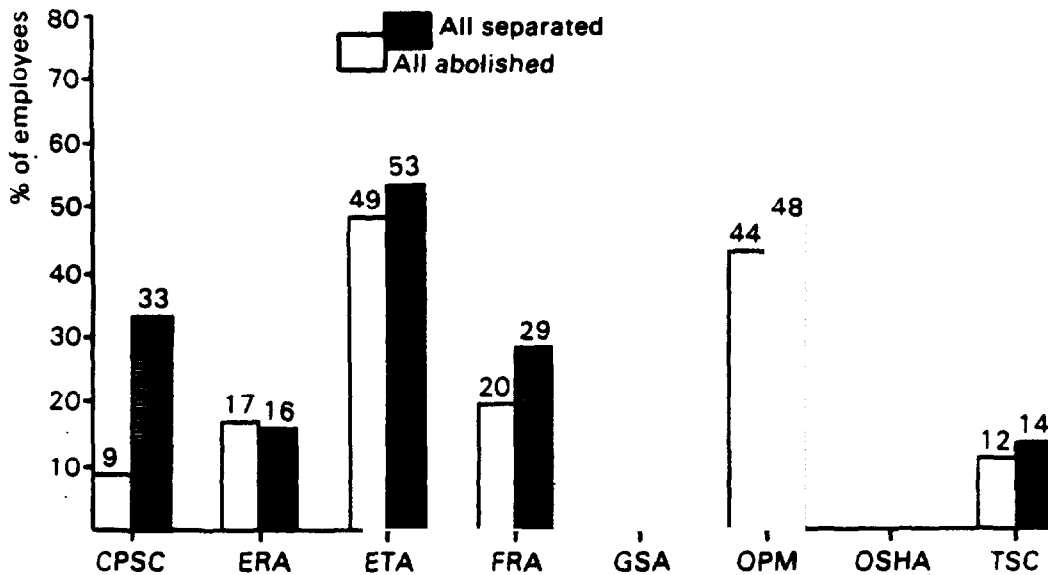
In five of the six agencies, more minority employees were separated in the RIFs than would have been expected to leave by attrition. In half (ETA, OPM, and TSC) of the agencies in which minorities were overrepresented, though, the differences were minimal (4 percentage points or less). CPSC, with a difference of 24 percentage points between the loss of minority employees

Figure 11
**Women Leaving Positions Abolished by the RIFs
 Compared to Women Separated from Agencies by the RIFs^a**



^a In some cases, the number of separations of women is small, so a shift of even one separation has a substantial effect. Appropriate data not available for GSA and OSHA.

Figure 12
**Minorities Leaving Positions Abolished by the RIFs
 Compared to Minorities Separated from Agencies by the RIFs^a**



^a In some cases, the number of separations of minorities is small, so a shift of even one separation has a substantial effect. Appropriate data not available for GSA and OSHA.

by RIF and by attrition, exhibited the largest disparity. CPSC did not exhibit similar patterns in the loss of women employees.

These data comparing separation and attrition are shown in figures 11 and 12. Overall, more women and minorities in the six agencies in which we could make the comparison were separated as a result of the RIFs than would have been expected to leave by attrition. However, some of these differences were small. As in the overall RIF saving and cost statistics, there was substantial variation across agencies.

SUMMARY

As with the agencies' RIF savings and costs, the experiences of women and minorities across the eight RIFs were disparate. However, across the board, women and minorities were hit harder by the RIFs--especially with regard to actual separations--than men and nonminorities were, although the degree of disproportion was highly variable. It is also important to note that in one agency, TSC, which employs fewer women and minorities than the other agencies in the study, women and minorities were not adversely affected by the RIF. In part, this may be a function of the positions that were selected for abolition. Men and nonminorities were disproportionately represented in these jobs.

CHAPTER 7

SUMMARY, CONCLUSIONS, AND MATTERS

FOR CONSIDERATION

SUMMARY

A comparison of RIF, attrition, and furlough in relation to agency savings and costs

Our primary purpose in undertaking this project was to increase the available knowledge concerning the savings from and costs of RIFs in order to determine how RIFs compare with attrition and furlough as budgetary and personnel reduction strategies. We were especially interested in developing a better picture of RIF-related downgrades and in taking a closer look at how RIFs affect the employment status of women and minorities.

We learned a great deal about the savings from and costs of RIFs. Specifically, we learned that when all savings and costs above those achievable by attrition were considered, RIFs cost more than they saved in six of the eight agencies we examined. When only budget-related savings and costs were considered, four of the eight agencies saved money as a result of their RIFs, although in two of these agencies the savings were small. In some cases, whether nonbudgetary costs are considered is pivotal in assessing the overall cost consequences of RIFs. Nonbudgetary or indirect costs include the expense of staff time in processing and administering a RIF, placement activities, and the handling of appeals and grievances. They also include the overpayment to downgraded employees who continue to receive their higher pre-RIF salaries while occupying jobs at lower grades. This latter cost was among the highest RIF expenses.

We should note here that, overall, our estimates of RIF costs have erred on the side of underestimation. In all cases in which we had to estimate costs, rather than collect actual costs, we chose the most conservative assumptions. Further, many cost elements, as discussed in chapter 2 and appendix III, were not quantifiable in a manner that would allow their inclusion in the study. Their exclusion compounds the overall underestimation of costs.

The savings resulting from the RIFs have been calculated in relation to the agencies' historical mean attrition rates (see chapter 2), which also may result in some error. We have attempted to compensate for error here, however, by recomputing savings in relation to a lower attrition rate and then recomputing net savings and costs on the basis of this more generous savings figure (the results are reported in appendix VI). Our recomputation with the higher savings figures did not substan-

tially alter our findings.¹ Our results for net savings and costs seem to be robust in relation to the attrition assumptions. In estimating likely attrition, an agency will probably not seriously alter the overall outcome of an assessment of RIF savings or costs if it errs slightly in the estimation.

Perhaps more important to policymakers than our saving and cost figures is the comparison of RIF savings and costs with the savings and costs of attrition and furlough. Attrition leads to a reduction of staffing levels over a period of time as employees voluntarily leave and are not replaced. As employees leave, the cessation of their salaries results in a saving. To compare attrition with RIF as means of reducing staff size, we considered attrition only in relation to positions that were intended for abolition by the RIFs. In other words, we counted attrition only for the types of jobs the agencies wanted to lose.

When we calculated the number of months it would take an agency to reduce personnel to the post-RIF staffing levels by attrition, we found that the time periods in some cases were relatively short. This was true both when attrition was calculated at the historical mean rate and when it was calculated at the lowest yearly rate available. In six agencies, personnel levels could have been reduced to the post-RIF levels in 12 months or less even at the lowest attrition rates.

When we compared the net savings and costs of RIFs with what could have been achieved by attrition, we found that in two of the eight agencies, RIFs resulted in substantial savings compared to what could have been achieved by attrition. At the six other agencies, this was not the case. The characteristic that separated these two sets of agencies was the length of time it would have taken to achieve the post-RIF staffing levels by attrition. In the agencies in which RIF was the more cost-effective strategy, reducing the staff levels by attrition would have taken about 16 months in one and more than 8 years in the other. The cost of keeping employees on the payroll until they voluntarily left, in these cases, was far greater than the costs incurred in the RIFs.

Given our analysis of the eight agencies, a RIF seems to be more cost-effective than attrition when the time it would take for the voluntary separation of employees to reduce the staffing to the target levels is fairly lengthy. Although eight cases do not allow us to pinpoint how long "lengthy" may be, we did find that only the two agencies that would have required 16 months or

¹In one calculation, the assessment of budgetary net savings or costs during the RIF fiscal year at OPM, the direction of the net value changed. At the mean rate, there was a net cost of about \$63,000; at the lowest rate, a net savings of about \$102,000.

more to arrive at the post-RIF staffing levels by attrition saved money in the RIFs. In the last section of this chapter, we discuss the RIF-attrition comparison further and show how agencies could try to predict which approach is more cost-effective.

When budgetary savings are a reason for a RIF, furlough accompanied by attrition may be a viable alternative. To determine the potential of a planned furlough for achieving the budgetary savings accomplished by a RIF, we calculated the number of furlough days required to achieve the equivalent of RIF-fiscal-year budgetary savings for the three cases in which savings had been made. We found that, in one case, less than 1 day of furlough could have resulted in the same budgetary savings as the RIF.

The comparison of saving and cost outcomes in terms of RIF, attrition, and furlough seems to indicate that at least in some cases, attrition coupled with furlough could be an alternative to RIF when personnel reduction is dictated by budgetary considerations. We have seen also that in several cases attrition would have reduced staffing levels in areas in which an agency attempted to reduce the positions abolished by the RIF in a relatively short time. This is of importance not only for RIFs conducted for budgetary reasons but also for RIFs designed to reduce or reorganize programs. The overall agency attrition in several cases seems to have been sufficiently high that voluntary separations coupled with internal reassignments could have accomplished the goals of the RIFs. Given the potentially negative aspects of a RIF other than budgetary costs, such as employees' stress and personal hardship, as well as the indirect costs to an agency, the possibility of an alternative or combination of alternatives deserves every consideration.

The effects of RIFs on the retirement system

RIFs result in costs to the retirement system in two ways. First, the past experience of separating federal employees shows that most employees separated from employment in a RIF will request that their contributions to the retirement system be refunded. This results in a cash outlay from the system shortly after the effective date of the RIF. Second, RIFs can result in early retirement, which costs more than what would have been paid for retirement benefits had the employees stayed in the system.

RIFs also save money for the retirement system. The long-term liability for paying pension benefits to employees separated in a RIF is reduced in some cases, and in most cases it is eliminated. Although we are unable to calculate the exact amount of the savings, we know that they could be substantial and are likely to be greater than the RIF-related costs to the system. They could also exceed net costs resulting from RIFs. It must be borne in mind, however, that retirement-system savings and costs do not have an effect on the agency's fiscal status. They cannot help an agency get through a budgetary crisis.

Further, the potential savings to the system in terms of reduced liability for paying future retirement benefits to separated employees are at the expense of the employees who are already suffering the hardships of losing their jobs. A portion of the savings for the retirement system is in funds that were placed in the system by the agencies for specific employees affected by RIF. Regardless of the number of years of an employee's service, this money is retained by the system rather than given to the employee.

RIF-related downgrading

In one agency, more than half of the employees affected by RIFs were downgraded. In four more agencies, around a third were downgraded. A RIF can have a large ripple effect between the initial decision on what positions to abolish and the final action by which employees actually lose their jobs. In contrast, it should be noted that at one agency, only 12 percent of the employees affected by the RIF were downgraded. The size of the ripple effect depends on the particular circumstances of the RIF and is not totally a function of RIF regulations.

In all eight agencies, most of the downgraded employees were reduced not more than two grades as a result of the RIFs. We did find some instances of extreme reductions in grades, but they were not the norm. We found also that the tenure of many downgraded employees in their post-RIF jobs was fairly short-lived. Many employees--in two agencies more than half--were promoted after the RIF within approximately 18 months. Other downgraded employees voluntarily left agencies during the months following the RIFs. Although there was no attrition of downgraded employees in two agencies, two others had attrition rates of greater than a third.

The substantial number of post-RIF promotions at some agencies seems to indicate that because of either attrition or the creation of new jobs, positions that could be filled by employees affected by RIFs were becoming available during the months following the RIFs. This may indicate that had a RIF not taken place, movement within an agency as a whole might have resulted in at least part of the targeted staff changes.

The short-lived nature of many downgrades means that a RIF's effect in the disruption of work extends beyond the actual date of the RIF. Both post-RIF promotions and attrition contribute to the temporary condition of downgrades in many agencies.

The effects of RIFs on women and minorities

Our data indicate that in most but not all agencies, women and minorities were negatively affected in the eight RIFs compared to their numbers in the work force prior to the RIFs. In six of the eight agencies, women were represented in greater numbers among employees affected by RIFs than their representa-

tion in the agencies would suggest; minorities were overrepresented in seven of the eight. In several cases, though, the degree of overrepresentation was a matter of a few percentage points, and in one agency men and nonminorities were overrepresented.

When we compared the rates of RIF separations for women and minorities with their representation in an agency as a whole, in all but one comparison we found that women and minorities were separated at disproportionate rates (the exception is minorities at ERA). The differences were greater than 10 percentage points for women in six agencies and for minorities in five.

In comparing agencies' RIF-related separations of women with the losses that could have been expected from attrition, we found that four of the six agencies for which data were available lost more women by the RIFs. Further, in five of the six agencies for which we had data, more minorities were separated in the RIFs than would have been expected to leave by attrition.

The preponderance of evidence on effects across the agencies indicates that women and minorities shouldered the greater burden from these RIFs. But it is important to note that in some cases the disproportionality was small and that in one agency men and nonminorities were overrepresented among personnel affected by the RIFs. This may indicate that the framework of the current regulations does not necessarily lead to an adverse effect on women and minorities.

CONCLUSIONS

We have learned several things from our assessment of eight RIFs in fiscal year 1982. It cannot be assumed that in every case RIFs will be cost-effective for agencies. Despite the fact that budgetary saving is one of the reasons for which a RIF can be conducted, it cannot be assumed that a budgetary saving will ensue in all cases. Some RIFs may cost more in budgetary terms than they save. Personnel reduction by attrition can be more cost-effective in some situations.

We have found also that the sum of an agency's direct and indirect costs in conducting a RIF can exceed the savings. When indirect costs are considered, the cost-effectiveness of a potential RIF can be even more vulnerable. Since indirect cost represents an agency's diversion of effort and money from its mission, indirect cost is an important consideration in an agency's efficient operation.

Although agencies will not be able to pinpoint the net savings from or costs of anticipated RIFs, they do have information at their disposal that would allow them to get a picture of what the cost effects may be. This estimate is essential in making a rational choice of the alternatives--RIF, attrition, and furlough--as means of reducing cost or personnel.

These RIFs resulted in both savings for and costs to the federal retirement system. Costs to the system include the return of separating employees' contributions and an increase in pension costs for early retirees. The amount of the savings to the system--in reduced retirement-fund liabilities to RIF-separated employees--seems large. It could be very substantial indeed.

When the size of a RIF is measured only in terms of employee separations, the true effect of the RIF on employees is underestimated. In some cases, the number of employees who are downgraded in a RIF exceeds the number actually separated. The total effect in terms of disruption and change in an agency is best measured in relation to the total number of employees who are affected by the RIF. It should be kept in mind also that after the RIF, downgraded employees may move within the agency to fill positions for which they are qualified and that some downgraded employees will leave the agency. The personnel movement, and thus the likelihood of RIF-related disruption, continues beyond the actual date of the RIF.

With some exceptions, RIFs disproportionately affected women and minorities in relation to their representation in the eight agencies. It appears also that fewer women and minorities would have been lost to the agencies had attrition, rather than RIF, been the means used for reducing staff size. It is important to note that there were in fact some cases in which women and minorities were not disproportionately affected and some cases in which the percentage of disproportionality was very small. This may indicate that within the constraints of the RIF regulations, RIFs can be run without an adverse effect on women and minorities.

It is well recognized that RIFs are the least humane means of reducing personnel levels. This study has found that, in addition, RIFs may not always be cost-effective. Further, they can result in substantial downgrading and can have a disproportionate effect on women and minorities. Thus, the analyses conducted prior to initiating a personnel action when budgetary retrenchment is necessary must be examined carefully for probable gains and losses in a RIF compared to gains and losses in attrition and furlough.

MATTERS FOR CONSIDERATION

Our examination of the RIFs at eight agencies has shown that RIFs should not be assumed to be an agency's most cost-effective means of reducing personnel levels. In this section, we provide a strategy or checklist that agencies could use in comparing RIF with attrition and furlough when faced with the need for reducing personnel levels or budgetary expenditures. Although agencies would be unable to make an exact estimate of RIF savings and costs, they can make the calculations necessary to decide between alternatives. Essential to this assessment is being able to cal-

culate attrition rates for specific job series and grades. The eight agencies we visited had available the raw data with which to make this calculation, but they did not routinely calculate attrition for specific job series or grades.

Once an agency decided which positions to abolish, if it had specific data on attrition, it could estimate both how long it would take to lose these positions by attrition, given experience, and how much in salaries a RIF could save compared to attrition. The salary total is the gross saving from a RIF.

Gross saving may be less than agencies anticipate. In some cases, the time it would take to arrive at the post-RIF staffing level by attrition was less than 6 months. Although it is arguable that current and future attrition may not match a historical rate, this rate can serve as a guide. To develop a conservative estimate of RIF savings, agencies may want to use a slightly lower rate than the historical rate. A comparison of the savings figures in chapter 3, table 4, based on mean attrition rates, and corresponding figures in appendix VI, based on lowest attrition rates, indicates the relative insensitivity of the gross savings figures to fluctuations in attrition rates. Despite some substantial changes in rates, the direction of net cost and net saving was not altered in almost all cases.

The next step is to calculate the cost items. Some of these become available as agency staff go through the process of determining the RIF's sequence of bumps, retreats, reassignments, and separations. First, agency payroll or personnel records can reveal lump-sum leave and severance pay for the employees who have been identified as likely to be separated. The costs of downgrading can also be determined. While unexpected changes occur as employees accept or decline offers or voluntarily resign, a rough estimate of these costs can be calculated. An agency is in a position also to decide whether a RIF would require outside contracts. For example, some agencies in our sample contracted for job-search-assistance services for separating employees.

At this point, an estimate of a RIF's budgetary effect could be made by subtracting severance pay, lump-sum leave, and contract costs from the previously calculated salary savings. Although there are other direct costs (transfer costs and unemployment compensation), the major expenditures are included. This estimate, albeit crude and incomplete, is a reasonable basis from which to judge the level of furlough required, if any, to achieve the equivalent of a RIF's savings.

For a picture of the overall effect, the net total (savings minus direct costs) can be further refined by examining the cost of downgrading. Downgrading cost was one of the highest cost items at all the agencies we examined. In order for a RIF to result in a saving, what remains would have to be sufficiently high to cover the costs of processing and administration, appeals and grievances, job-search assistance, and rehiring. Although

Table 13

A Checklist for Assessing and Comparing the Savings
and Costs of RIFs, Attrition, and Purlough

1. Determine the job series and grades of positions to be eliminated or abolished in the RIF.
2. Determine the historical attrition rates for those positions. The calculation might find the attrition rate for a period of several years and the rate for the prior 12-month period, depending on a managerial judgment of what would most closely resemble projected attrition.
3. Decide on the appropriate attrition rate to use for comparing RIF and attrition savings and costs. This rate may be slightly lower or higher than the mean attrition rate, depending on a managerial judgment of likely attrition.
4. Calculate the gross salary savings expected from the RIF and compare them to salary savings from attrition. (See figure 1.)
5. Determine the likely sequence of RIF bumps and retreats, reassignments, and separations. (This is normally determined for other management purposes during the planning of a RIF.)
6. Given the information from step 5, calculate the actual lump-sum leave and severance pay to be paid to employees separated by the RIF.
7. Determine the cost of any contracts to be used for RIF-related services such as job-search assistance.
8. Subtract the sum of lump-sum leave, severance pay, and contract costs from the figure obtained at step 4 for gross RIF savings. The result is an estimate of the net budgetary effect of achieving the target personnel level with a RIF compared to attrition.
9. Calculate downgrading costs from the sequence of bumps and retreats determined at step 5. (See chapter 2.)
10. Subtract downgrading costs (step 9) from net budgetary saving (step 8). The result is an estimate of the overall net effect of the RIF compared to attrition when the costs that can be estimated prior to the RIF have been considered.
11. If step 10 indicates net savings from the RIF, consider whether the saving is sufficiently high to reasonably cover the costs of unemployment compensation, processing and administration, appeals and grievances, job-search assistance, and rehiring.
12. If step 8 indicates a budgetary saving from the RIF, determine the number of furlough days necessary to match this saving.
13. Taking steps 1 through 12 into account, decide whether to reduce staffing levels, or achieve budgetary savings, from a RIF, a furlough, or attrition.

agencies cannot estimate exactly how much these costs would be, they should be able to estimate whether the costs are more or less than the amount of RIF savings that remain. This example shows the calculation for two agencies in our sample:

	<u>GSA</u>	<u>TSC</u>
Salary saving	\$ 629,344	\$1,575,003
Budgetary cost		
Severance pay	(234,140)	(490,807)
Lump-sum leave	(344,900)	(125,325)
Contracts	0	0
Net budgetary saving	\$ <u>50,304</u>	\$ <u>958,871</u>
Skills-imbalance cost	(<u>954,913</u>)	(<u>248,771</u>)
Net budgetary saving	\$(904,609)	\$ 710,100

The example shows clearly that one agency might choose a RIF while another probably should not. All cases will certainly not be as straightforward. A checklist outlining this step-by-step process is shown in table 13 on the preceding page.

GLOSSARY

Abolished position. Position an agency has decided is no longer needed.

Accrued benefit. Benefit attributable under the provisions of a pension plan to an employee's service to date.

Appeals and grievance costs. Costs of resolving RIF-related employee appeals and grievances.

Attrition. Reduction in numbers; usually a result of resignation, retirement, transfer, or death.

Attrition rate. Rate of employee loss in an agency from resignation, retirement, or death.

Attrition-related time period. Time it would have taken for an agency to reach a particular staffing level by attrition.

Budget outlay. Payment of obligations incurred in the budget year or prior years.

Bumping. Procedure in a RIF in which one employee displaces another employee in a lower retention subgroup.

Competitive area. Geographic and organizational area within which employees compete for retention during a RIF.

Competitive level. Group of positions within a competitive area at one grade or occupational level with essentially the same qualifications, requirements, duties, responsibilities, pay schedules, and working conditions.

Downgrading. Placement of an employee in a lower grade as a result of RIF procedures or the reclassification of a position. A downgraded employee is entitled to grade retention for 2 years from the date the employee is placed in the lower position.

Early retirement. Retirement at age 50 with 20 years of service or at any age with 25 years of service.

Furlough. Placing an employee in temporary status without duties and pay for lack of work or funds or for other nondisciplinary reasons.

Hiring freeze. Restriction placed on hiring to reduce employment.

Lump-sum annual-leave payment. Payment for unused annual leave.

Minority. American Indians, Alaskan natives, Asians, Pacific islanders, blacks, or Hispanics.

Present value of future benefit. Current worth of an amount or series of amounts payable or receivable in the future. Present value is determined by discounting a future amount at a predetermined rate of interest. In pension-plan valuation, actuaries often combine arithmetic factors representing probability (e.g., mortality, withdrawal, and disablement) with arithmetic factors representing discount (interest); therefore, to actuaries, determining the present value of future pension benefits may mean applying factors of both types.

Reduction-in-force. Use of formal regulations to downgrade, separate, or reassign employees because of budget, program, or ceiling cuts.

Rehire. To bring back to an agency an employee separated by a RIF.

Retention factor. Tenure, veterans' preference, seniority, or performance when it is used to determine an employee's tenure group, subgroup, and service computation date.

Retention standing (RIF status). An employee's relative position on a retention register, given tenure group, subgroup, and service computation date; used to determine an employee's assignment rights in a downgrading, separation, or reassignment as a result of a RIF.

Retraining cost. Cost of training employees reassigned to new positions during a RIF.

Retreating. Procedure in a RIF in which one employee displaces another employee who has lower retention standing in the same subgroup; retreat rights are only to a position the employee had previously been promoted from or through.

Return of contribution. Employee's withdrawal payments to a retirement fund.

RIF action. Downgrading, separating, transferring, or reassigning an employee in a RIF.

RIF cost. Cost associated with work-force reduction.

RIF fiscal year. Fiscal year in which a RIF occurs.

RIF process. Carrying out a RIF according to RIF regulations and procedures.

RIF processing and administration costs. Costs for preparing and administering RIFs.

RIF saving. Saving from a work-force reduction.

RIF status. See Retention standing.

Save pay (pay retention). The pay a general schedule or prevailing-rate employee receives following a grade-retention period or at other specified times when the rate of basic pay would otherwise be reduced; pay is at the higher rate and is retained indefinitely.

Severance pay. Money, in recognition of service performed and compensation for job loss, paid to an employee who is separated by a RIF and not eligible for retirement.

Transfer and relocation costs. Costs to move a reassigned employee to another geographic location.

Unemployment compensation. Payment to a former employee who has become unemployed by a layoff.

A DESCRIPTION OF RIF PROCEDURES

During a RIF in the federal civil service, employees are not selected directly for removal; rather, certain positions are selected for abolition. The effect is that employees are removed from the rolls, although they are not necessarily the employees whose positions were abolished. An employee whose position is abolished may be entitled to displace another employee in an identical position at the same grade, in a similar position at the same or a lower grade, or in a dissimilar position at the same or a lower grade. An employee's entitlement to another position depends on that employee's personal qualifications, as determined by the employer, and various other factors established by law.

OPM regulations prescribe two rounds of competition for conducting a RIF. The first-round competition occurs after an agency has selected the positions to be abolished in a competitive level, and the employees within a competitive level compete only among themselves for the remaining positions within that competitive level. The employees ranking lowest in tenure, veterans' preference, and length of service are generally the first to be selected for release from the competitive level. Upon completion of the first-round competition, the number of employees remaining in the competitive level should equal the number of remaining positions available.

The second-round competition involves employees released during the first-round competition. Each employee competes for positions in other competitive levels and is entitled to assignment to the highest-paying position occupied in another competitive level, at a rate of pay not in excess of that of the abolished position, provided that the employee is personally qualified for the position and that the position is held by an employee with lower retention standing with regard to tenure and veterans' preference. The employee displaced by this means, which is known as "bumping," may have similar bumping rights to other positions outside that employee's competitive level.

Under OPM regulations, an essential difference between first-round and second-round competition is that in first-round competition, an employee's length of service must be considered, whereas in second-round competition, it need not be. In first-round competition (actions within the same competitive level), an employee having a given tenure and veterans' preference will displace another having the same tenure and veterans' preference, provided that the former has a greater length of service. However, OPM regulations state that in second-round competition (actions between competitive levels in which displacement is by subgroup superiority), an employee having a given tenure and veterans' preference can displace another having the same length of service, if the agency chooses to consider length of service in second-round competition.

A decision not to consider length of service during second-round competition lessens the agency's administrative burden by reducing the number of positions for which an employee must be considered. At the same time, it restricts an employee's ability to bump. For example, a career employee who has veterans' preference cannot bump another career employee who has veterans' preference, even though the former may have had longer service. Similarly, a career employee without veterans' preference cannot bump another employee in the same category, even though the former has had longer service.

OPM regulations also provide for "retreating," in which tenure, veterans' preference, and length of service are considered. In retreating, an employee may have rights to available positions that are either identical to or substantially the same as positions from or through which that employee has been promoted. In such instances, the employee has rights similar to those provided in first-round competition--that is, the employee may displace another employee who has equal tenure and veterans' preference, if the former has greater length of service. Displacement during retreat is determined by standing within a subgroup.

SAVING AND COST ELEMENTS
NOT INCLUDED IN THE ANALYSIS

<u>Element</u>	<u>Direct effect on net savings and costs</u>
Loss of productivity because of	Negative
1. Reduced employee morale	
2. Uncaptured expenditure of time on RIF processing and administration	
3. Uncaptured expenditure of time on RIF grievances and appeals	
4. Time spent by other staff on on-the-job training of bumping and retreating employees	
5. Time spent by bumping and retreating employees in on-the-job training	
6. Time spent in physical relocation of employees	
7. RIF-related skills imbalance in general	
Cost of materials, supplies, or support	Negative
1. Paper for RIF notices	
2. Postage for RIF mailings	
3. RIF pamphlets and brochures	
4. Uncaptured computer time for RIF processing and administration and grievances and appeals	
Overhead cost: portion of building costs (rent, heating, lighting, water, etc.) attributable to RIF processing, administration, grievances, and appeals	Negative
Lost revenue	Negative
1. Lost federal income tax revenue to the government from unemployed employees affected by RIF	
2. Loss of revenue from work of employees in revenue-generating positions affected by RIF	
OPM job-search assistance to employees affected by RIF	Negative
1. Staff time	
2. Cost of brochures etc.	
Cost of recruiting and hiring to fill positions vacated as an unintentional consequence of RIF	Negative

<u>Element</u>	<u>Direct effect on net savings and costs</u>
Cost of contracts, if any, for services to perform the jobs of employees separated by RIF	Negative
Cost of processing RIF appeals by Merit Systems Protection Board	Negative
Saving of materials, supplies, and support that employees affected by RIF would have used in conducting their work	Positive

RATES OF ATTRITION IN POSITIONSABOLISHED BY RIFS IN EIGHT AGENCIES

For all agencies except ERA and OSHA, the mean attrition rate was calculated across all available years of data. The lowest rate was the lowest of any single year. The lowest annual rate for GSA, for example, was 0.17. For ERA and OSHA, the mean rate was the rate for the single year for which data were available. This is the mean rate for that year. We created the lowest rate for these two agencies by calculating a new rate that is 80 percent of the single available rate. The lowest rate for ERA was 80 percent of 0.20, or 0.16 of the single available rate.

<u>Agency</u>	<u>Fiscal year</u>				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
GSA	0.23	0.33	0.19	0.17	
ETA		0.02	0.01	0.04	
OPM	0.15	0.18	0.13	0.12	
ERA					0.20
OSHA				0.17	
CPSC			0.20	0.30	
TSC	0.19	0.14	0.16		
FRA			0.17	0.09	0.17

HOW WE ESTIMATED THE EFFECT ON FEDERAL PENSIONCOSTS OF REDUCING EMPLOYMENT BY RIFRATHER THAN ATTRITION

Three of the eight RIFs we analyzed were accomplished without early retirements. The five others involved some early retirements among eligible employees. All involved the termination of some employees without immediate retirement annuities.

In general, the federal government incurs retirement costs when an employee retires early because of a RIF rather than working to the normal retirement age. Payments begin immediately and continue longer, and the employee puts in fewer years of service, thus ending contributions earlier. These increased costs more than offset the larger annuity the employee who continued employment would receive.

However, the government incurs lower retirement costs when an employee is terminated without an immediate annuity rather than being allowed to continue employment. The two options available to an employee who is terminated without eligibility for an annuity are the refund of the employee's accumulated retirement contributions and the receipt of a deferred annuity commencing at age 62. OPM statistics have indicated that about 80 percent of terminating employees choose to receive a refund. Either is generally less valuable than what would be received if the employee continued to work.

The formula for calculating the gain or loss to the government in retirement costs resulting from using a RIF instead of attrition is

$$\begin{aligned} \text{Gain (or loss)} = & \text{present value of future retirement} \\ & \text{benefits if employment continued} \\ & - \text{present value of future normal cost} \\ & \text{contributions to civil service} \\ & \text{retirement system if employment} \\ & \text{continued} \\ & - \text{present value of immediate early} \\ & \text{retirement benefits caused by RIF} \\ & - \text{accumulated contribution returned} \\ & \text{to employees} \\ & - \text{present value of deferred annuities} \\ & \text{beginning at age 62 to employees} \\ & \text{separated by RIF.} \end{aligned}$$

Calculating the gain or loss to the retirement system for employees separated by these RIFs required an estimate of the

ages of the employees and their years of service. (We did not collect the data on age and years of service.) Years of service were estimated from severance pay. Severance pay is granted at the rate of 1 week of salary for each of the first 10 years of service and 2 weeks of salary for each additional year. Information on an employee's weekly salary allowed the estimate of the number of years of service.

The calculation was confounded somewhat because some employees received additional severance pay because of age (employees over age 40 receive additional severance pay). This additional amount could not be separated from service-related payments. The result was that our years-of-service estimate was higher than actual years, inflating our estimates of return of retirement-fund contributions and reduction in retirement-fund liability. It should be noted that the seniority system is likely to result in more younger (under age 40) than older employees being involuntarily separated in a RIF. To the extent that this happens, the incidence of payment of age-related severance is reduced. Since federal employees are limited to no more than 1 year of severance pay during their entire federal career, it is possible that some RIF-separated employees had their severance pay curtailed by this cap. Given the relatively small number of RIFs prior to 1982, and the fact that most separated employees (because of seniority rules) were likely to have had relatively short lengths of federal service, it is unlikely that many separated employees in these RIFs were affected by this cap. Severance pay terminates when an employee returns to federal service. We did find that some RIF-separated employees returned to federal service (30 of 556 by December 30, 1983); therefore, it is possible that some of them may not have received the severance pay they were entitled to prior to their return to service.

The ages of the employees who were separated by the RIFs were derived from an estimate of their ages when they began employment. We assumed that half of the employees separated by these RIFs were 20 when they entered federal service and half were 25.

It should be noted again that for separated employees, we used estimates of age and years of service rather than actual figures for two reasons. First, extensive additional data-collection efforts would have been required to obtain exact figures, since the personnel records of the separated employees were no longer at the agencies that had the RIFs. Second, even if exact figures for age and years of service had been obtained, the estimates for return of contributions and for reduced retirement-fund liability would still have been inexact. Because additional data collection would not sufficiently increase the precision of our estimates, the age and years-of-service data were not collected.

In the case of early retirees, data were obtained on each individual from OPM retirement-system records. These data included age, years of service, and final salaries. The sex of each of the early retirees was determined from first names. Few names did not allow a clear distinction.

The OPM actuaries provided us with present-value factors for 5-year age and years-of-service groups by sex. We multiplied these factors by final salary to estimate (1) the present value of future benefits if the terminated or retired employees continued working, (2) the present value of future salaries if the terminated or retired employees continued working, and (3) the present value of early retirement benefits awarded to terminated employees. The present-value factors were obtained from the model used to evaluate the condition of the civil service retirement system by using the dynamic model assumptions.

The results of the calculation of the retirement-system savings and costs from the eight RIFs in our sample are reported in chapter 4. Also reported in that chapter are some of the reasons why the upper limit of our estimates of the reduced liability to the retirement system that resulted from the RIFs overstates the actual amount. A more complete list of these reasons follows.

- As indicated above, the overstatement of the number of years of federal service, because of the inclusion of some age-related severance pay with service-related severance, resulted in some overstatement of the retirement system's liability to employees separated by the RIF.
- The reduction in liability is overstated to the extent that separated employees were rehired by federal agencies after the end of our data-collection period and thus regained their retirement benefits.
- The reduction in liability attributable to a RIF is overstated to the extent that separated employees were rehired following the RIF, departed again prior to our checking current employment records, and were therefore not counted as having been rehired.
- The calculation is dependent on a reduced work force that takes a certain amount of time to reach an equivalent staffing level by attrition. The reduction in liability is thus once again overstated to the extent that some employees separated by a RIF would have left, by attrition, during this time.
- The liability reduction is overstated to the extent that separated employees were replaced after the RIF by other employees with prior federal service.

DOLLAR SUMMARY OF RIF EFFECTS: SAVINGS
CALCULATED WITH LOWEST ATTRITION RATE^a

<u>Item</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Budgetary savings								
1. RIF FY	629,344	54,413,283	595,487	0	207,795	323,256	1,151,704	188,803
2. Following FYs	<u>0</u>	<u>5,157,064</u>	<u>0</u>	<u>159,984</u>	<u>97,681</u>	<u>0</u>	<u>423,299</u>	<u>307,341</u>
3. Total	629,344	59,570,347	595,487	159,984	305,476	323,256	1,575,003	496,144
Direct costs								
4. RIF FY	635,859	1,666,454	493,530	32,561	217,541	226,907	622,938	250,831
5. Following FYs	<u>19,937</u>	<u>19,420</u>	<u>65,532</u>	<u>188,167</u>	<u>13,579</u>	<u>0</u>	<u>63,339</u>	<u>192,725</u>
Indirect costs								
6. RIF FY	1,476,621	1,425,901	1,470,672	147,450	103,960	464,367	400,541	111,605
7. Following FYs	<u>105,857</u>	<u>260,533</u>	<u>572,364</u>	<u>842,777</u>	<u>75,149</u>	<u>63,730</u>	<u>47,691</u>	<u>220,749</u>
8. Total	2,238,274	3,372,308	2,602,725	1,210,955	410,229	755,004	1,134,509	775,910
Net								
9. Savings less RIF FY direct costs (line 1 minus line 4)	(6,515)	3,490,610	101,957	(32,561)	(9,746)	96,349	528,766	(62,028)
10. Savings less all costs RIF FY (line 1 minus line 4 and 6)	(1,483,136)	2,064,709	(1,368,715)	(180,011)	(113,706)	(368,018)	128,225	(173,633)
11. Savings less direct costs all years (line 3 minus lines 4 and 5)	(26,452)	57,884,473	36,425	(60,744)	74,356	96,349	888,726	(52,588)
12. Total savings less all costs (line 3 minus line 8)	(1,608,930)	56,198,039	(2,007,238)	(1,050,971)	(104,753)	(431,748)	440,494	(279,766)

^aCosts and savings have not been discounted because, in almost all cases, the time during which the amounts accumulated was brief. The amounts reported show total budgetary savings and costs from the RIFs during fiscal year 1982 (the year they occurred) and subsequent fiscal years. Since our interest was in the overall effect of RIFs in terms of savings and costs, we have not reported savings separately for each subsequent year.

DOLLAR SUMMARY OF AGENCY RIF COST ITEMS

<u>Item</u>	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Direct costs								
RIF FY								
Severance pay	215,121	768,359	245,460	0	91,613	139,270	430,408	123,828
Unemployment compensation	75,838	308,729	84,332	0	9,321	14,626	67,205	0
Lump-sum leave	344,900	489,366	163,738	32,561	40,798	70,511	125,325	112,979
Employee transfers			0	0	75,809	0	0	14,024
Job-search assistance (contracts)		100,000	0	0	0	2,500	0	0
Total	635,859	1,666,454	493,530	32,561	217,541	226,907	622,938	250,831
Following FYs								
Severance pay	19,019	19,420	48,420	187,893	12,844	0	60,399	185,520
Unemployment compensation	918	0	17,112	274	735	0	2,940	7,205
Employee transfers	0	0	0	0	0	0	0	0
Total	19,937	19,420	65,532	188,167	13,579	0	63,339	192,725
Indirect costs								
RIF FY								
Processing and administration	499,888	161,691	241,649	97,887	18,919	68,616 ^a	70,252	64,065
Appeals and grievance	21,473	47,604	183,166	0	0	59,115	0	0
Downgrading	849,056	1,193,650	977,125	0	59,947	336,636	201,080	47,540
Job-search assistance	106,204	22,956	68,732	49,563	13,879	0	129,209	0
Retirement	0	0	0	0	11,215	0	0	0
Total	1,476,621	1,425,901	1,470,672	147,450	103,960	464,367	400,541	111,605
Following FYs								
Appeals and grievance	0	0	0	4,279	0	0	0	0
Downgrading	105,857	260,533	572,364	838,498	75,149	63,730	47,691	220,749
Total	105,857	260,533	572,364	842,777	75,149	63,730	47,691	220,749

^aCPSC could not differentiate between headquarters staff time and costs for either the headquarters or regional RIF. We apportioned the total cost in this category according to the number of employees affected by the RIF. CPSC headquarters had 98 of the total of 209, and 98/209 of the processing and administration costs were ascribed to headquarters.

NUMBER OF EMPLOYEES AFFECTED
BY THE RIFS BY CATEGORY

	<u>GSA</u>	<u>ETA</u>	<u>OPM</u>	<u>ERA</u>	<u>OSHA</u>	<u>CPSC</u>	<u>TSC</u>	<u>FRA</u>
Separated	144	199	86	24	13	27	36	27
Downgraded	190	165	198	101	13	37	20	20
Reassigned	132	102	91	35	62	26	15	19
Transferred	0	12	65	0	8	0	12	13
Resigned	0	0	12	0	7	0	3	4
Retired	48	31	14	7	7	8	9	2
Other	<u>0</u>	<u>0</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	514	509	477	167	110	98	95	85

POTENTIAL EFFECTS OF OPM'S PROPOSED CHANGES TO THE
RIF REGULATIONS ON SAVING AND COST ELEMENTS

<u>Element</u>	<u>Likely effect</u>	<u>Reason</u>
Saving Salary	Increase	Changes in downgrading provisions would result in higher-graded (and higher-salaried) employees' losing their jobs; reducing the importance of seniority might lead to higher-salaried employees' losing their jobs
Reduced retirement-system liability	Increase	Changes in downgrading and seniority provisions would result in loss of employees for whom the retirement system has a greater liability (more years of service, higher salaries)
Cost Severance pay	Increase	Changes in downgrading and seniority provisions would result in loss of employees with higher salaries and more years of service and thus entitled to more severance pay
Lump-sum annual leave	Increase	Changes in downgrading and seniority provisions would result in loss of employees with higher salaries and more years of service, who are more likely to have greater accumulations of annual leave
Unemployment compensation	Increase	Loss of employees with more experience and years of service might result in greater entitlements to unemployment compensation; the linking of performance to RIF action might mean releasing employees least capable of finding other employment, thus increasing the duration of unemployment; employees released in a RIF whose performance is satisfactory or better might be stigmatized by poor performers' also being released in the RIF, thus extending their eligibility for employment compensation

<u>Element</u>	<u>Likely effect</u>	<u>Reason</u>
(Cost)		
Relocation and transfer	Cannot predict	
Job-search assistance	Cannot predict	
Early retirement	Increase	Potential loss of more senior employees might result in greater numbers eligible for early retirement
Return of retirement-fund contribution	Cannot predict	Loss of employees with higher salaries and more years of service indicates higher retirement-fund contributions, increasing the return of these funds, but might also result in more employees' selecting the deferred-annuity option
Processing and administration	Cannot predict	Changes in downgrading provisions might reduce costs, as fewer position changes would result from a RIF; adding performance as a factor could increase costs
Appeals and grievances	Increase	Adding performance assessment as a factor might result in more appeals and grievances
Skills imbalance	Decrease	Limit on the extent of downgrading would reduce skills imbalance costs somewhat
Rehiring	Cannot predict	

AGENCY COMMENTS AND OUR RESPONSE

This appendix contains our summary of and response to the comments we received on a draft of this report from CPSC, the Department of Energy (DOE, for ERA), the Department of Labor (DOL, for ETA and OSHA), GSA, the Office of Management and Budget (OMB), OPM, and the Department of Transportation (DOT, for FRA and TSC). Copies of the agencies' comments follow our summary.

There is some overlap in the agencies' comments. We discuss the issues that are mentioned by more than one agency first, and then we cover the concerns that are raised by the agencies individually. In some instances, we have changed the text of the report to incorporate information that clarifies our analysis.

Several agencies (DOE, DOL, OMB) express concern about our discussion of attrition as an alternative to RIF. They direct our attention to the fact that attrition, as well as RIF, can have negative effects on an agency. Effects they cite are skills imbalance, monetary cost, disruption leading to loss of productivity, and morale problems. We agree that all these can result from attrition, but we believe that our original comparisons are valid for the following reasons.

In chapter 2 and appendix III, we indicate that there were many costs and savings from RIFs that could not be included in our quantitative analysis. Loss of productivity because of disruption and reduced morale were among the excluded costs. Since we excluded them from the assessment of RIFs, we also excluded them from the assessment of attrition. If these had been quantifiable, it seems likely that the RIF costs related to these factors would have at least equalled the attrition costs of these same factors. First, since our comparison of RIF and attrition assumes equivalent numbers and combinations of staff leaving an agency, it could be argued that disruption from the departure of staff would be roughly equal to disruption from subsequent internal staff movement. Second, although retrenchment, regardless of method, is deleterious to staff morale, it seems likely that the involuntary departures in a RIF would have a greater effect on morale than the voluntary departures in attrition. Therefore, it seems likely that our exclusion of these costs has not prejudiced our assessment in favor of the attrition alternative. We emphasize that in our analyses we used actual rates of attrition from the positions selected for RIFs and, thus, considered the problem of whether attrition occurs in the "right" places.

The question of the monetary cost of attrition is somewhat more complex. We did include costs of processing and administering RIFs, for example, but we did not include costs for processing and administering attrition. We agree that there

are some costs involved in managing attrition, although they are likely to be lower than those associated with a RIF because attrition is voluntary. It should be noted, though, that even while RIF processing and administration costs are being incurred, attrition (and attrition costs) will continue in the agency as employees who are not directly affected by the RIF depart. That is, attrition costs are not held in abeyance because a RIF is being conducted. Under both retrenchment alternatives, RIF and attrition, attrition costs will be incurred. Since they are experienced by the agency in either situation, it does not seem reasonable to count them in one (attrition alone) and not the other (attrition and RIF together).

Attrition can deplete the numbers of employees in some job categories, and this in turn can lead to unbalanced combinations of staff. As we indicated in the preceding paragraph, since attrition does not cease because of a RIF, skills imbalance can occur under either alternative. Whether in attrition alone or in RIF and attrition together, positions that become unintentionally vacant--that result in skills imbalances--are to be refilled. Only positions that are intended for elimination will remain vacant.

DOL raises a related concern about attrition in parts of an agency that have not been targeted for a RIF. Our assessment assumes that any position not selected for elimination, whether in the part of the agency targeted for RIF or in other parts of the agency, will be refilled. In our assessing attrition only in abolished position categories, our saving and cost analysis makes this assumption.

On a related point, DOE comments on the ability of attrition to reduce personnel ceilings to required levels of full-time equivalents. It notes that we presented our hypothetical example in figure 1 in terms of the attrition of staff rather than in terms of a reduction of FTEs. We did this in order to keep the example simple and straightforward. An agency attempting a specific lowering of the personnel ceiling or end-of-year FTE level would use the principles demonstrated in our example to assess its situation in light of the staff-reduction options. DOE adds that figure 1 shows that \$624,000 would be spent on employee salaries if the hypothetical agency chose to wait for attrition to reduce staffing to the levels it intends. Our point is that it might cost the agency more than \$624,000 to eliminate these positions with a RIF. If it did, attrition would be the more cost-effective strategy.

The final point the agencies make is that attrition is not as fast and sure as a RIF for reducing staff size. We acknowledge that attrition requires some time to meet staffing goals, but we want to emphasize that in many of the RIFs we examined, post-RIF staffing levels could have been reached with attrition in a matter of months. About sureness, we indicate in the

report that careful tracking of attrition rates by job series and grade would allow precise predictions of what attrition might accomplish in terms of reducing staff size.

CPSC, DOL, and OPM note that furlough cannot solve personnel-ceiling problems. We agree and suggest the furlough alternative, as we state in the report, only when budgetary considerations are paramount.

Two agencies (OPM and CPSC) note that their RIFs were not intended solely for budgetary purposes, and DOE indicates that ERA's RIF was not intended to achieve budgetary goals. The budgetary effects of RIFs are, of course, of direct interest when the goal of budgetary savings is important. Once it has been decided to reduce staff size, regardless of the intention, it is important to consider the cost-effectiveness of the methods used for making the reduction. Comparing the savings from and costs of RIF and attrition as described in chapter 7 would identify the most cost-effective strategy.

OPM states that when work load is to be reduced or job functions are to be eliminated, RIF may be the only practical course of action. In many situations, this is entirely correct. Even so, attrition may sometimes be a practical alternative. When one or a few units of an agency are targeted for staff reductions and others are not, natural attrition in the agency as a whole may provide openings in targeted units for employees to transfer into, provided job skills are compatible. While this process will not be feasible in some cases, it is likely to be in others.

OMB calls for an assessment of RIF costs and savings over a period longer than 1 year. In chapter 3 and table 4, lines 11 and 12, we report total costs and savings regardless of the period in which they occur. The salary saving at ETA (table 4, line 3), for example, would have been realized in a period of 8 years from the date of the RIF. We have modified table 4 to make sure that it is understood that we have presented the multi-year costs and savings in addition to RIF fiscal year figures.

OMB directs our attention to the small differences found in the representation of men, women, minorities, and nonminorities in the RIFs reported in chapter 6. OMB suggests that these differences are not statistically significant. We did not test these data for statistical significance because, as we state in the report, we were not generalizing from agency data to a broader population; rather, we were reporting actual proportions affected by the RIFs we examined. We agree that some differences are small and have noted this in the text.

Finally, GSA states that the RIF regulations that have been proposed would alter the factors to be used in assessing RIF costs and savings. We agree that they will alter the amount of

both costs and savings, but we do not believe that they will change the factors in assessing either costs or savings.

The pages that follow contain the letters from CPSC, DOE, DOL, GSA, OMB, OPM, and DOT. References in the letters by number to pages, tables, and figures in the draft they read have been translated as marginal glosses containing the numbers as they appear in this printed version of the final report. The enclosure containing testimony from OPM has been omitted.

UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D C 20207

APR 08 1985

The Chairman

The Honorable Richard L. Fogel
Director
Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to review and comment on savings and costs of Reductions-In-Force in eight agencies in Fiscal Year 1982, including a major Reduction-In-Force (RIF) conducted by the Commission.

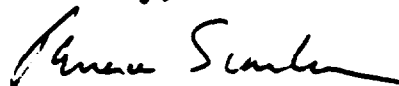
The report points out that the net budgetary savings of the RIF at the Commission were small. It further suggests that less than a day of furlough combined with average attrition could have achieved the same budgetary savings.

Although we do not disagree with that premise, it is important to note that cost savings were not the sole determinant in the Commission's conducting a RIF. In addition to the 25% budget reduction, the Commission's personnel ceiling was also reduced 22% by OMB. This required substantial reorganization to achieve management efficiencies with fewer personnel. For example, we reduced the number of regional offices from ten to five. We eliminated two major units in headquarters and assigned their functions and responsibilities to remaining units in the organization. Such major changes could not have been achieved by relying on attrition to reach budget and personnel ceiling reductions. Likewise, furlough was not a feasible alternative to RIFs in our circumstance.

It should also be noted that while the information concerning the number of headquarters employees affected by RIFs is accurate, the cost per employee calculated for processing the RIF is misleading because a substantial number of agency field employees were included in the RIF but not in the data requested for this report. The staff hours expended in administering the RIF were for both headquarters and field employees and cannot be distinguished. Thus, the processing and administration costs per employee affected by the RIF appear to be higher than those in six of the eight agencies studied.

Again, thank you for the opportunity to comment on the Reduction-In-Force report. If you have any further questions, please let me know.

Sincerely,



Terrence Scanlon
Chairman



Department of Energy
Washington, D.C. 20585

APR 9 1985

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled "Reduction in Force Can Sometimes be More Costly to Agencies than Attrition and Furlough."

The primary difficulty with this report is that random attrition often leaves an organization with an inappropriate skills mix. If, for example, an organization of 1,000 employees needs to reduce its work force to 600 employees, the number of supervisory and managerial positions will decrease, certain job skills may become surplus to the needs of the smaller organization while certain other job skills will be in short supply because they are more marketable and will attrit at a disproportionate rate. It is likely that if attrition reduces the work force to 600, a reduction in force (RIF) will still be required to resolve these imbalance problems and that potentially costly recruitment efforts will then have to be undertaken to replace needed skills of employees who chose to leave during the attrition period. This method, therefore, could be more costly to the organization than simply conducting the initial RIF. Additionally, the report does not consider the possible impact if attrition does not occur at the expected rate. This could result in significantly increased costs since the salary savings of an immediate RIF will not be achieved, but the cost of an eventual, albeit smaller, RIF will still be incurred.

In Chapter 2, the example used in figure 1, page 2-8A, shows an attrition curve that would reduce the employment of the hypothetical organization by 100 employees (2,000 to 1,900) over a 7 month period. This reduction is characterized as having the same effect as conducting a RIF to reduce 100 employees at one time. What the model does not recognize is that the majority of federal agencies have been managing their staffing resources using the full-time equivalent (FTE) system since fiscal year 1982 and not an end-of-year position system that was used through fiscal year 1981. Under the FTE

p. 13

2

system, the agency in the hypothetical example depicted in figure 1 would fail to meet its fiscal year staffing allowance by 26 FTE if staffing levels were maintained at 1,900 employees after the 6 plus months attrition period. The agency also would have incurred \$624,000 of salary costs which should not have been in the budget for the fiscal year in question.

Using the same model, if attrition had been allowed to continue for the whole fiscal year, staffing levels would have been reduced to 1,816 for a total reduction of 184 employees. Total FTE usage for the fiscal year would be 1,906.6 FTE. The organization would not have met its fiscal year FTE ceiling, staffing would have been reduced by 84 more employees than if a RIF had been used, and staffing costs would still have exceeded budgeted amounts by \$168,000 (7 x \$24,000). (Calculations enclosed.)

Another point made in Chapter 2 is that the salary cost of reducing staffing by attrition is equal to the gross salary savings from a RIF. This point is not clearly demonstrated in the chapter and the examples used on page 2-11 are not supported by any of the data or examples used in the chapter. It is suggested that the chapter be developed using the model in figure 1 and the RIF A vs RIF B scenario be developed using a standard model.

p. 16

Finally, the 1982 RIF in the Economic Regulatory Administration was conducted as the result of a reorganization resulting from a reduction in work and a change in the skills mix required due to the decontrol of petroleum products in 1981. It was not conducted in whole or in part in order to reduce budgetary expenditures.

The DOE hopes that these comments will be helpful to GAO in your preparation of the final report.

Sincerely,



Martha Hesse Dolan
Assistant Secretary
Management and Administration

Enclosure

APPENDIX X

APPENDIX X

GAO MODEL
ATTRITION/FTE USAGE

<u>Month</u>	<u>Start</u>	<u>End</u>	<u>Empl't Change</u>	<u>Avg.</u>	<u>FTE's</u>	<u>Cum FTE's</u>
1	2000	1984	-16	1992	165.99	165.99
2	1984	1968	-16	1976	164.66	330.65
3	1968	1952	-16	1960	163.33	493.98
4	1952	1936	-16	1944	161.99	655.97
5	1936	1921	-15	1928.5	160.70	816.67
6	1921	1906	-15	1913.5	159.45	976.12
7	1906	1891	-15	1898.5	158.20	1134.32
8	1891	1876	-15	1883.5	156.95	1291.27
9	1876	1861	-15	1868.5	155.70	1446.97
10	1861	1846	-15	1853.5	154.45	1601.42
11	1846	1831	-15	1838.5	153.20	1754.62
12	1831	1816	-15	1823.5	151.95	1906.57
			<u>-184</u>			

THE UNDER SECRETARY OF LABOR
WASHINGTON, D. C.
20210



APR 10 1985

Mr. Richard L. Fogel
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

This is in response to your letter dated March 6 which transmitted for comment a draft report on savings and costs of eight 1982 reductions-in-force (RIF).

This report reaches a number of valid conclusions based on a review of these recent RIFs, two of which were held in the Department. Before concluding that a RIF is necessary, management should certainly consider direct and indirect costs, and should be aware that attrition and furloughs are viable alternatives in certain circumstances. Similarly, the cost and disruption attributable to downgrades, and the possible disproportionate effect of RIFs on women and minorities are factors to be considered.

There are, however, several deficiencies in the report that we suggest be corrected before it is finalized. These generally result from the fairly narrow "cost" approach taken in the study:

1. RIFs have a significant advantage over other methods in that they can be carefully targeted to specific organizational, geographic or occupational areas. Reliance on furloughs or attrition may only postpone but not eliminate the necessity of a RIF.
 - o Furloughs may save as much money in the short run, but tend to impact many more employees without regard to the priority of the work they are doing. In addition when the staff return to duty, you still have the office or region or function that should have been eliminated.

-2-

- o Attrition occurs throughout an organization, with the result that functions which would not be targeted in a RIF are unnecessarily impacted, and in fact, causes serious mission consequences if it is allowed to continue uncontrolled for a considerable length of time.
2. RIFs are also much more time-specific, a frequent requirement of the budget process. Functions or units targeted for elimination can be abolished by a date-certain via a RIF, while attrition alone or in conjunction with a furlough tends to produce an extensive transition period. Such prolonged solutions may also have serious detrimental effects on employee morale and productivity.
 3. The data relating to current fiscal year costs and benefits from a RIF should be expunged from the report. That type of measure depends critically on the point in the fiscal year in which the RIF was held, and produces the anomalous situation in which a RIF held on September 30 may not be cost effective, but the same RIF held the next day may be very cost effective.

Thank you again for the opportunity to review this report in draft. Mr. William Furman, Deputy Comptroller, is available to answer any questions your staff may have regarding these comments or our overall reaction to the report. His number is 523-6891.

Sincerely,



Ford B. Ford



General
Services
Administration

Washington, DC 20405

APR 10 1985

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

This is in response to the General Accounting Office (GAO) draft report entitled "GAO Report to OMB on Cost of RIF's in Eight Agencies During 1982" (GAO/PEMD-85-6, March 5, 1985).

The General Services Administration (GSA) is basically in agreement with the findings of the audit report.

We do, however, have the following specific comments:

GSA was listed as the third highest in cost per employee of the RIF. However, GAO should consider additional factors such as the size of the competitive area, number of jobs and different occupational series abolished, grade levels of positions and the type of RIF, i.e., position management RIF vs. bottom-to-top RIF.

Page 3-9 - We disagree with GAO's conclusion that the new regulations would not alter savings and cost factors. Our understanding of the new regulations is that they would definitely change the cost factors of a RIF.

p. 26

Page 5-1 - The definition of "bump" is lower subgroups, not lower grades.

p. 34

Page 5-6 - Since each agency establishes their individual repromotion plan, the size of the agency does not necessarily mean there will be more repromotions.

pp. 37-38

We appreciate the opportunity to comment on the draft report and look forward to the publication of GAO's final report. We have contended that RIF's do not save money and this report supports that theory.

Sincerely,

Patricia Q. Scheidt
Acting Administrator



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

April 2, 1985

Mr. William J. Anderson
Director
General Government Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

My staff has reviewed your draft report (assignment code 973573) discussing the cost and savings of eight 1982 Reductions-in-Force (RIFs). The report concludes that in most of the eight RIFs studied, attrition would have been a more cost effective means of achieving the necessary staff reductions.

We agree with the basic conclusion that attrition may be a more humane and efficient means of achieving staff reductions in some situations. However, we have certain conceptual problems with the basic premise of your cost/benefit analysis. While your draft report of the costs and savings of RIFs is quite thorough, we believe your analysis of the comparative costs and savings of reductions through attrition is incomplete.

To begin with, none of the costs of reducing a workforce through attrition have been considered in your analysis.

As managers who have used attrition to achieve reductions in personnel will point out, reductions through attrition can be costly to administer, since they require a great deal of management effort. Vacancies and budget levels must constantly be monitored and personnel be reshuffled to cover essential positions left vacant. There are additional, although difficult to quantify costs (similar to those experienced in RIFs) that result when staff is inappropriately reassigned and/or downgraded. Furthermore, early retirements, which are expensive and undesirable, are often used to achieve the rate of attrition necessary to meet reduction goals. Neither the administrative costs of implementing reductions through attrition, nor the staffing inefficiencies that necessarily result from such reductions were acknowledged in your draft report.

Furthermore, the morale problems that reductions through attrition cause, although different from those caused by RIFs, are no less real. Attrition reductions are frequently more drawn out and painful processes for the entire agency than a quick RIF would be. This point of view has not been acknowledged within your draft report.

An additional conceptual flaw of your analysis is that you have examined the costs and benefits only from a short-run perspective. The large, one-time costs of running a RIF may temporarily outweigh the benefits, and may, in comparison to attrition be a less cost-effective means of achieving reductions. However, in the long run, reductions through attrition imply larger administrative and salary costs.

We, therefore, recommend that your cost/benefit analysis be modified as follows:

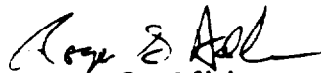
- Examine, discuss, and quantify all costs and benefits of reductions by both attrition and Reductions-in-Force, to the extent practicable. In this way, both sides of the equation are presented completely.
- Examine the costs and benefits of both methods over a longer period of time than one year.

We have one further point regarding your conclusion that in seven of the agencies studied, minorities were overrepresented in those employees RIF'ed. You note, however, that in two of those seven agencies the percentage difference was only 1 percent. We would suggest that this one percent difference would not likely represent a statistically significant difference and therefore should not be presented as a difference.

One final point is that your report leaves the impression that Federal managers had a choice in 1982 whether they could use attrition or Reductions-in-Force. We believe that for most of the Federal agencies in 1982 the budget reductions required immediate action and predictable outcomes. Attrition, in this case, would have been too slow a process in order to acquire these results.

Thank you for the opportunity to comment on your draft report.

Sincerely,



Roger S. Adkins
Deputy Associate Director
Justice, Treasury and
Personnel Division



United States
Office of
Personnel Management

Washington, D. C. 20415

In Reply, Refer To

Your Reference

Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, D. C. 20548

MAY 9 1985

Dear Mr. Bowsher:

This is in response to your request for the views of the Office of Personnel Management (OPM) on your draft report entitled "RIF Can Sometimes Be More Costly to Agencies Than Attrition and Furlough."

The short time provided for our response to your draft report precluded verification of the data contained in it, or consultation with the 7 other agencies covered in it. Our comments are, therefore, based on our general experience with both reduction in force (RIF) and attrition, and the RIF we conducted here in OPM in 1982. We also identified a number of technical inaccuracies in the report which are detailed in the enclosure.

It should be noted at the outset that we share some of the philosophy reflected in this report. OPM has consistently stressed that agencies should consider a variety of options when confronted with the need to make workforce reductions. These options include furlough, attrition and, if necessary, the use of reduction-in-force procedures.

Contrary to the report's statement on page 1-3, we have also noted the excessive costs of the current RIF system. A copy of our September 13, 1984, testimony before the House Post Office and Civil Service Committee's Subcommittee on Human Resources on this subject is enclosed. It is precisely because of the high costs and disruption caused by the current RIF process, that we have developed the new system which we expect to go into effect this summer.

pp. 2-3

deleted

These things said we cannot, however, agree with the report's premise that attrition and furlough are a viable option in each and every case. In building the case for non-RIF alternatives, the report seems to assume that agencies, in considering possible courses of action, are primarily motivated by the need to meet budget reductions. Budget cuts, however, are only one type of situation that agencies encounter. There are also workload reductions, elimination of functions and other situations where RIF may be the only practical course of action.

-2-

In 1982, for example, OPM did not conduct a RIF simply to reduce staff size and save money. Program decisions meant eliminating or curtailing activities which had unneeded skills and grade level imbalances. We simply could not properly address those problems except through use of reduction-in-force procedures.

In recognition of this type of situation, we believe that your report should be amended to better acknowledge that furlough and attrition are not appropriate in all situations. It may also be desirable to specifically expand your sample of agency RIFs reviewed to include RIFs conducted for a wider variety of reasons.

We also think it appropriate that you include in your analysis a recognition of the extent to which the eight agencies reviewed used attrition and other non-RIF techniques, before actually conducting a reduction in force. We employed these techniques in OPM and only used RIF when we felt it was absolutely necessary.

In making these comments, we fully appreciate the extent to which your analysts went in attempting to thoroughly document cost and other statistical data. It is hoped that these suggested changes will make the material more useful.

Sincerely,


Loretta Cornelius
Acting Director

Enclosures



U.S. Department of
Transportation

Assistant Secretary
for Administration

400 Seventh St. S.W.
Washington, D.C. 20590

APR 25 1985

Mr. J. Dexter Peach
Director
Resources, Community and Economic
Development Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Peach:

We have enclosed two copies of the Department of Transportation's (DOT) reply to the General Accounting Office (GAO) draft report, "Reduction In Force Can Sometimes Be More Costly to Agencies Than Attrition and Furlough," GAO/PEMD-85-6.

In this report, GAO concluded that:

- o A reduction in force (RIF) does not always result in budgetary savings beyond what might be achieved through attrition and/or furlough;
- o Women and minorities are disproportionately affected given their representation in the work force.

GAO recommended that the agencies contemplating a RIF first make reasonable cost estimates in comparison with furlough and attrition; that payroll and personnel records for data needed to compute cost estimates be systematically maintained; and that agencies conduct a more thorough assessment of savings and costs in comparison to attrition and furlough.

We generally concur with GAO's findings and recommendations based on our RIF experience over the past several years. The recommendations proposed by GAO have been, to varying degrees, used by the Department.

If we can be of further assistance, please let us know.

Sincerely,

A handwritten signature in cursive script that reads "Jon H. Seymour".

Jon H. Seymour
Acting

Enclosures

DEPARTMENT OF TRANSPORTATION REPLY

TO

GAO DRAFT REPORT

ON

REDUCTION IN FORCE CAN SOMETIMES BE MORE COSTLY
TO AGENCIES THAN ATTRITION AND FURLOUGH
GAO/REMD-85-6SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The General Accounting Office (GAO) examined the fiscal year 1982 reduction-in-force (RIF) process in eight agencies, two of which were the Federal Railroad Administration (FRA) and the Transportation Systems Center (TSC). In general, GAO found that each RIF is unique in savings and costs, that RIF does not always result in budgetary savings beyond what might be achieved through attrition and/or furlough, and that women and minorities are disproportionately affected given their representation in the work force. GAO recommended that agencies contemplating RIF first make reasonable cost estimates in comparison with furlough and attrition; that payroll and personnel records for data needed to compute cost estimates be systematically maintained; and that agencies conduct a more thorough assessment of savings and costs in comparison to attrition and furlough.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITION

The GAO findings were not unknown to the Department based on our RIF experience over the past several years. Therefore, there is no substantial disagreement with the conclusions. In addition, the recommendations were not unknown and have been, to varying degrees, followed by the Department in the past. The only exception to this statement would be that the rigid methodology proposed by GAO in assessing and comparing costs have not been used to determine whether RIF, furlough, or attrition is more costly.

POSITION STATEMENT

The report findings are substantially correct. The following specific comments are offered below:

- o On page viii, "RIF DOWNGRADING IS EXTENSIVE . . .," change the second line from "In two agencies" to "In one agency" per the data contained in Appendix VIII. p. iv, l. 42
- o In Table 3-1, Dollar Summary of RIF Effects: Savings Calculated with Mean Attrition Rate, line 10 incorrectly has brackets in the column for TSC. table 4
- o In Table 3-2, The Number of Days Necessary to Achieve with the Furlough the Net Savings Achieved with the RIF in the RIF Fiscal Year in Four Agencies, the average federal salary is used to determine the break-even point for furlough days to equal RIF savings. Since the crux of the report is that each case be evaluated on its particular set of circumstances, then the average federal salary for each agency should be used in the table calculations. table 5
- o On page 3-2B, remove the brackets around the TSC figure. p. 20
- o On page 3-3, "WHAT WERE THE MULTIYEAR . . .," change the sixth line from "\$96,000 at ERA" to "\$84,500 at FRA." p. 21, l. 2
- o On page 3-6A, under "Cost," the figures in the row "Downgrading per downgraded employee" are not consistent with the data contained in Appendix VII. table 6
- o On page 3-8, "WHAT DID THE DOWNGRADING . . .," change the seventh line from "five of the eight" to "six of the eight" per the data contained in Appendix VII. p. 26, l. 1
- o On page 3-8A, Table 3-4 is completely inaccurate in comparison with the data contained in Appendix VII. The entire table needs to be checked and corrections made to the data. p. 25, table 7
- o On page 5-6, change the second and third lines from the bottom of the page from "GSA experienced the highest attrition rate (37 percent)" to "TSC experienced the highest attrition rate (35 percent)." p. 38, ll. 12-13

- o On page 6-6, change the first line from "(ETA)" to "(TSC)." p. 44, l. 44
- o On page 6-8, change the eight line from "18" to "17." p. 47, l. 43
- o In Table 7-1, A Checklist for Assessing and Comparing the Savings and Costs of RIFs and Attrition, furlough should be added to the title since step 12 deals with a comparison of furlough and RIF. More importantly, however, agencies using this checklist would sustain substantial indirect costs of actually administering a RIF. Therefore, indirect costs should not be considered as a factor in deciding upon RIF versus furlough or attrition. table 13
- o On page 7-6, "RIF-related downgrading," change the first line from "In two agencies" to "In one agency." p. 53, l. 11
- o In the Glossary, the definition of "RIF action" should not include the term transferring because a transfer occurs between agencies.
- o In the Abbreviations, "GS" should stand for General Schedule.
- o In Appendix IV, Rates of Attrition in Positions Abolished by RIFs in Eight Agencies, TSC should be changed to ERA in the first sentence.
- o In Appendix VI, line 12 change "(line 1 minus line 8)" to "(line 3 minus line 8)."

(973573)

317-3

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300

**BULK RATE
POSTAGE & FEES PAID
GAO
PERMIT No. G100**

General Electric