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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

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## Voluntary Early Retirements In The Civil Service Too Often Misused

Under the civil service retirement system, employees with 30 years' service can elect to retire at age 55. In certain circumstances, they can voluntarily retire earlier.

The Office of Personnel Management is permitting too many employees to retire earlier than they normally could. Such retirements may be appropriate if they prevent younger employees from being laid off, but usually this is not the case. Early retirements are being granted to solve a variety of perceived or actual staffing problems.

The Congress should amend the Civil Service Reform Act to restrict the use of early retirements to cases where there is a high probability that other employees' jobs will be saved.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses the cost, effectiveness, and reasonableness of permitting voluntary early retirements to solve staffing problems. Early retirements add substantially to the cost of the civil service retirement system, and, in many instances, we believe they are being used inappropriately. The report recommends that the law permitting such retirements be revised.

We are sending copies of this report to selected Committees and Subcommittees of the Congress; the Director, Office of Management and Budget; the Deputy Director, Office of Personnel Management; the Secretaries of Energy, Health and Human Services, the Army, and the Air Force; the Director, Defense Intelligence Agency; and the Chair, Merit Systems Protection Board.

A handwritten signature in black ink, reading "Thomas B. Stearns".

Comptroller General  
of the United States



D I G E S T

Too many Federal civil service employees are being allowed to retire earlier than they normally could.

Initially, early retirements were meant to open up jobs for younger employees who would otherwise be dismissed during agency reductions or reorganizations. GAO believes this is a laudable objective. However, costly early retirements are being used to solve a variety of perceived or actual staffing problems and are saving few, if any, jobs. The law should be revised to preclude early retirements unless it is highly likely that jobs will be saved.

Before 1973, Federal employees could retire early only if they were being involuntarily separated by such actions as a reduction in force. In 1973, the law was changed to allow the Civil Service Commission (now the Office of Personnel Management (OPM)) to approve voluntary early retirements for employees not directly affected by work force reductions.

The primary objective of this change was to soften the blow of a major reduction by making jobs available to younger employees who would otherwise be dismissed without any retirement benefits. The Commission's guidelines authorized early retirement for any qualified employee if 5 percent of the employees of an organization or unit faced involuntary dismissal. (See pp. 1 and 2.)

The Civil Service Reform Act authorized early retirements in additional situations--specifically, major reorganizations or transfers of function, in addition to reductions in force. New guidance from OPM allowed early retirement for any qualified

employee if 5 percent of the occupied positions in an organization or unit were to be abolished or transferred. (See pp. 2 and 3.)

The Reform Act change substantially liberalized the early retirement program. It allowed employees to retire early even when position transfers and abolishments posed no threat of dismissal or demotion. Usually, affected employees were simply reassigned to newly created positions with the same duties and grades. In many cases, new hires were required to replace early retirees, and, in others, early retirees themselves were brought back as reemployed annuitants. GAO believes allowing early retirements when employees are not facing dismissal is contrary to sound retirement policy.

The following examples demonstrate how the expanded early retirement authority has been used.

--The Merit Systems Protection Board, created from the old Civil Service Commission, was given early retirement authority before the Board existed or anyone knew how it would be organized. The authority was not needed, but seven appeals officers retired early and had to be replaced. (See pp 10 and 11.)

--During a reorganization, OPM allowed 149 early retirements even though no employees were faced with dismissal. In most cases, positions were abolished and employees were reassigned to new positions. Few employees were adversely affected. (See pp. 7 to 9.)

--The Department of Energy reclassified over half of its headquarters positions. This qualified as a reorganization, and the

Department received an early retirement authorization. Few employees were adversely affected, but 206 employees retired early and had to be replaced with new hires. (See pp. 11 to 13.)

--Fort Bragg received two early retirement authorizations in a year. Part of the reason for the second was to correct staffing imbalances caused by the first. Neither was needed because staffing problems could have been solved by attrition had action been taken in time. (See pp. 13 and 14).

In other cases, agencies' estimates of the impact of reductions were poorly documented and proved to far exceed the eventual outcome. Early retirements in these agencies resulted primarily in new hiring, not job savings. GAO also found a tendency for agencies to overstate the benefits derived from early retirement authorizations.

Early retirements are costly--GAO estimates they cost at least \$109 million in fiscal year 1980--and should be used judiciously. OPM is now examining early retirement requests more closely. This should help improve program administration. However, GAO questions OPM's premise that employees need only be minimally affected for an agency to qualify for an early retirement authorization, even including decreased promotion potential due to restructuring of jobs. This premise is particularly troublesome in view of the improved saved grade and pay features of the Civil Service Reform Act. (See ch. 3.)

#### RECOMMENDATION TO THE CONGRESS

Because of the program's liberal policies, the number of early retirements is increasing and many are unjustified. GAO recommends

that the Congress repeal early retirement provisions included in the Civil Service Reform Act and mandate that, OPM establish controls necessary to insure itself that before an early retirement authorization is granted it would (1) correct staffing problems which could otherwise only be corrected by a reduction in force and (2) save jobs for other employees. (See p. 27.)

#### AGENCY COMMENTS AND GAO EVALUATION

OPM disagreed with GAO, stating that it is too early to consider changes to the law since the revised early retirement program has been in effect for less than 2 years. OPM also stated that the early retirement program can be invaluable in helping agencies reorganize with minimal disruption to their operations. GAO believes that this position does not appropriately consider the unnecessary retirements that have been allowed under the program as presently designed. (See pp. 27 to 30.)

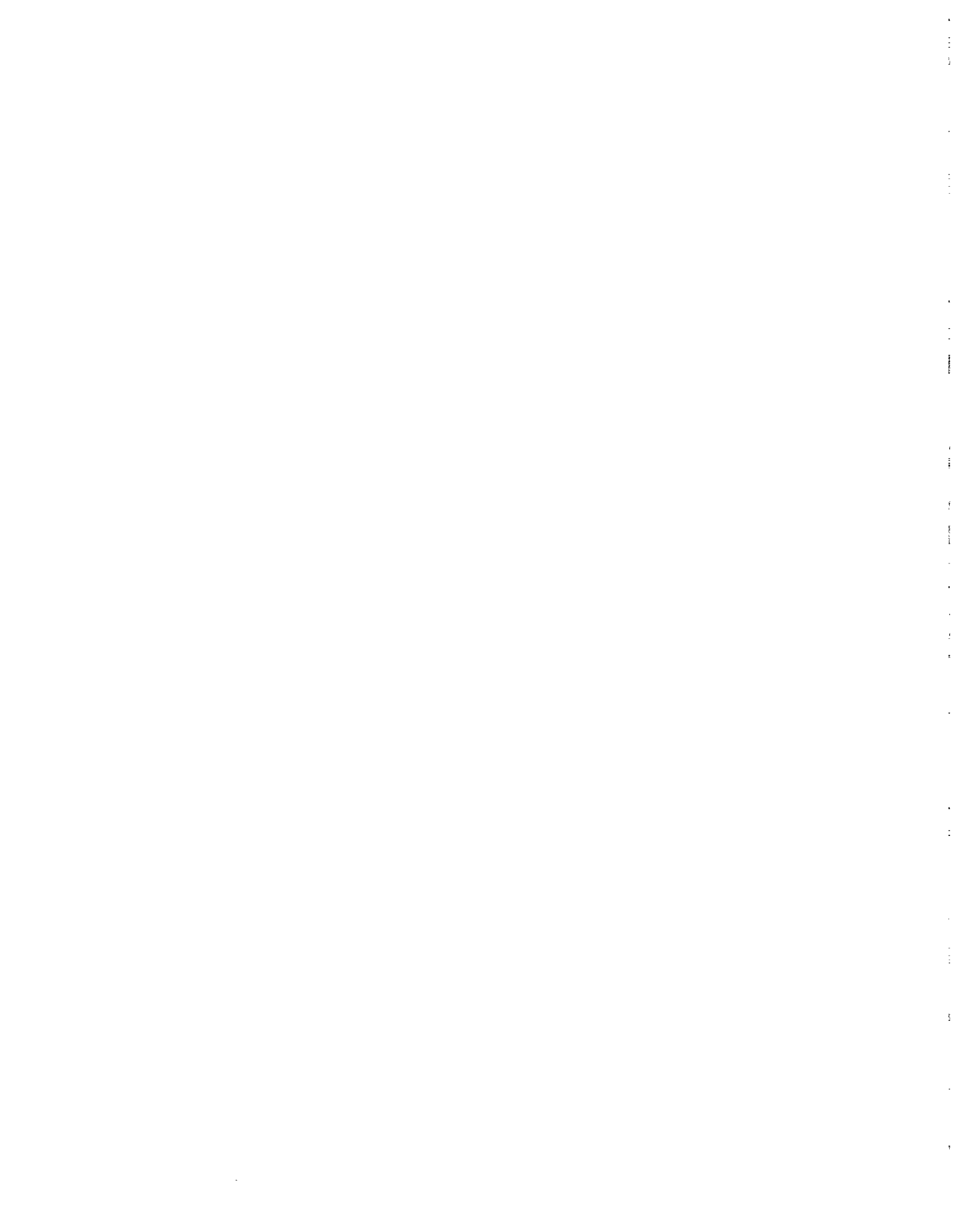


C o n t e n t s

|          |                                                                                                        | <u>Page</u> |
|----------|--------------------------------------------------------------------------------------------------------|-------------|
| DIGEST   |                                                                                                        |             |
| CHAPTER  |                                                                                                        |             |
| 1        | INTRODUCTION                                                                                           | 1           |
|          | History of early retirement legisla-<br>tion and regulations                                           | 1           |
|          | Use and cost of the early retirement<br>program                                                        | 3           |
|          | Objectives, scope, and methodology                                                                     | 4           |
| 2        | VOLUNTARY EARLY RETIREMENT PROGRAM NEEDS<br>TO BE RESTRUCTURED                                         | 6           |
|          | Approval of early retirement author-<br>ization requests                                               | 6           |
|          | Early retirements under the Civil<br>Service Reform Act                                                | 7           |
|          | Early retirements under Public<br>Law 93-39                                                            | 14          |
|          | OPM study of early retirements                                                                         | 21          |
| 3        | EARLY RETIREMENTS ARE COSTLY                                                                           | 23          |
| 4        | CONCLUSIONS, RECOMMENDATIONS, AGENCY<br>COMMENTS, AND OUR EVALUATION                                   | 26          |
|          | Conclusions                                                                                            | 26          |
|          | Recommendations to the Congress                                                                        | 27          |
|          | Agency comments and our evaluation                                                                     | 27          |
| APPENDIX |                                                                                                        |             |
| I        | Letter dated September 24, 1980, from<br>Alan K. Campbell, Director, Office of<br>Personnel Management | 31          |

ABBREVIATIONS

|      |                                             |
|------|---------------------------------------------|
| DIA  | Defense Intelligence Agency                 |
| GAO  | General Accounting Office                   |
| HEW  | Department of Health, Education and Welfare |
| MSPB | Merit Systems Protection Board              |
| OPM  | Office of Personnel Management              |
| SSA  | Social Security Administration              |



## CHAPTER 1

### INTRODUCTION

Retirement is only one of several programs the Government and other employers use to compensate their personnel, and these programs must be designed to serve both management objectives and employee needs. However, the basic purpose of a retirement system is and should be to assure employees that their incomes will continue, usually at a lower rate, when their working years have ended. Special provisions, such as early retirement, may be included to meet other objectives, but they should be recognized as unusual and outside the basic purpose of the system.

The civil service retirement system covers approximately 2.7 million Federal civilian employees. Covered employees are generally eligible for optional retirement at age 55 after 30 years of service, at age 60 after 20 years of service, or at age 62 after 5 years of service. In general, benefits under the system are computed at the rate of 1.5 percent of average pay (highest average annual salary for 3 consecutive years) for the first 5 years of service, 1.75 percent for the next 5 years, and 2 percent for each year of service beyond 10.

In addition to the optional retirement provisions, the civil service retirement system allows voluntary early retirements for employees of agencies undergoing major reductions in force, reorganizations, or transfers of functions.

### HISTORY OF EARLY RETIREMENT LEGISLATION AND REGULATIONS

Before 1973, the law did not allow voluntary early retirements. It allowed only involuntary early retirements for employees who lost their jobs through no fault of their own. In 1973, Public Law 93-39 was enacted allowing the Civil Service Commission (now the Office of Personnel Management (OPM)) to authorize voluntary early retirements (under the involuntary retirement provisions) for employees of agencies undergoing major reductions in force. To retire under these special provisions, an employee must be at least age 50 with 20 years of service, or any age with 25 years. The annuity is computed under the regular benefit formula and reduced by 1/6 of 1 percent for each month the employee is under age 55.

In recommending passage of Public Law 93-39, the House and Senate Committees on Post Office and Civil Service <sup>1/</sup> stated that, to determine when a reduction in force is major, the Commission should consider such factors as the impact on the local economy, the degree of disruption on the operations of an agency or installation, and the effect on the agency's or installation's future capability to effectively carry out its mission. The legislative history indicated that the basic purpose of allowing voluntary early retirements was to reduce involuntary separations and thereby save the jobs of younger workers who might otherwise be dismissed in the reduction in force and who would not be eligible for immediate retirement benefits. Other objectives were to spread the separations over the affected organizations and to diminish the effect of work force reductions on local economies.

To implement the 1973 law, the Civil Service Commission issued guidelines providing that voluntary early retirements would be authorized when at least 5 percent of the employees in the geographic area, agency, or unit for which early retirement is requested are facing involuntary separations. The Commission indicated that it used the percentage of employees subject to separation as the cornerstone of its criteria because "employee separations, or job losses was the factor about which Congress seemed most concerned \* \* \*." The 1973 guidelines also provided that an early retirement authorization would be granted to an agency or installation with a separation rate below 5 percent if it was determined that the reduction in force would seriously affect the local economy and the agency's ability to effectively carry out its mission. Those guidelines remained intact until they were revised to incorporate the expanded early retirement program included in the Civil Service Reform Act of 1978.

The Reform Act expanded the use of voluntary early retirements by allowing OPM to authorize them for employees of agencies undergoing major reorganizations or major transfers of functions in addition to reductions in force.

According to OPM, the expanded early retirement program was needed to help accomplish the governmental reorganization efforts initiated shortly after the Presidential transition of 1977. Public Law 93-39 could not be used without a reduction in force; therefore, an expanded retirement program was

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<sup>1/</sup>House Report No. 93-98, March 29, 1973, and Senate Report No. 93-152, May 15, 1973.

needed to carry out a Presidential commitment to reorganize without employee separations. A joint memorandum to the heads of departments and agencies, dated December 12, 1977, from the Acting Director, Office of Management and Budget, and the Chairman, Civil Service Commission, implemented the Presidential commitment:

" \* \* \* No employee whose position is directly affected by a reorganization may be separated for that reason if he or she has not first been made a good faith offer of another position, preferably at the same grade. Separation action may proceed only if the offer is declined \* \* \*"

In effect, therefore, the new voluntary early retirement program was instituted to assist employees who were adversely affected by the reorganization even though the Government had promised employees that no adverse effects (separations) would necessarily result from the reorganization efforts. The effect of the new program was to permit early retirements even in the absence of involuntary separations.

When OPM revised its guidelines to reflect the expanded early retirement authority, it also revised its criteria for approving agencies' requests for voluntary early retirements. The new criteria specify that 5 percent of the occupied positions must be affected, rather than 5 percent of the employees facing separation as was required under the previous guidelines. This was a substantial change because it permitted early retirements in organizations where no employee was being involuntarily separated. The new criteria require only that the positions be abolished or transferred.

#### USE AND COST OF THE EARLY RETIREMENT PROGRAM

At the end of fiscal year 1979, approximately 125,000, or 10.5 percent, of all civil service retirees had retired under the early voluntary and involuntary retirement provisions. Since the program began in 1973, about 39,000 civil service employees have voluntarily retired early. About 29,000 of these occurred in 1973 and 1974 when agencywide early retirement authorizations were given to the Department of Defense to ease the post-Vietnam reductions in Federal employment. Under authorizations granted from 1975 to 1978, voluntary early retirements averaged less than 1,500 a year. Under authorizations granted in 1979, at least 3,100 employees retired early--an increase of more than 100 percent over

the previous few years. Final numbers from the 1979 authorizations are not yet known, so the total will be even higher.

The 125,000 early voluntary and involuntary retirees on the rolls at the end of fiscal year 1979 were receiving annuities totaling about \$1.3 billion a year. However, not all of this cost is directly attributable to early retirements because some of the individuals would have been eligible for normal retirement benefits at a later date, and all of them could have received deferred annuities beginning at age 62. The added cost to the civil service retirement system for permitting voluntary early retirements is estimated by our actuaries to be \$109 million in fiscal year 1980. The additional cost for early retirement results, in part, because the 1/6-of-1-percent reduction for each month under age 55 falls short of covering the cost incurred in allowing employees to retire earlier than normal. Some of the cost is attributable to the fact that not all early retirees have their annuities reduced. For example, a 55-year-old employee with 20 years of service is eligible for early retirement but could not retire, under the system's regular provisions, until age 60. Yet, his or her early retirement annuity would not be reduced.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

To evaluate the operations of the early voluntary retirement program, we reviewed all 110 early retirement authorizations granted during 1977 through 1979. However, our report focuses on nine authorizations which were reviewed in more detail: five early retirement authorizations--Fort Bragg; Defense Intelligence Agency (DIA); Secretary of the Air Force; Department of Health, Education, and Welfare (HEW); 1/ and the Social Security Administration (SSA)--granted under Public Law 93-39 during 1977 and 1978, and four authorizations--OPM; Merit Systems Protection Board (MSPB); Department of Energy; and Fort Bragg--granted under civil service reform. These authorizations were not selected on a statistical basis; most were selected primarily because of the large number of personnel involved.

We analyzed retirement legislation, particularly Public Law 93-39 and the Civil Service Reform Act of 1978, and related documents; implementing regulations; personnel records; justifications for early retirement authorizations and reports

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1/Name changed to the Department of Health and Human Services effective May 4, 1980.

on the results of those authorizations; actuarial valuations; statistical reports; OPM's model for estimating the cost of its early retirements; and various studies of early retirement matters. We also interviewed agency officials responsible for administering early retirement authorizations at the audit locations mentioned above.

## CHAPTER 2

### VOLUNTARY EARLY RETIREMENT

#### PROGRAM NEEDS TO BE RESTRUCTURED

The voluntary early retirement program is being used to solve personnel problems that good, sound management actions could have solved in other ways. In some instances, the early retirement authorizations simply should not have been granted. The program has become so liberal through OPM regulations that early retirements can be granted even when it is known beforehand they will save no jobs.

The basic objective of the voluntary early retirement program, as stated in the legislative history of Public Law 93-39--to save jobs for younger employees who otherwise may have to be involuntarily separated--is not being met. The legislative history of the Civil Service Reform Act did not indicate that this basic objective was being changed. However, in authorizing early voluntary retirements in conjunction with major reorganizations and transfers of function, the Reform Act is enabling agencies to grant early retirements when no employees are facing dismissal or other adverse effects. Usually, employees in abolished positions were reassigned to new positions with the same duties and grades. In many cases, new hires were required to replace early retirees, and, in others, early retirees were rehired as reemployed annuitants.

#### APPROVAL OF EARLY RETIREMENT AUTHORIZATION REQUESTS

Under Public Law 93-39, approvals for early retirement authorization requests were virtually automatic if an agency stated that at least 5 percent of its employees were facing separation. The Civil Service Commission did not require detailed information needed to make a critical evaluation.

Initially, early retirement authorizations granted under Civil Service Reform were also virtually automatic if at least 5 percent of an agency's positions were to be abolished or transferred. However, OPM officials acknowledged that, because of our findings, they have become more sensitive as to whether a real need for early retirements exists in specific situations, and have begun more critically evaluating an agency's request before granting the authorization. In addition to the basic information required in previous



request letters, agencies must now answer the following for OPM's consideration in determining whether a request should be granted.

- What will early retirements enable the agency to do, organizationally as well as on the personnel management side, that it would not be able to do otherwise?
- To what extent will adverse impact on employees be avoided through the use of early retirements?
- How do qualification requirements for positions to be potentially vacated by early retirees match up against qualification requirements for positions occupied by employees targeted for some type of adverse action?
- What other steps, if any, has the agency taken or does it propose to take, to deal with the situation prompting an early retirement request?
- Should the authorization be limited to certain occupations and/or grades based on an analysis of where the impact of the reduction in force, reorganization, or transfer is the greatest?

#### EARLY RETIREMENTS UNDER THE CIVIL SERVICE REFORM ACT

Although OPM now scrutinizes requests for early retirement authority more closely than before, an agency can still receive an early retirement authorization if some employees are expected to be adversely affected by such actions as downgrades. OPM's General Counsel maintains that an adverse effect may even entail diminished opportunities for advancement as a result of restructuring an employee's job within an agency. In our opinion, these liberal criteria have resulted in early retirement authorizations being granted unnecessarily.

A discussion of the four early retirement authorizations granted under civil service reform, which we selected for detailed review, follows.

#### OPM

OPM was created by the President's Reorganization Plan No. 2 of 1978 effective January 1, 1979, from the old Civil Service Commission. OPM was the first agency to receive an early retirement authorization under guidelines issued to implement the liberal policies in the civil service reform

legislation. Although OPM's request for this authorization technically met the criteria established by OPM for approving early retirement authorizations, it resulted in unnecessary retirements. Even at the time of approval it was known that, for the most part, the reorganization and resulting job abolishments would not result in employee separations. In most cases, employees occupying the abolished positions were reassigned to newly created positions with essentially the same duties. Such action does not, in our opinion, justify use of the early retirement provisions. Very few employees were adversely affected by the reorganization and job abolishments. However, 149 OPM employees were permitted to retire early.

OPM's request for an early retirement authorization stated that, by June 30, 1979, 220 of OPM's positions would be abolished and 150 positions transferred to other commuting areas. Because this met the 5-percent criteria for approving early retirement authorizations (6,511 occupied positions in OPM, with 370 affected--5.7 percent), the request was approved. Planning documents for the reorganization show that most employees occupying abolished positions were to be immediately placed into new positions without a change in either grade or job series. The positions to be transferred involved job information centers. OPM later decided to abolish these positions instead of transferring them.

Most affected employees were not hurt

At the end of June 1979, OPM had abolished 204 occupied positions and had transferred no positions. No more than 50 of these employees were adversely affected by the reorganization--less than .8 of 1 percent of OPM's total work force. Most of the 204 employees (133) were reassigned, and 21 retired. We were told by OPM officials that any abolishments after June 30, 1979, would also result in employee reassignments.

As mentioned earlier, positions need only be abolished or transferred for early retirements to be allowed. Employees do not have to be facing involuntary separation. The following are examples of the types of personnel actions that occurred during the reorganization.

--The Chairman and Vice Chairman positions of the Civil Service Commission were abolished and individuals occupying those positions were appointed to the Director and Deputy Director positions in OPM.

- Nine GS-15 Deputy Regional Director positions were abolished, and the individuals in those positions were given noncompetitive promotions to GS-16 positions--essentially reclassifications.
- Six word processor positions were abolished in headquarters, and the employees were reassigned to similar positions.
- Six file clerk positions were abolished in the Compensation Group, and the clerks were reassigned to similar positions.
- Most of the positions in the Office of Personnel and Labor Relations, Civil Service Commission, were abolished. The employees were reassigned to newly created positions in OPM. Essentially, the new position descriptions were written in a "generalist format" whereas the abolished position descriptions were written from a "specialist concept."

There were several similar cases. Job abolishments alone do not necessarily mean employees will be worse off; but under OPM guidelines, they can justify early retirements.

Many who retired early were needed

Under OPM's early retirement authorization, 149 employees retired early. OPM officials said they plan to fill virtually all the positions vacated by these early retirees. Twenty-seven of the 149 were in the same grade and job series for which OPM issued an open continuous job vacancy announcement in April 1979. Furthermore, 21 investigators and 4 claims processors were permitted to retire early, even though OPM had a shortage of these employees before the early retirement authorization. Serious shortages in these positions developed and, at the time of our review, OPM was actively trying to fill the positions.

At OPM headquarters, employees in 28 separate job series retired early. Early in 1980, a few months after the reorganization and early retirements, staffing in half those job series was at or above the levels just before the reorganization. Thus, the early retirees had been replaced. Vacancy announcements were outstanding in nine other series from which employees retired early.

## MSPB

MSPB was also created by the President's Reorganization Plan No. 2 of 1978 effective January 1, 1979, from the old Civil Service Commission. In December 1978 the Commission requested an early retirement authority for an MSPB reorganization that was expected to abolish and transfer many jobs. The request was approved on January 3, 1979. However, what actually occurred was far different--one job was abolished, none was transferred, and the adverse effect on employees was minimal. The agency not only received no benefit from the early retirements, but was hindered by the early retirement of seven appeals officers.

On December 29, 1978, the Director, Personnel and Labor Relations Division, Civil Service Commission, requested that MSPB be designated as an agency undergoing a major reorganization/transfer-of-function for the period January 15, 1979, through June 30, 1979. MSPB would reorganize to accommodate new programs and policies and early retirements would minimize disruptions to the work force caused by the reorganization. According to the request, at least 30 central office and 10 regional office positions were to be transferred to other commuting areas and at least 10 were to be abolished. Although there was as yet no definitive plan for reorganizing MSPB, the Commission approved the request because it stated 50 of the 271 projected MSPB employees were to be affected by the reorganization/transfer.

MSPB did not finalize its organizational structure and begin an internal reorganization until September 1979--8 months after the early retirement authority request was approved. The Personnel Director of MSPB later advised us that the timing of the early retirement authority was completely wrong because during the authorization period MSPB had not completed its reorganization plans. MSPB had the authority although it did not know if this authority was needed.

When the reorganization began, the Chair of MSPB decided that separations would be the last method used to accomplish any changes. In an effort to minimize employee anxiety about the reorganization, the Personnel Director and the Deputy Managing Director of MSPB made trips to every field office. They explained the changes to all MSPB employees, the reorganization's impact on them, and the available options. This personal contact and extra management effort made it possible to maintain employee morale and not separate anyone by encouraging employees in overstaffed positions to accept other positions in MSPB--in a few instances, at a lower grade

but with grade and pay retention. About 20 MSPB employees are taking advantage of the retraining opportunities offered by MSPE--basically retraining as attorneys, with MSPB paying for law classes, bar review classes, and certain professional fees. For those employees who could not be converted to excepted service or who wanted to leave MSPB, the Personnel Director contacted other agencies to find positions for them.

Largely, as a result of these efforts, only one position was abolished and none was transferred. The employee in the abolished position retired early. Three people were downgraded and given grade and pay retention.

During the early retirement authorization period, 11 employees retired early, with 1 subsequently reemployed. Of those, 7 were appeals officers. This put a hardship on the agency because MSPB had a case backlog and no budget authority to fill the vacated slots. Soon after the early retirement authorization expired, however, MSPB was able to issue an open continuous vacancy announcement for 11 chief appeals officers in both headquarters and field offices. As of March 10, 1980, seven had been hired.

The reorganization at MSPB was handled in such a way that there was little employee disruption. Management commitment allowed changes to occur without separating employees. The Personnel Director stated that he was convinced that, while it may be easier to manage in a smaller agency, any group could handle a reorganization the same way--without using the early retirement authority--if administrators were willing to put in the time and effort.

We believe it is apparent that the Civil Service Commission should not have requested early retirement authority for MSPB, inasmuch as plans for the new organizational structure had not yet been finalized. Allowing people to retire before internal organizational needs are known is not an effective way to staff a new agency. Also, since the plan did not require jobs to be abolished or transferred, an early retirement authority should not have been necessary at any time.

#### Department of Energy

The Department of Energy reorganized its headquarters in 1979 and received an early retirement authorization from OPM. Although the reorganization affected most headquarters' positions, the Department's reorganization goals could have been accomplished without the early retirement

authority. In most cases where employees were adversely affected, early retirements did little to lessen the impact.

On February 12, 1979, the Department requested an early retirement authorization in the Washington, D.C., metropolitan area, because it was undergoing a major reorganization which would abolish 4,699 positions and transfer 44 more to other commuting areas. Because this involved 62 percent of the Department's occupied positions in the Washington, D.C., area--far exceeding OPM's 5-percent criteria--the request was approved. The Department estimated that 682 employees were to be downgraded. The initial early retirement authorization period was March through August 1979. It was later extended through September 1979. The Department's request letter stated that most employees in the affected positions would be reassigned without adverse impact. No employees were facing dismissal.

During the early retirement authorization period, 206 individuals retired early--6 were reemployed within 30 days. As of November 1979, only one position was abolished where the incumbent was not reassigned. About 4,000 positions were abolished, and the employees were reassigned to other positions at the same grades with little or no change in duties. Nine positions were transferred to other commuting areas. Also, as of January 1980 there were only 191 downgrades--substantially less than the estimated 682. Of those downgraded, 132 received grade and pay retention for 2 years, and 59 did not. Moreover, of the 132 downgraded with salary retention rights, 40 will be eligible for normal retirement before or shortly after the end of the salary retention period.

Department officials stated the early retirements enabled them to change their skills mix to conform with changes in program emphasis. We question the extent to which early retirements accomplished that because individuals retiring early were being replaced with individuals in the same job series, as shown.

| <u>Job series</u>                      | <u>Number of<br/>early retirements</u> | <u>Number of<br/>new hires</u> |
|----------------------------------------|----------------------------------------|--------------------------------|
| General clerical<br>and administrative | 31                                     | 170                            |
| Secretary                              | 17                                     | 111                            |
| Program analysis                       | 7                                      | 31                             |
| Accounting                             | 20                                     | 75                             |
| Nuclear engineering                    | 10                                     | 6                              |
| General business and<br>industry       | 8                                      | 22                             |
| Contract and procurement               | 7                                      | 31                             |

Similar hirings were also taking place in other job series with early retirees.

The Department stated that it could not "definitely ascertain the number of employees who were not separated, demoted or transferred to other commuting areas because of early retirements." Basically, positions were abolished at the Department because they were being reclassified to conform with new classification standards. We believe that very few additional employees would have been adversely affected if the Department had not had the early retirement authority.

#### Fort Bragg

Within a year, OPM granted Fort Bragg two early retirement authorizations--one in June 1978 under Public Law 93-39 and the other in April 1979 under the Civil Service Reform Act. The 1979 authorization, although technically in compliance with OPM's regulations, could have been avoided. (The 1978 authorization is discussed on pages 15 and 16.)

On February 28, 1979, the Department of the Army announced that a reduction in force would take place at Fort Bragg, to be completed by May 2, 1979. In March 1979, Department of Army officials requested early retirement authority for Fort Bragg because of the reduction. The request letter stated that a reduction in force was necessary to reach ceiling levels and correct skills imbalances in the work force resulting from the early retirement authorization granted a year earlier. There were 3,819 employees in the affected activities and grades, and it was estimated that 263 (6.9 percent) of the occupied positions would be abolished. Because this exceeded OPM's 5-percent criterion, it was approved.

During the early retirement authorization period (April 3 through 26, 1979) 26 employees retired early, but no employees scheduled to be terminated were placed in those vacated positions. The scheduled reduction of 115 employees was carried out. At the time of our review, Fort Bragg had filled 6 of the early retirees' positions with outside hires and indicated that it may have to do the same thing with 11 more. Fort Bragg officials in their report to OPM on the results of the early retirement authorization stated:

" \* \* \* because the skills of the majority of surplus employees did not match those of the vacancies created by the retirements, the subsection 8336 (d)(2) [voluntary early retirement] authority did not make a major contribution to lessening the disruptive effects of the scheduled work force reductions."

The reductions in force; early, normal, and involuntary retirements; attrition; transfers; and a hiring freeze brought Fort Bragg 50 employees below its required fiscal year 1979 staffing ceiling.

Soon after the reductions in force, Fort Bragg was reallocated 111 positions previously cut from its personnel ceiling, putting it in an overall hiring posture. The Department of Defense's Priority Reemployment Program guaranteed the terminated employees their old jobs back, as they became available. At the time of our review, 55 of the 115 terminated employees were rehired, some part time.

Fort Bragg put off dealing with the reality of its ceiling reduction until it was too late to develop a viable program that would not cause severe disruption of the work force. If Fort Bragg implemented a limited hiring freeze in 1976 when it first became aware of its ceiling cuts, it could have easily reduced, through attrition over the 2-1/2 year period (October 1976 to April 1979), the 115 employees that were separated. Attrition averaged from 25 to 35 each month during the period. The Deputy Chief of Staff, the Director of Civilian Personnel, and others at Fort Bragg agreed that a reduction in force could have been avoided if they had acted sooner to reach their reduced personnel ceiling.

#### EARLY RETIREMENTS UNDER PUBLIC LAW 93-39

Under Public Law 93-39 OPM did not insure that agencies had properly determined the expected severity of a reduction



in force before granting an early retirement authorization. OPM officials stated they "were guided solely by the presentations of the agencies in determining whether an early retirement authority should or should not be granted."

Discussed below are the five early retirement authorizations we selected for detailed review.

#### Fort Bragg

As previously discussed, Fort Bragg received an early retirement authorization in June 1978 under Public Law 93-39. We question whether this authorization should have been granted since no employees were facing involuntary separation.

In October 1976, the Army notified Fort Bragg of civilian personnel reductions for fiscal year 1977. However, according to a letter from Fort Bragg's Chief of Staff, at the same time Fort Bragg was notified of personnel reductions, it also received authority to retain 215 employees above the personnel ceiling. This overhire authority took the pressure off Fort Bragg to conduct a large-scale reduction in force in fiscal year 1977. Nevertheless, in July 1977, Fort Bragg asked the Civil Service Commission to grant it an early retirement authorization. The Commission refused, stating that because of the overhire authority, Fort Bragg had not demonstrated that 5 percent of its work force was in any immediate danger of being terminated.

In June 1978, Fort Bragg submitted another early retirement authorization request. The situation was much the same as when it submitted its previous early retirement authorization request--it was over the authorized strength but still had an overhire authority. In addition, Fort Bragg officials stated that a Defense moratorium prohibited them from separating anyone in fiscal year 1978 to meet ceiling levels. This time Fort Bragg officials changed their approach in asking for an early retirement authorization. Rather than arguing that their overhire authority was only temporary and employees would ultimately have to be separated, they contended that approval of the request would prevent a reduction in force. Fort Bragg officials told us that they did not expect the second request to be successful, but felt it was worth a try. The Commission approved the request.

The early retirement authorization was in effect from June 20, 1978, through August 31, 1978. Fifty-three employees retired under this authority, with 35 surplus employees

being placed into positions vacated by early retirees. Because these surplus employees were not in immediate danger of being separated, we do not believe that this early retirement authorization saved a single job. Furthermore, eight of the early retirees had to be replaced by outside hires soon after they left.

#### Air Force

The extent to which early retirements assisted the Air Force in reducing its staff in the National Capital Region is questionable.

As part of the Air Force's efforts to reduce its staff in the National Capital Region, the Office of the Secretary of the Air Force, Air Staff, Headquarters National Guard Bureau (Air Force), and the 1,000 Support Squadron in the Washington, D.C., metropolitan area together requested an early retirement authorization for all eligible employees in grades GS-7 and above. The request letter stated that 70 of the 1,051 occupied positions were to be abolished, resulting in between 55 and 60 individuals being separated. Because the expected separation rate was between 5.2 and 5.7 percent, the request was approved. Some of the separation notices were to be issued in January 1978 with others following in March 1978. The early retirement authorization was granted for December 15, 1977, through March 6, 1978.

In April 1978, the Air Force requested that its early retirement authorization be reopened until June 30, 1978. The Commission approved the request for the extension.

Only one employee was separated during the early retirement authorization period, although the Air Force had estimated that between 55 and 60 would be. Furthermore, during the 15 months following the early retirement authorization period, only four additional positions were abolished. Air Force officials stated that actual abolishments fell short of initial estimates because the requirements for some reductions were delayed. This delay allowed the Air Force to place surplus employees in vacancies created through normal attrition.

In January 1979 the Air Force reported to OPM that 77 employees retired early and that each resultant vacancy had been filled by a surplus employee--either an employee whose position had been abolished or one who had declined an offer to transfer to another geographic location. The report also

said that the 77 saved jobs and the placement of a considerable number of surplus employees into vacancies created through normal attrition during 1978 had made it possible for the Air Force to limit the number of actual involuntary separations to two.

The Air Force had no strong basis for saying the 77 early retirements saved jobs. The Director of Civilian Personnel for the Air Force stated that it is doubtful if any of the positions vacated by the early retirees had been filled directly by employees who otherwise would have been separated. Rather, he maintained that some indirect placements may have resulted from the early retirements, although he was unable to provide examples or estimate how frequently this occurred. The official was unable to say whether there would have been additional separations if the Air Force had not been given authority to allow early retirements. He did state, however, that, on the basis of his experiences, early retirees generally do not vacate jobs that can be filled by employees facing potential separations.

Nevertheless, the Air Force official stated that early retirement authority is useful and necessary. He said less senior employees are less apt to be forced from their job by separations if certain employees retire a few years early. Additionally, he stated that early retirements permit reorganizations and mass transfers to occur without adversely affecting personnel. The official stated that an early retirement authorization can be considered successful even if "only one job has been saved."

We agree that early retirements can be a useful tool in easing the otherwise adverse effects on employees facing separations. However, we do not believe that an early retirement authorization can be considered successful unless a reasonable percentage of the early retirements results in jobs saved.

We especially question the success of an early retirement authorization when new employees are hired into the same kinds of jobs that early retirees are leaving. For example, 14 individuals in the general clerical and administrative job series took early retirements and 16 new employees were hired. Similar retirement and hiring also occurred in other job series.

## DIA

In February 1977, DIA requested an early retirement authorization because of a reorganization that would abolish 193 of its 2,234 positions. It estimated that 120 employees would be separated by reductions in force. The request letter stated that the reorganization, necessitated by new mission requirements, would abolish many existing positions and establish new and different positions. For the most part, reassignments were not anticipated. The request stated further that, although all occupations and grades would be affected, employees in intelligence specialties would be hardest hit. The Commission approved the request.

During the early retirement authorization period, DIA reduced the scale of its reorganization plans. DIA officials stated that, because of this change they were able to rearrange the new positions' duties and, through retraining efforts, place employees occupying abolished positions into new jobs. This change eliminated the need for a reduction in force.

DIA officials indicated that, during the authorization period, they knew that no employees would be involuntarily separated but decided not to stop early retirements since employees had already been informed that early retirements would be permitted through April. Twenty-six employees retired early. Hiring was curtailed except for a few positions.

## HEW

In November 1977, HEW had requested an early retirement authorization from the Civil Service Commission to alleviate the adverse impact on certain employees from departmental reorganizations and efforts to correct a serious overgrading problem. HEW stated, at that time, that no employees would be separated and no employees would be downgraded until December 31, 1979. This request was modified in April 1978 to include only those employees at GS-12 and above, or equivalent levels outside the General Schedule. HEW stated there were 21,884 employees at grades GS-12 and above in the designated components. Of these, an estimated 4,149 were to be affected. HEW stated that if it were not for the Presidential moratorium prohibiting separations, an estimated 979 would be separated--4.5 percent of the employees in the affected grades.

When the November request was received, a moratorium on separations caused by Presidentially ordered reorganizations,

such as the one at HEW, was in effect. However, the Director, Bureau of Recruiting and Examining, Civil Service Commission, asked the Commission's General Counsel for an opinion as to whether early retirements could be authorized in these situations. The November 1977 opinion stated:

"\* \* \* the law was clearly intended to offer voluntary retirement to certain employees as a way of curtailing the number of employees that would otherwise be involuntarily separated because of a RIF \* \* \* we interpret P.L. 93-39 to require an agency, at the very least, to be undergoing some kind of RIF before the Commission can make its determination on the "major" factor \* \* \* and the Commission, notwithstanding its broad authority, would not be at liberty to make a major RIF determination where reorganization is not coupled with a RIF." (Emphasis added.)

A second General Counsel opinion was issued in March 1978. This time it was addressed to the Chairman, Civil Service Commission, and stated that an early retirement authorization could be granted HEW because employee separations would have resulted if it were not for the Presidential moratorium. This second opinion, in effect, reversed the earlier opinion, and apparently ignored the congressional intent for early retirements--to save jobs for employees who would otherwise be involuntarily separated. The Civil Service Commission granted HEW an early retirement authority for April 26, 1978 through August 23, 1978. Very few employees were adversely affected by the reorganization, none were involuntarily separated, and no jobs were saved. However, 497 retired early.

During the early retirement authorization period, 77 positions were or were going to be abolished, and 78 positions were or were going to be restructured to a lower grade or different occupational series--significantly less than the estimated 4,149. HEW officials could not explain the wide discrepancy beyond the fact that the request letter was an estimate and actual experience was less because of attrition and hiring restrictions. They could not provide documentation supporting the original estimates.

During the early retirement authorization period, HEW knew that most of the positions vacated by early retirees would be refilled without any change in classification. The agency later hired individuals in the same job series as those who retired early.

SSA

We question whether SSA needed or received any benefits from its early retirement authorization.

In June 1978, SSA received approval from the Commission to grant early retirements to qualified employees in grades GS-11 and below. The request letter stated that, of the 15,370 employees in these grades, 1,089 (7.1 percent) were to be involuntarily separated because of reduced workloads and staffing ceilings. The request was approved.

During SSA's early retirement authorization period, 271 employees retired early, and no employees were involuntarily separated.

We asked SSA officials why there was such a substantial difference between their initial estimates and what actually happened. They indicated that they were able to avoid displacing large numbers of employees because of an intensive hiring freeze, cross-training of affected employees, and early retirements. The extent to which early retirements alleviated the need for reductions in force is questionable. SSA was hiring individuals in the same job series as those individuals taking early retirements. Of the 271 early retirees, 104 were in the general clerical and administrative job series and 120 were in the social insurance claims examining job series. During the early retirement authorization period, SSA filled 446 and 383 positions in those two job series, respectively. Similar hiring was occurring in other occupations held by early retirees.

Specifically, of the 271 positions vacated by early retirees, 209 were to be filled without change, and 31 were to be abolished. We could not determine what happened in the other 31 cases.

Similar problems may also have existed  
in other early retirement authorizations  
granted under Public Law 93-39

We reviewed, however not in detail, other early retirement authorizations granted under Public Law 93-39. For the 49 authorizations granted in 1977 and 1978 1/, however, we

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1/ Of these 49 authorizations, 2 were cancelled, 5 had incomplete files, and 1 was considered an extension of an earlier request.

compared the data used by the agencies in their early retirement request letters with the reported results and found striking differences:

--Thirty-five early retirement authorizations were granted on the basis of agency-supplied information showing that at least 5 percent of their employees were facing involuntary separations. In 21 of these 35 cases (60 percent), the actual employee separation rates through early retirements and involuntary separations were less than 5 percent. In six cases, no employees were separated even though the number of positions vacated by early retirements was much less than the number of individuals the agency had said were facing involuntary separation.

--Six were granted on the basis of agency-supplied information showing that less than 5 percent of their employees were facing involuntary separation. Two of these approvals were granted--HEW and the Community Services Administration--even though it was known beforehand there would be no employee separations. The four others estimated their separation rates would exceed 4 percent. Their actual separations through early retirements and separations, however, ranged from 0.5 to 2.3 percent.

This data suggests that agencies substantially overestimated the severity of reductions in force in their requests for early retirement authorizations.

#### OPM STUDY OF EARLY RETIREMENTS

In June 1980, after being informed about our findings and concerns with the early retirement program, OPM completed its own study of the use of early retirements since the enactment of civil service reform. The objectives of the study were to determine whether early retirements (1) assisted agency managers in carrying out reorganizations, reductions in force, and transfers of functions and (2) protected employees from adverse actions defined as separations, demotions, and directed reassignments or transfers with change in commuting area.

Although OPM concluded that the program has been very successful, our analysis of the findings confirms our opinion that the program needs reform.

The report stated that 70 percent of the early retirements assisted agencies in some manner; that is, they enabled the agency to effect organizational realignments, eased placement efforts, aided in correcting skills imbalances or other personnel management problems, enabled the agency to move slots to another function within the same installation, or assisted the agency in meeting other unspecified objectives.

There is no doubt that early retirements can help overcome a variety of staffing and other personnel problems. However, on the basis of our work, we believe that overall, the high cost of early retirements outweighs the advantages cited by agencies which request them. In particular, we believe (1) personnel problems associated with reorganizations and overstaffing could and should have been solved by other means, such as attrition, hiring freezes, retraining, and by helping affected employees find positions in other agencies and (2) agency officials tend to overstate the positive aspects of early retirements. For example, the OPM report considered the early retirement authorization granted to the Department of Energy to be a prime example of effective use of the early retirement authority because it "allowed many persons who would have been downgraded to retire [early] and also created vacancies to be used for organizational realignment." As discussed earlier, we believe the early retirements at the Department of Energy were inappropriate. (See pp. 11 to 13.) Early retirements were granted the Department of Energy because positions were abolished and reclassified to conform with new classification standards. It was known from the very beginning that early retirements would save no jobs, and, furthermore, the early retirees were replaced as fast as they left. Also, the effect of demotions is minimized by the special grade and pay retention provisions included in the Civil Service Reform Act for employees involuntarily downgraded. Under those special provisions an eligible employee may never suffer a reduction in pay. Because of these special protection features, we do not think employee demotions justify early retirements.

Perhaps the most significant finding in OPM's study was that only 17 percent of the early retirements protected employees from separations, demotions, or directed reassignments and transfers with change in commuting area. To the extent that demotions are included in the 17 percent, even these benefits of the early retirement program may be overstated.



## CHAPTER 3

### EARLY RETIREMENTS ARE COSTLY

The civil service retirement system incurs additional costs when employees retire early. A number of factors affect these costs, including (1) the extra years early retirees spend on the retirement roll, (2) the loss to the retirement fund of the employee and agency contributions that would otherwise be made, and (3) cost-of-living adjustments the early retirees receive, counterbalanced by increased annuities employees would earn if they worked longer.

The additional cost to the retirement system is caused primarily by early retirees' receiving immediate benefits, with little or no reduction. Because early retirees leave, on the average, at around age 54, they receive benefits over a longer period of time. Prior to Public Law 93-39, employees who voluntarily left before meeting the normal retirement eligibility requirements were eligible, at most, for a deferred benefit beginning at age 62.

Pension plans that allow employees to retire before their normal retirement age customarily reduce the retiree's immediate annuity to compensate for the anticipated longer payment period. Such reductions vary widely reflecting the extent to which plans are willing to absorb some of the cost of early retirement options.

Those plans that do not absorb any of the cost are said to employ full actuarial reductions in the computation of an early retiree's benefits. A fully reduced immediate annuity is one whose value is equivalent to a larger annuity beginning at a later date (usually the employee's normal retirement age).

Under civil service early retirement provisions, employees leaving after age 55 suffer no reduction in their annuities. Those leaving before age 55 have their annuities reduced by 1/6 of 1 percent for each month they are under age 55. In both cases, the retirement system is absorbing a substantial portion of the extra cost of the early retirements. Full actuarial reductions for under age 55 retirees would be about 8 percent a year if compared to annuities beginning at age 55. Similar reductions would apply to early retirees over age 55, compared with benefits beginning at age 60.

At our request, OPM calculated the effect of early retirements on the civil service retirement system's normal cost and unfunded liability. In actuarial terminology, the

value of benefit rights earned (accrued) annually by employees covered under a retirement system is referred to as the normal cost of the system. The normal cost is commonly expressed as a percent of payroll and, from a financing point of view, represents an estimated amount of funds which, if accumulated annually and invested over covered employees' careers, will be enough to meet their future benefit payments. The unfunded liability represents the excess of a system's accrued liability over its assets.

Both the normal cost and unfunded liability can be calculated on either a "static" or "dynamic" basis. Static calculations do not consider future general pay increases or future annuity cost-of-living adjustments. Dynamic calculations do. Consequently, we believe a dynamic valuation represents a more realistic measure of the true cost.

The results of OPM's calculations on a dynamic basis follow:

|                                                                                                                                                                       |                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Normal cost of voluntary<br>early retirements-----                                                                                                                    | .14 percent of<br>-----payroll |
| Increase in the unfunded<br>liability attributable<br>to voluntary early re-<br>tirements (assumes that<br>30 percent of all early<br>retirements are voluntary)----- | -----\$620 million             |

The estimated fiscal year 1980 payroll for the employees covered by the civil service retirement system is \$48.6 billion. Thus, the normal cost of voluntary early retirements for fiscal year 1980 is about \$68 million. In addition, the voluntary early retirements have generated about a \$620 million increase in the retirement system's unfunded liability. Financing this increase in level payments over 75 years would cost another \$41 million for fiscal year 1980. In total, then, the cost of voluntary early retirements in fiscal year 1980 was \$109 million.

These cost estimates may well be conservative. For example, they are based on early retirement experience before the Civil Service Reform Act. If, as it appears, the number of early retirements increases under the Reform Act, then the cost will increase.

Early retirements can result in reduced payroll costs, thereby reducing the overall cost to the Government. This reduction occurs when early retirees are not placed, or are

replaced by individuals at lower salaries. Because the nine early retirement authorizations which we reviewed in detail were not selected on a statistical basis, we are unable to make projections as to the reduced payroll cost resulting from early retirements. We believe, however, any such reductions would be nominal. Early retirements at the locations visited were generally replaced with new employees at the same grade.

An immeasurable but perhaps greater cost associated with early retirements is the loss of knowledge, experience, and skills of early retirees. When valuable employees retire with several years of useful service still remaining, the Government, its programs, and the recipients of Government services are deprived of their abilities.

## CHAPTER 4

### CONCLUSIONS, RECOMMENDATIONS,

### AGENCY COMMENTS, AND OUR EVALUATION

#### CONCLUSIONS

OPM has begun to examine more closely agency requests for early retirement authorizations; however, its basic criteria for approval remains unchanged. OPM continues to grant early retirement authorizations to agencies and their components when 5 percent or more of its positions are to be abolished or transferred. These guidelines permit early retirements in organizations where no employee is facing involuntary separation. Agencies can reorganize, abolish positions, and reassign employees from the abolished positions to new positions and still qualify for use of the early retirement authority.

The voluntary early retirement program is not meeting its objectives. Too many early retirement authorizations are being granted that have little or no effect on staffing difficulties. We are concerned that (1) agencies are not considering and exhausting other management techniques for solving staffing problems before turning to the early retirement program, (2) early retirements are not restrictive enough to insure a high probability of job savings, and (3) as the program was revised under civil service reform, employees can retire early even though none of an agency's employees are facing involuntary separation.

We believe that the underlying concept of voluntary early retirements, as stated in the legislative history of Public Law 93-39--to save jobs for younger employees--is good and with proper controls, can be workable. In our opinion, early retirements should be used only to correct staffing problems which would otherwise require a reduction in force and only then if it would save other employees' jobs. However, on the basis of our work, we believe such instances would be rare.

Under Public Law 93-39, OPM did not have the controls needed to assure that an early retirement authorization was needed to solve a staffing problem and would save other employees' jobs. OPM had no way of knowing whether the agencies had properly determined the expected severity of a reduction in force before requesting an early retirement authorization or that the authorization would have a high

probability of saving a significant number of jobs. In general, we found that the agencies' estimates for anticipated reductions in force were far too high and, for the most part, backed up with little or no supporting documentation. In some cases, the circumstances existing at the time the authorization was granted had changed, but the early retirements were allowed to continue.

The voluntary early retirement program needs overhaul, particularly the provisions and implementing regulations which allow voluntary early retirements to be authorized, even when no employees are being separated.

#### RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress repeal the early retirement provisions included in the Civil Service Reform Act and mandate that, OPM establish controls necessary to insure itself that before an early retirement authorization is granted it would (1) correct staffing difficulties which could otherwise only be corrected by a reduction in force and (2) save other employees' jobs.

#### AGENCY COMMENTS AND OUR EVALUATION

In general, OPM believed that our recommendations were premature since the Civil Service Reform Act has been in existence for less than 2 years. OPM maintained that the program has been an invaluable aid in assisting agencies in achieving their reorganization efforts while at the same time protecting employees from actions such as separations, downgrades, and reassignments. Moreover, OPM did not believe that agencies should be required to consider and exhaust other management techniques for solving staffing problems before turning to the early retirement program since the program is designed to permit agency use of the early retirement authority without requiring that they first identify each position to be affected.

Our review included not only the expanded early retirement provisions of the Civil Service Reform Act, but also the program as it previously existed under Public Law 93-39. Since our review disclosed that inefficiencies have existed in the program and its administration since 1973, we do not believe that our recommendations are premature or inappropriate.

Undoubtedly, early retirements can help an agency overcome a variety of staffing and personnel problems; however,

we continue to believe that such action should only be used as a last resort. Sound management practices could have negated the need for many of the early retirement authorizations discussed in this report. Furthermore, we do not believe that personnel actions involving downgrades and reassignments justify use of early retirements. Such employees receive both job and salary protection. We continue to believe that early retirements should be used only to correct staffing problems which would otherwise require a reduction in force and only then if it would save other employees' jobs.

OPM stated that it was important to recognize that the expanded early retirement program was instituted to assist in carrying out the President's commitment to initiate a Government-wide reorganization effort while keeping the adverse impact on Federal employees to a minimum. Under that commitment, no employee whose position was directly affected by a reorganization could be separated for that reason unless he or she declined a good faith offer of another job.

Use of the President's commitment as justification for expanding the early retirement program is difficult to understand. If employees had been promised that reorganizations would be carried out without employee separations, there should have been no need for an expanded early retirement program to protect employees from separations.

In the case of its own early retirement authorization, OPM maintained that it was fully justified in using early retirement because of the anticipated adverse impact of its reorganization on employees. However, our examination of planning documents for the reorganization showed that most employees expected to be affected were to be immediately reassigned to other similar positions at their existing grade and step. No employees were necessarily facing involuntary separation. Again, reassignments, in our opinion, are not adverse actions justifying early retirements. OPM's regulations governing early retirements required only that 5 percent of the positions be abolished or transferred. At that time, no consideration was given to whether abolishments or transfers adversely affected employees occupying the positions.

In the Department of Energy case, OPM did not take issue with our statement that the 206 early retirements did not save a single job but stated that the use of early retirements at Energy allowed many persons who would have been downgraded to retire.

As discussed in the report, grade and pay protection is provided to employees who are involuntarily downgraded. Especially in light of this protection, permitting voluntary early retirements because some employees are being demoted is, in our opinion, a misuse of the retirement system.

OPM disagreed with our estimate that the early retirement program cost \$109 million in fiscal year 1980. It agreed that the "normal cost" of the program was \$68 million, but disagreed with our estimate that an additional amount of \$41 million should be added for the unfunded liability created by early retirements. OPM estimated the unfunded liability amount for 1980 to be only \$10.5 million.

In its estimates, OPM used a level percent-of-payroll approach in amortizing the unfunded liability created by early retirements, whereas we used a level dollar amount. Actuaries' opinions differ as to the relative merits of both amortization methods. However, there is precedence for using level dollars. The Employee Retirement Income Security Act of 1974 requires that private sector retirement plans employ this method. The initial amortization payments using a level percent-of-payroll are less, and later payments are substantially higher than using level dollars. In the long run, the total payments under either method would cover the same unfunded liability.

OPM stated that an annuity reduction of 6.3 percent, rather than the 8 percent we had estimated, for each year the retiree is under age 55 would fully offset the increased cost to the retirement fund resulting from early retirements.

When actuaries use the term "actuarial reduction" in a situation where an employee retires before his/her normal retirement date, they generally are referring to how much the early retirement benefit must be reduced to make it equivalent in present value to the benefit that would start at the normal retirement age. In the civil service retirement system, the age of normal retirement varies depending on the employee's age at entry into the system. We took a number of examples of individuals under age 55 and calculated the reduction that would make the early retirement benefit actuarially equivalent to the accrued benefit at normal retirement age. We then averaged the several examples to arrive at an about 8 percent a year reduction to maintain actuarial equivalence.

OPM's 6.3-percent calculation is the reduction which would leave the normal cost of the plan unaffected by early

retirements. It is a cost calculation rather than a benefit calculation. Both are valid. In any event, both calculations demonstrate that the current reduction imposed on the annuities of early retirees falls far short of covering the full cost. OPM's written comments are in Appendix I.





United States  
Office of  
Personnel Management

Washington, D.C. 20415

24 SEP 1980

In Reply Refer To

Your Reference

Mr. H.L. Krieger, Director  
Federal Personnel and  
Compensation Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Krieger:

This is our response to GAO report FPCD-80-68, concerning the voluntary early retirement program, dated August 13, 1980.

This report contained no specific recommendations for the Office of Personnel Management. It did, however, recommend that the Congress repeal the early retirement provision included in the Civil Service Reform Act and establish in law requirements that, before an authorization could be approved, agencies must demonstrate that early retirements would (1) correct staffing difficulties which could otherwise only be corrected by a reduction in force and (2) save other employees' jobs. The Office of Personnel Management disagrees with this proposed change in the law.

The early retirement provision of the Civil Service Reform Act (section 306 of Public Law 95-454) has been the subject of a great deal of attention since its enactment in January 1979. Since GAO began its audit of the early retirement program in early 1979, OPM has responded in great detail to a variety of their requests for input as well as to requests from the House Subcommittee on Compensation and Employee Benefits. For example, in February 1980, we responded to GAO's preliminary findings concerning the early retirement provision of the Civil Service Reform Act; in March 1980, we commented on GAO's report number FPCD-80-38, "Civil Service Reform - Where It Stands Today" which included a section on early retirement; on June 19, 1980, the Deputy Director of OPM testified on the early retirement program before the House Subcommittee on Compensation and Employee Benefits; and, in July 1980, we responded to a series of 17 questions on early retirement submitted by the Honorable Gladys Noon Spellman, Chair, House Subcommittee on Compensation and Employee Benefits. We have enclosed copies of each of these documents for your review.

Since each of these documents speak, in whole or in part, to the contents of this final GAO evaluation, we do not believe it is again necessary to address each section of this report individually. Our responses to each of the items covered in GAO's final report remain unchanged and are set forth in detail in the four enclosures. Therefore, we will speak only to the congressional recommendations made in the report.

It has consistently been our view that the early optional retirement provision is designed to meet two objectives: (1) to save jobs for employees targeted for some type of adverse impact; and, (2) to provide agencies with a management tool useful in achieving organizational and personnel management goals. We have found that there are a number of situations, over and above actual separations, which can cause adverse impact on employees and this finding has been supported by agencies faced with undertaking major reductions in force, reorganizations and transfers of function. For example, job abolishments result not only in separations but in downgrades, reassignments, and/or relocations of employees outside their normal commuting area. As recently as May 1980, our General Counsel reviewed section 306 of the Civil Service Reform Act and reaffirmed, through the following statement, our position that the early retirement provision was expanded to include reorganizations and transfers of functions which might or might not involve separations:

"The Reform Act amended the law to allow early retirement during a major reorganization or a transfer of function, in addition to a major reduction in force. To interpret section 306 as requiring a finding of potential separation or demotion of employees before early retirement is authorized would render the CSRA amendment meaningless. The separation or demotion of an employee which results from a major reorganization or transfer of function would be carried out through reduction-in-force procedures. However, because early retirement was authorized in this situation prior to the CSRA, section 306 must be seen as expanding 5 U.S.C. 8336(d)(2) to allow early retirement during a major reorganization or transfer of function, even though reduction-in-force is not necessary." (Emphasis added).

We believe it is important to place the expanded early retirement provision in its proper perspective by mentioning the President's commitment to initiate a Government-wide reorganization effort which would keep to a minimum the adverse impact on Federal employees. It was with this commitment in mind that a joint memorandum for the heads of departments and agencies dated December 12, 1977, from the then Acting Director, Office of Management and Budget and the then Chairman, Civil Service Commission, was issued. Included in that memorandum was the following statement:

"...No employee whose position is directly affected by a reorganization may be separated for that reason if he or she has not first been made a good faith offer of another position, preferably at the same grade. Separation action may proceed only if the offer is declined..." (Emphasis added).

We would specifically like to comment on one statement made in GAO's concluding remarks. GAO states: "We are concerned that (1) agencies are not considering and exhausting other management techniques for solving staffing problems before turning to the early retirement program..." OPM shares the belief that the early retirement authority should be used in conjunction with

other personnel management tools such as attrition, hiring freezes, retraining programs, etc. We also believe, however, that section 306 is designed to permit agency use of the early retirement authority without requiring that they go through and identify each position to be impacted. In some instances, it may be too late to save adversely affected employees if all other personnel management techniques have been exhausted.

As Jule Sugarman, OPM's Deputy Director mentioned in his testimony in June of this year, OPM feels that any change to the law would be premature, unwise, and, in fact, ill advised, at this time. It has been less than 2 years since Civil Service Commission staff worked closely with various congressional committees and subcommittees on the markup of every provision of the CSRA and only a year and half since Congress passed this milestone piece of legislation.

We think it is too early, in the context of time, to propose changes to the law; further, we believe it is too soon to judge the merits of the new early retirement provision given the marked decrease in activity we have experienced thus far in 1980, i.e., 22 new authorities have been approved so far in calendar year 1980 as compared to 50 granted for the same time period in 1979. This, coupled with our continuing dialogue with user agencies, affirms our belief which is shared by agency management, that the expanded early retirement authority has been, and will continue to be, an invaluable aid in assisting agencies in achieving the reorganization efforts mandated by the President, with minimal disruptive effects to agency operations.

During the course of the hearings in June, Mr. Sugarman spoke clearly to OPM's concern over the problem of potential abuse of the retirement fund through the application of the early retirement authority. In addressing this issue, Mr. Sugarman said:

... let me say that as the legal trustees of the retirement fund, we share the subcommittee's, and the full committee's, concern for the integrity of the retirement fund and for watching very carefully to see that it is properly administered and that its rather liberal provisions are not abused in the course of the actual operation of the fund."

He further stated:

... we will continue to review ... and to try to seek improvement in the system that will prevent abuse."

OPM recognizes the need to keep an open mind with respect to changes that may need to be made to the early retirement provision after we have had a good amount of experience on which to base such changes. In other words, we do have a commitment to consider the possibility of changes in the future if they are needed to mesh the early retirement program with a number of other personnel management programs designed to advance effective workforce planning.

During the course of our review of the GAO report, we did note the following inaccuracies or misstatements which we would like to clarify:

- o On pages 37 and 38, GAO discusses the cost of early retirements. The figure given by GAO on the total cost of voluntary early retirements in fiscal year 1980 is misleading because the figure of \$109 million is reached by measuring the two aspects of cost in two different ways. The Board of Actuaries of the Civil Service Retirement System, as a part of its recommendation for the adoption of dynamic rather than static actuarial assumptions, has recommended that both the normal cost (the amount that needs to be set aside to cover accruing liabilities) and the unfunded liability (the amount required but not contributed in the past for current employees) be expressed as a percent of payroll, so that the cost in dollars will vary in proportion to the changing size of the payroll.

The GAO report accepts our Actuary's calculation of the normal cost of voluntary early retirements as 0.14 percent of payroll, but then switches from percent-of-payroll cost to level-dollar cost to establish the 1980 payment to finance the unfunded liability as \$41 million. We believe the level-dollar approach is misleading because it requires very high payments initially to cover the effects of future inflation. Using a level percent of payroll, on the other hand, produces a dollar payment each year that is tied directly to the payroll and to inflation's effect on the payroll and on the increase in the unfunded liability. If a level percent of payroll is used to determine costs, the total for 1980 is \$68 million for normal cost plus \$10.5 million for the unfunded liability, a total of \$78.5 million, significantly less than the \$109 million given in the report.

We also disagree with the report's estimate of the full actuarial reduction for retirees under the age of 55. Under current law, the annuity of an employee retiring before age 55 is reduced by 1/6 of 1 percent for each month the employee is under age 55, i.e., 2 percent per year. It is obvious that this reduction does not fully absorb the cost of an early retirement. The report says that a full actuarial reduction would be 8 percent per year under 55, but gives no detail on the calculation. Our Actuary has determined that the age reduction would actually need to be 6.3 percent per year under 55 to fully offset the increased cost of early retirement.

- o At the bottom of page 10 and top of page 11, GAO states the following in connection with OPM's own use of the expanded early retirement provision:

Even at the time of approval it was known that, for the most part, the reorganization (of OPM) and resulting job abolishments would not adversely affect employees."

At the time we were doing our planning for the major reorganization/transfer of functions required by Reorganization Plan No. 2 of 1978 and concurrent budget cuts in our recruiting and examining program, we had every reason to believe that many OPM employees would be adversely affected. Because of the magnitude of the planned changes, nearly every job in OPM was going to be affected in some way. Fortunately, we were able to use a combination of reassignments, retraining, outplacements, early retirements, and attrition to such good advantage that adverse impact was minimal. However, this does not make our initial estimates regarding adverse impact improper. Management is obligated to use every available technique and management tool in an effort to reduce adverse impact on employees. By so doing, the number of people adversely affected in OPM was smaller than original estimates indicated.

- o On pages 18, 34, and 35 GAO, in analyzing the Department of Energy's use of the early retirement authority, points out the following:
  - Page 18; "During the early retirement authority period, 206 individuals retired early ... Also, as of January 1980, there were only 191 downgrades -- substantially less than the estimated 682." It is our belief that a substantial number of those 206 retirees would have been subjected to demotion had it not been for the early retirement authority.
  - On pages 34 and 35, GAO focuses on (1) OPM's opinion that the early retirement authority granted to the Department of Energy was a prime example of effective use of early retirements because it allowed many persons who would have been downgraded to retire and also created vacancies to be used for organizational realignments and (2) that early retirements at DOE resulted in no job savings.

DOE was involved in a major reorganization and had extensive classification problems. Of the 38 early-out retirees in our sample at DOE, 27 were subject to some type of reduction in force action. Also, 19 of the 38 retirements in our sample enabled DOE to affect organizational realignments, according to the agency.

As to the fact that there were no resulting job savings, our point was not that jobs might have been saved but that downgrades were avoided and reorganization made easier. In fact, downgrades were avoided and reorganizing was easier, and both were serious problems in DOE at the time.

6

In conclusion, I would like to reiterate that we believe that the expanded provisions of the early retirement authority under CSRA should not be repealed or changed until given a reasonable opportunity to prove their worth. I can assure you, however, that OPM will continue to assess the early retirement program with a view toward reevaluating and making changes to our own implementing criteria as they are required.

Thank you for this opportunity to respond.

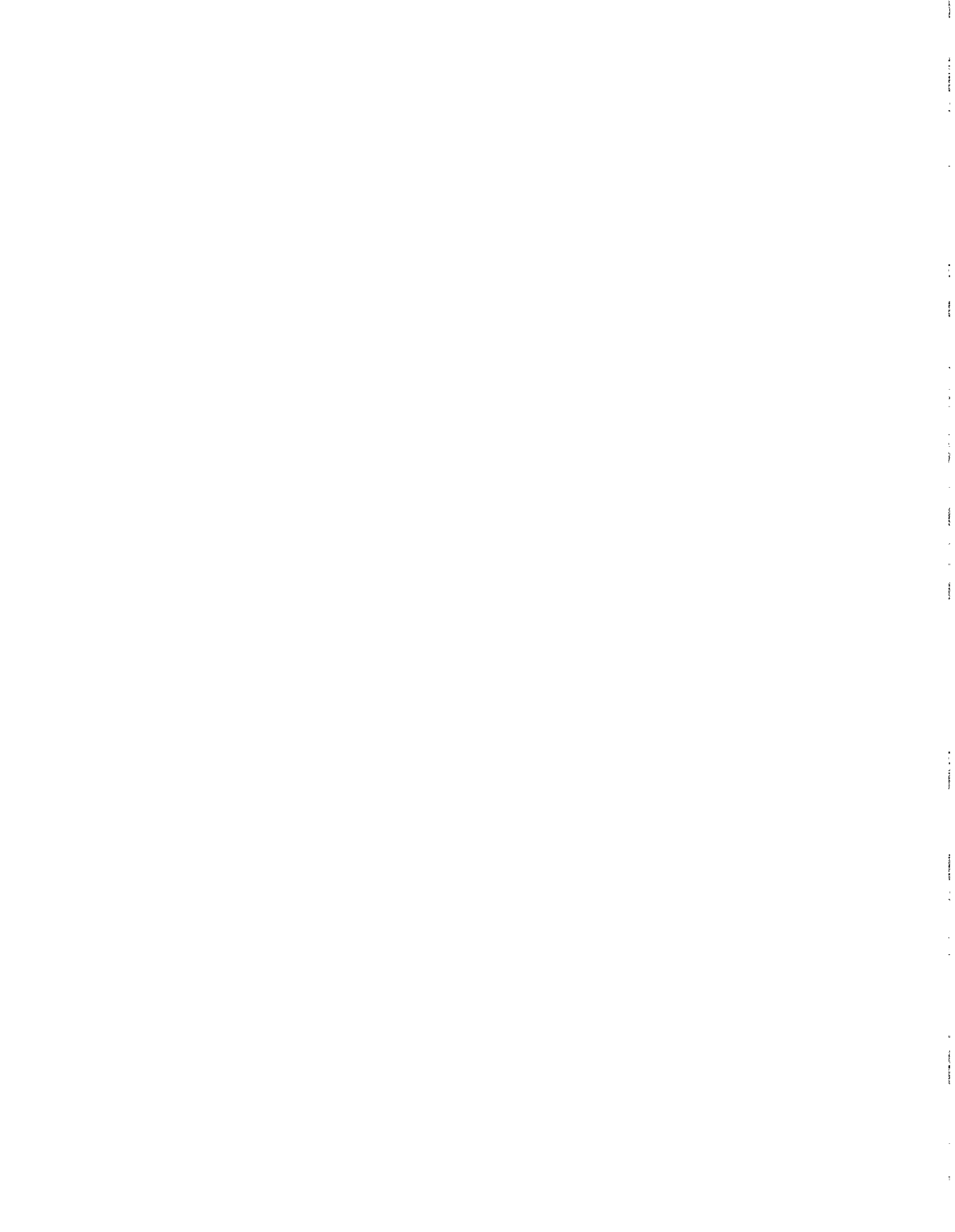
Sincerely yours,

  
Alan K. Campbell  
Director

Enclosures

GAO Note: Page references in this appendix are to pages in the draft report and do not correspond to the page numbers in our final report.

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