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EARLY RETIREMENT IN THE FEDERAL SECTOR

I am pleased to be here to discuss the General Accounting Office's views on early retirements in the Federal sector.

In discussing the issue of early retirement, I believe a basic premise needs to be established. Retirement should mean what the word says. The essential purpose of a retirement system is and should be to assure employees that they will continue to receive reasonable incomes when their working years have ended. We recognize that retirement programs must also be designed to serve management objectives and employee needs in other circumstances and that certain early retirement provisions may be necessary to meet those objectives. But, they should be seen as unusual or special provisions that are outside the basic purposes of a retirement system.

The term "early retirement" can have different meanings depending upon the context in which it is used. To some it may mean retiring before age 65, while to others it may mean

retiring before meeting a plan's requirements for normal retirement. For example, in context of the Nation's retirement programs in general, the civil service system's normal retirement age of 55 is quite early. However, it is not generally recognized that many Federal personnel can retire with immediate benefits even earlier than age 55. Almost all military members and around 40 percent of civilian employees retire before 55. For purposes of my statement today, it is this latter group of early retirees that I will be addressing.

Early retirements in the Federal sector can be grouped into two general categories--(1) those persons who are working in jobs where the basic retirement provisions allow for retirement earlier than that usually available to other employees and (2) those persons who are allowed to retire earlier than they otherwise could have because of some event that precluded their continued employment to the normal retirement age. Since the issues involved with the two categories are somewhat different, I will discuss them separately.

SPECIAL EARLY RETIREMENT PROGRAMS

Certain types of Federal personnel are allowed to retire early under the general presumption that their duties need to be performed by a young and vigorous work force. These include the military, Foreign Service, law enforcement and firefighter personnel, air traffic controllers, and others. We reviewed the historical development of these special benefit

programs and found it difficult, in most cases, to clearly identify any current management or compensation policies that are being served by the programs as they are designed. Our findings were discussed in depth in our December 29, 1978, report entitled "Need for Overall Policy and Coordinated Management of Federal Retirement Systems." I will briefly summarize those findings here today.

Military personnel may retire at any age after 20 years of service and receive a pension equal to 50 percent of their final basic pay. Military personnel do not contribute toward the cost of these benefits and, unlike most other Federal personnel, they are also covered by social security.

The stated objectives of 20-year retirement are to

- (1) assist in attracting and retaining qualified members,
- (2) provide a socially acceptable method of removing some members who must be separated to maintain a young and vigorous force, and
- (3) provide, after many years of faithful service, some degree of financial security.

Since these objectives would seem to be appropriate for any retirement system, we questioned whether 20-year retirement is necessary for all military personnel when similar early retirement benefits are not provided to Federal civilian employees.

Much of the debate about early retirement in the military concerns perceptions about the rigors of military life, time spent overseas, and combat readiness. DOD views youth and

vigor as a universal requirement for all members regardless of occupational specialty or type of assignment. However, DOD has not defined what it means by youth and vigor. It does not know how old service members are when they are no longer young and vigorous or what occupations require youth and vigor.

Combat-related jobs probably require younger personnel than other Federal occupations. In noncombat jobs, however, the maturity, experience, and judgment gained through longer service are more valuable than physical stamina and agility. We examined the career experiences of 800 military personnel who retired in 1975 to determine how the services were using their career personnel.

We found that career personnel spent far more time in support-type activities, such as administration and communication, than in combat-related activities, such as tactical and infantry operations. A full 92 percent of all the enlisted personnel career time and 67 percent of the officers' career months were spent on support-type activities which do not require extraordinary youth and vigor.

In our opinion, continuation of 20-year retirement for all military personnel is not justified. Military officers retire at an average age of 46 with 24 years of service, and enlisted personnel retire at an average age of 41 with 21 years of service. The ability to receive retirement

benefits at a relatively early age and begin a second career in other employment is, understandably, too powerful an incentive to resist.

A similar situation exists for Foreign Service personnel. In comparison to the civil service retirement system, the Foreign Service system provides higher benefits at an earlier age for less service. Employees covered by the Foreign Service system may retire at age 50 with 20 years of service. According to legislative history, the 50/20 provision was made necessary by the Foreign Service's selection-out system which requires the involuntary separation of members who fail to be promoted within prescribed periods or who fail to meet established standards of performance. The reasoning was that allowing all members to retire after 20 years' service would lighten the pressure of the selection-out system.

In our report, we questioned whether the selection-out system justifies the early retirement system. We suggested that those selected out could be accommodated by the involuntary retirement provisions (eligibility at age 50 with 20 years' service or at any age with 25 years' service) that now exist under the civil service retirement system.

Federal law enforcement officers and firefighters may retire at age 50 after completing 20 years of service and receive an immediate annuity equal to 50 percent of their high-3 years average salary. In contrast, most other personnel covered by the civil service system must be at least

age 60 to retire after 20 years of service and would receive an annuity equal only to 36.25 percent of their high-3 salary.

This early retirement policy was enacted more than 30 years ago to improve the quality of Federal law enforcement service by helping to maintain a young, vigorous workforce. The special annuity formula is not intended to reward the employees for performing demanding or hazardous services. Rather, the more generous annuities are designed to make earlier retirement economically feasible.

We evaluated the reasonableness, effectiveness, and costs of this special early retirement program and concluded that the need for continuing it was questionable. There were several reasons for our conclusion. Perhaps the primary ones were the fact that employees covered by the special policy were not retiring much earlier than those who were not covered by it and the costs of covered employees' benefits was considerably greater.

We found that over the policy's 30-year history, the average retirement age of covered employees ranged from only 1 to 3 years less than that of employees retiring under regular civil service optional retirement provisions. To achieve this 1-to-3 year reduction, the Government pays heavily. Based on actuarial estimates, the annual cost for the early retirement benefits is 61 percent more than what the cost would be to provide the same employees with regular benefits.

Air traffic controllers are covered by yet another early retirement program. They can retire at age 50 with 20 years of service or at any age with 25 years. Their benefits are calculated under the general formula; however, benefit amounts are subject to a minimum of 50 percent of high-3. (The general formula would provide 36.25 percent of high-3 after 20 years and 46.25 percent after 25 years.) Thus, air traffic controllers receive no extra benefits unless they do, in fact, retire early.

As with the law enforcement and firefighter personnel, retirement statistics show that many controllers do not retire early. In 1979, retiring controllers, on the average, were 55.6 years old and had completed 29.2 years of service.

Maintaining a trained, alert, and vigorous work force is difficult, but this problem exists to varying degrees in most Federal occupations. Problems such as this normally are, and should be, resolved by using available personnel management techniques and, if needed for recruitment and retention purposes, special rates of pay. Employees who cannot perform satisfactorily before the regular retirement age could be reassigned to less demanding duties or, as a last resort, retired on disability or workers' compensation.

PROVISIONS ALLOWING EARLY RETIREMENT
UNDER SPECIAL CIRCUMSTANCES

Under the civil service retirement system, and several of the other Federal personnel retirement systems, employees

may retire on disability at any age if they have completed at least 5 years of service. Disability retirements account for over one-fourth of all retirements under the civil service system. During fiscal year 1979, over 300,000 civil service disability retirees received benefits totaling about \$2.5 billion.

We have become concerned through our work on the civil service disability retirement program that benefits may have been paid unnecessarily to many retirees. We have reported that (1) some disability retirees were probably capable of performing other types of work at the time of retirement, (2) some were receiving disability benefits while performing jobs similar to their prior Government jobs, and (3) some had been able to earn more than the pay for their prior Government jobs but continued to receive disability benefits because of the program's liberal economic recovery provisions.

We have recommended, and continue to believe, that legislation should be enacted to encourage retention of potentially productive employees, who are now being retired on disability, by requiring agencies to assign such employees to vacant positions in jobs they are capable of performing. We have found little evidence of agency efforts to use job details, job restructuring, or job reassignments so that the employee may continue productive employment. Even if such actions were attempted, the law does not require employees to comply.

Disability retirement reform is one area in which we have recently seen some encouraging progress. For example, in April of this year, the Office of Personnel Management (OPM) implemented a major administrative change in the program to place greater emphasis on the claims review procedures and documentation of disabilities. Under the revised procedures, OPM will not approve a disability retirement unless a direct relationship can be shown between a deficiency in performance and a specific medical problem. Previous to this, a claimant could obtain disability retirement for a medical condition irrespective of whether it had any effect on job performance. This change has increased the disability claim rejection rate to around 40 percent as compared to between 8 and 9 percent in 1979. OPM estimates that, if the change eventually results in a disallowance rate of 20 percent, the retirement system's normal cost will be reduced by .27 percent of payroll--about \$140 million based on the 1980 payroll, and outlays from the fund could be reduced by as much as \$6 billion over the next 20 years.

Other changes to the disability retirement program are now being considered by OPM and the Congress which would also result in greater retention of productive employees. We believe the action OPM has already taken clearly shows the significant effect that tightening up of the disability and other early retirement programs could have on Government operations and costs.

We recently completed a review of another special early retirement provision in the civil service retirement system whereby employees can volunteer to retire early (age 50 with 20 years of service or any age with 25 years) if their agency is undergoing a major reduction-in-force, major reorganization, or major transfer of function. Our report should be issued before the end of the year.

Before 1973, the law allowed only involuntary early retirements for employees who had lost their jobs through such events as reductions-in-force. Beginning in 1973, the law allowed the Civil Service Commission (now the Office of Personnel Management) to authorize agencies undergoing major reductions-in-force to permit employees not directly affected by the reduction to retire early. The basic purpose of the law was to reduce involuntary separations, thereby saving the jobs of younger workers not eligible for immediate retirement benefits who might otherwise be separated.

The Civil Service Reform Act, effective January 1979, liberalized the voluntary early retirement program. It allowed employees to retire early during major reorganizations and transfers of function. More importantly, OPM's implementing regulations now require only that 5 percent of an agency's positions be abolished or transferred rather than 5 percent of the employees facing separation as was required under its previous guidelines for approving early retirement authorizations. This was a substantial change because it permitted

early voluntary retirements in organizations where no employee was being involuntarily separated.

We reviewed the operation of the voluntary early retirement program at eight agencies. In essence, we found that the early retirements helped very little with the staffing problems the program was intended to correct. Of particular concern was our finding that, under the program as expanded by the Civil Service Reform Act, several early retirement authorizations were granted even though it was known beforehand that no employees were scheduled for separation. In many cases, all the early retirees were replaced by new hires.

The voluntary early retirement program is expensive. Our actuaries estimate that it will cost \$109 million in 1980. We believe the program, with proper controls, can be workable. However, as presently designed and administered, it is resulting in too many unnecessary retirements. We are concerned that (1) early retirement authorizations are not restrictive enough to insure a high probability of job savings, (2) agencies do not exhaust other management techniques for solving staffing problems before turning to the early retirement program, and (3) as the program was revised under civil service reform, employees can retire early even though none of the agency's employees are being adversely affected. Our report will contain recommendations to the Congress for major changes to the program.

We will soon be initiating a review of the civil service system's early involuntary retirement provisions and practices. Under this program, employees meeting the age and service requirements (age 50 with 20 years' service or any age with 25 years) can retire if they are involuntarily separated. Separation is considered involuntary if it is not for cause and if it is against the will and without the consent of the employee. For example, involuntary separations can result from reductions-in-force or position abolishments. It is our understanding that, for eligibility purposes, OPM has held that it is not material whether an employee who loses his job is offered another one; rather, the loss of a job, in itself, creates retirement eligibility.

We expect to find that many of the issues in the involuntary early retirement program will be similar to those involving voluntary early retirements.

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That concludes my statement insofar as our observations on the specific early retirement programs are concerned. I would only add as a general observation that any analysis of these issues cannot ignore the affordability question. With the tremendous costs associated with Federal retirement programs and the large unfunded liabilities that have accumulated, the continuation of generous early retirement benefits may just no longer be possible. Rather than encouraging people to retire early, we believe the Government's retirement policies should more appropriately be designed to encourage the retention of experienced personnel wherever possible.