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Statement of  
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Before the  
Subcommittee on Compensation and Employee Benefits  
Committee on Post Office and Civil Service  
United States House of Representatives

on

[ Voluntary Early Retirements Under the  
Civil Service Retirement System ] *75E 2908*

Madam Chair and Members of the Subcommittee:

I am pleased to be here to discuss the General Accounting Office's views on the voluntary early retirement provisions in the civil service retirement system. We have recently completed an indepth review of this program and are now in the process of preparing a report to the Congress detailing our findings and recommendations. We expect our report to be issued sometime this summer.

I should mention at the outset that we believe the Congress' objective in establishing the early voluntary retirement program in 1973 was laudable. However, as the program has evolved and been administered, it has often been used to solve personnel problems that good, sound management

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actions could have solved in other ways. In some instances, we believe the early retirement authorizations simply should not have been granted.

Normally, employees covered by the civil service retirement system are eligible to retire and receive an immediate unreduced annuity at age 55 after 30 years of service, at age 60 after 20 years, or at age 62 after 5 years. The early retirement provisions permit certain individuals to retire on immediate annuities if they are at least age 50 with 20 years of service or at any age with 25 years. The annuity for an early retiree is computed under the regular benefit formula and reduced by 1/6 of 1 percent for each month the retiree is under age 55.

Since program inception in 1973, about 39,000 civil service employees have voluntarily retired early. About 29,000 of these occurred in 1973 and 1974. From 1975 to 1978, voluntary early retirements averaged less than 1,500 a year. This average may increase significantly with the program liberalizations instituted by the Civil Service Reform Act. At least 3,100 employees have retired early from authorizations granted in 1979, but the final numbers from these authorizations are not yet known so the total will be higher.

Our actuaries estimate that the voluntary early retirement program will cost the civil service retirement system approximately \$109 million in fiscal year 1980. The added

cost 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.

Before 1973, there was no provision in the civil service retirement law for granting early voluntary retirements. The law had allowed only involuntary early retirements for employees who met the age and service criteria and who lost their jobs through no fault of their own through such events as reductions-in-force (RIF). In 1973, Public Law 93-39 was enacted allowing the Civil Service Commission (now the Office of Personnel Management) to authorize agencies who were undergoing major RIFs to allow employees who were not affected by the RIF to retire early. The basic purpose of the law was to reduce involuntary separations and thereby save the jobs of younger workers who might otherwise be dismissed in the RIF 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 RIFs on local economies.

At the end of fiscal year 1978, approximately 123,000, or 10.7 percent, of all retirees on the rolls had retired under the early voluntary and involuntary retirement provisions. They were receiving annuities totaling about \$1.2 billion a year.

In implementing the 1973 law, the Commission issued guidelines providing that voluntary early retirement would be authorized upon agency request when at least 5 percent of the employees in the geographic area, agency, or unit for which the early retirement authority was requested, were facing involuntary separations. Provisions were also made for granting early retirement authorizations to agencies with expected separation rates below 5 percent if extenuating circumstances existed. Those guidelines remained intact until passage of the Civil Service Reform Act which became effective in January 1979.

The reform legislation provided that early voluntary retirement authorizations could be granted to agencies undergoing major reorganizations or major transfers-of-function in addition to reductions-in-force. Soon after the law's passage, OPM revised its implementing guidelines and changed the criteria for approving early retirement authorizations. The new criteria require only that 5 percent of the encumbered positions be abolished or transferred 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. An early retirement authorization may now be granted even though it is known beforehand that such an authorization would not result in a single job savings.

Before getting into our findings on how the early retirement program has worked, I should first briefly mention the criteria we used in evaluating the program.

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. In our opinion, 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. Certain elements of a retirement system, such as the early retirement program, may be necessary to meet other objectives, but they should be recognized as unusual or special provisions that are outside the basic purposes of the system.

With this criteria in mind, we believe early retirement authorizations should be granted only when it can be clearly shown that they will significantly alleviate staffing problems. We would also suggest that early retirements should be used only as a last resort when all other management attempts to correct the situation have been exhausted. Unfortunately, our findings indicate that these criteria are not being met. Some examples of specific early retirement authorizations will demonstrate this.

OPM permitted 149 of its employees to retire early when it reorganized even though no employees were subject to involuntary separation, and very few employees were adversely affected by the reorganization. Those early retirements saved no jobs, and for the most part, OPM was hiring individuals in the same job series and grades as those retiring early. Some early retirements at OPM were in job series that were understaffed. For example, 21 of its investigators and 4 claims processors were permitted to retire early even though serious shortages existed in these occupations.

The OPM early retirement authorization had been granted on the basis that 370, or 5.7 percent, of its existing positions would be abolished or transferred. The reorganization did result in positions being abolished, but practically all of the individuals occupying abolished positions were immediately reassigned to newly created positions in the organization without a change in either pay or grade.

In some cases, the position abolishments resulted in the incumbents being reassigned to new positions at a higher grade. For example, nine GS-15 Deputy Regional Director positions were abolished, and the incumbents were given non-competitive promotions to GS-16 Deputy Regional Director positions.

The Merit Systems Protection Board (MSPB) was granted an early retirement authorization before it even existed. Eleven individuals retired early under the authorization; seven of whom were appeals officers. This put a real hardship

on the agency because they already had a case backlog and, at that time, no budget authority to fill the vacated slots. MSPB did not want to lose any of its appeals officers. After the early retirement authority expired, MSPB hired seven chief appeals officers and has outstanding vacancy announcements for four more. The MSPB Personnel Director stated that the early retirement authority was granted at a time when MSPB was unsure whether it was needed or not. He said MSPB received absolutely no benefit from the early retirements, and, in fact, the early retirement of the seven appeals officers was to the detriment of the agency's mission.

The Department of Energy (DOE) recently underwent a reorganization resulting in the abolishment of about 4,000 positions--over half of its workforce--thus qualifying for an early retirement authorization. Under the authorization, 206 employees retired early. However, practically all of the position abolishments resulted in the incumbents being reassigned to other similar positions in DOE without a change in grade or pay. There were 191 downgradings, but most of these individuals received grade and pay retention as provided by the Civil Service Reform Act.

Basically, position abolishments occurred at DOE because positions were being reclassified to conform with revised classification standards. This authorization did not result in a single job savings and the early retirees were replaced as fast as they left. For example, in the general clerical and

administrative job series, 30 employees retired early and 170 new employees were hired; in the secretarial job series, 17 retired early and 111 were hired; and in the accountant job series, 20 retired early and 75 were hired.

Fort Bragg was granted two early retirement authorizations within a year. One of the reasons given for the second authorization was to correct staffing imbalances caused by the first authorization.

Fort Bragg knew for 2 1/2 years that its civilian personnel force would have to be reduced. Fort Bragg could have easily reduced, through attrition over the 2 1/2 years, the 115 employees that were ultimately RIF'd. Attrition averaged from 25 to 35 each month during that period. The Deputy Chief of Staff, the Director of Civilian Personnel, and others at Fort Bragg agreed that a RIF could have been avoided and the early retirement authorizations unneeded, if they had acted sooner to reach their reduced ceiling levels.

The skills of the majority of Fort Bragg's surplus employees did not match those of the vacancies created by the early retirees, and no jobs were saved. No fewer employees at Fort Bragg were RIF'd even though 79 employees retired early. In addition, Fort Bragg was filling the positions vacated by early retirees with new hires. For example, during the second early retirement authorization, 26 employees retired early. At the time of our review, 6 had been replaced with outside



hires, and Fort Bragg thought it might have to do the same thing with 11 more of the vacated positions.

These examples highlight our concerns with the early voluntary retirement program: (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.

During the course of our review, we wrote a letter to the Director of OPM outlining our concerns over the way the program was being operated under the Civil Service Reform Act and suggesting that OPM revise its implementing regulations to require that early retirement authorizations be granted only when employees were being adversely affected. Those concerns were again made known in our recent report on the status of civil service reform implementation ("Civil Service Reform--Where It Stands Today," FPCD-80-38, May 13, 1980). To date, OPM has not agreed to this suggested change, but it has begun closer scrutiny of agencies' requests before granting early retirement authorizations.

In commenting on our concerns and suggestions, OPM stated that the Congress, when it enacted the reform legislation was fully aware that the expanded early retirement provisions would allow eligible employees to retire early during an agency's

reorganization or transfer-of-function, even though no employee was facing separation. OPM stated that reorganizations and transfers-of-function can result in downgradings and other actions which impact on employees and their agencies and that it was congressional intent that early retirements be allowed in such situations.

OPM's General Counsel subsequently maintained that even the restructuring of employees' jobs in such a way that opportunities for advancement within the agency are diminished would constitute a type of adverse action that would justify granting an early retirement authorization.

We are not sure that this was contemplated or understood by the Congress. In fact, the reform legislation emphasized retaining valued employees whenever possible. For instance, the Civil Service Reform Act stated:

"\* \* \* the training program of the Government should include retraining of employees for positions in other agencies to avoid separations during reductions in force and the loss to the Government of the knowledge and experience that these employees possess \* \* \*."

The reform legislation also provided saved grade/saved pay protection for employees involuntarily downgraded. It is, of course, impossible for us to know whether the individual Members of Congress were aware that the reform legislation, in allowing OPM to authorize early retirements during reorganizations and transfers of function, would permit employees to retire when no employee separations were scheduled.

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. The program, however, as administered by OPM did not have these needed controls. OPM had no way of knowing whether the agencies had properly determined the expected severity of a RIF before requesting an early retirement authorization or that the authorization would have a high probability of saving a significant number of jobs. Of 41 early retirement authorizations granted during 1977 and 1978 before the civil service reform changes:

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

--Six were granted based on agency-supplied information showing that less than 5 percent of their employees were facing involuntary separation. Two approvals were given, knowing beforehand that no employees would be involuntarily separated. The four others

had each estimated that their separation rates would exceed 4 percent. However, the actual separations through early retirements and RIFs varied from .5 to 2.3 percent.

We reviewed five of these pre-civil service reform early retirement authorizations. 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. Furthermore, agencies were replacing their early retirees with new hires. The early retirements resulted in minimal job savings.

There also seemed to be a tendency on the part of some agencies to overstate the benefits of the early retirement program. For example, an Air Force installation said that each of the 77 vacancies created by its early retirees resulted in a job saving. That information was substantially in error. Very few, if any, of the early retirements resulted in job savings. The Director of Civilian Personnel for the Air Force agreed that it is doubtful if any of the positions vacated by the early retirees were filled by employees who otherwise would have been separated. He stated that some indirect placements may have resulted from the early retirements although he was unable to provide examples or make an estimate as to how frequently this occurred.

In summary, we believe it is obvious that the voluntary early retirement program needs overhaul. Too many authorizations

have been granted that had little or no effect on staffing difficulties. We believe that, as a minimum, the law should (1) require agencies to demonstrate that early retirements will correct these difficulties before the authorizations are approved and (2) disallow early retirements if they do not save other employees' jobs. We particularly believe that the current law and implementing regulations which allow voluntary early retirements to be authorized even though no employees are being separated must be changed.

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That concludes my statement, Madam Chair. My colleagues and I will be pleased to answer questions.