

GAO

Report to the Ranking Minority Member,
Subcommittee on Federal Services, Post
Office, and Civil Service, Committee on
Governmental Affairs, U.S. Senate

June 1987

FEDERAL WORKFORCE

Benefits Provided to Employees in Nonpay Status





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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The Honorable Ted Stevens
Ranking Minority Member,
Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Senator Stevens:

This is the fourth of a series of reports in response to your letter of April 30, 1985, requesting information on several federal personnel management issues, including employee fringe benefits. As agreed with your office, this report addresses the government's practice of providing fringe benefits to federal employees while they are absent from work in a nonpay leave status.

Nonpay status stems from personnel actions such as leave without pay which is a temporary absence normally requested by the employee; furlough, a nondisciplinary action caused by a lack of funds or work; suspension, a disciplinary action; or absence without leave, an unauthorized absence. Seasonal employees, who work certain periods of the year, can also accrue benefits while in a nonpay status.

Guidance published by the Office of Personnel Management (OPM) states that agencies, in considering employees' requests for leave without pay, should consider whether the benefits to the government or the serious needs of the employee are sufficient to offset the cost and administrative inconvenience of retaining an employee on leave without pay. Among the benefits that are to be considered are protection of the employee's health, fulfillment of parental responsibilities, increased job ability, or retention of a desirable employee. There is no limit on the duration of leave without pay, however OPM suggests it should normally be authorized for no more than a year at a time.

Costs associated with nonpay status result from the fact that employees continue to receive credit for time spent in a nonpay status toward such fringe benefits as retirement, leave accrual, and severance pay, and also continue their health and life insurance coverage. The largest cost is for retirement credit which is borne entirely by the government and we estimate was potentially \$463 million in 1985. The government's share of

health insurance premiums amounted to about \$63.3 million. Life insurance cost, which was shared by the government and working employees, was over \$12 million. We did not estimate the cost of the other benefits.

Objectives, Scope, and Methodology

Our objectives were to (1) determine the number of employees in nonpay status in the federal workforce, (2) determine why employees requested leave without pay, (3) compare the benefits granted to working and nonworking employees, and (4) estimate the cost of the major benefits that are granted to nonworking employees. Because we could not identify any measurable criteria, we did not attempt to determine the value to the government from providing these employee benefits.

We reviewed the laws and regulations applicable to employees in nonpay status and their benefits coverage during such periods. We discussed benefits policies and practices with OPM officials responsible for oversight of employee benefits. We used the latest governmentwide information available at OPM (semiannual reports submitted by all agency payroll offices in 1985) to estimate the number of employees in a nonpay status. We also used the latest information available from the Department of Defense Manpower Data Center to select a sample of 393 Defense employees who were on leave without pay over 30 days during 1984. We sent questionnaires to the personnel offices of these employees to determine why they had requested leave without pay. We used Defense Department information because its Manpower Data Center had the necessary information readily available, and Defense employs over a third of all federal civilian employees. Names and locations of individuals on leave without pay on a governmentwide basis were not available at OPM.

We estimated the cost to the government of retirement and life and health insurance for all federal employees in a nonpay status during 1985 by (1) determining the total annual salary of employees in a nonpay status based on the semiannual reports and (2) applying to that amount cost factors developed by OPM to estimate the government cost of insurance and retirement benefits, expressed as a percent of payroll.

We also attempted to obtain information on the extent to which private sector firms offer fringe benefit coverage to employees who are in a nonpay status. We reviewed surveys and reports related to private sector employee leave benefits, and contacted four national employee benefits consulting organizations. However, none of these sources had information on the practice of providing fringe benefits to employees

who are absent from work and are not being paid. Since we did not survey private sector firms directly, we cannot address the prevalence and magnitude of fringe benefits provided to private sector employees in a nonpay status.

We performed our review during the period January to November 1986. Our review was conducted in accordance with generally accepted government auditing standards, except that we did not verify the accuracy of the governmentwide payroll statistics, the Department of Defense data base used to obtain the sample, or the fringe benefit cost factors.

As requested by your office, we did not obtain official agency comments on this report. However, its contents were discussed with program officials who agreed with our presentation of the facts.

Extent of Nonpay Status and Why It Is Used

According to information submitted to OPM from payroll offices throughout the government in 1985, the average number of employees in nonpay status at any time during the year was 58,513.

The agency data reported to OPM indicates only that employees are in a nonpay status. It does not include the nonpay status categories or show why employees are in nonpay status. The reasons for certain types of nonpay status, such as suspensions or furloughs, are self-explanatory. However, since a number of reasons could cause employees to be on leave without pay, we asked the Defense Manpower Data Center to prepare a random sample of Defense employees who were on leave without pay in 1984, the latest year for which complete information was available. Installations are only to report leave without pay in excess of 30 days to the Data Center even though 13 cases in our sample were for less than 30 days. The Center provided a random sample of 393 employees from a universe of 23,204 Defense employees who used leave without pay during the year. We sent questionnaires to the personnel offices for these employees asking that they determine from each employee's personnel file the reason that leave without pay was requested.

Twelve of the sample cases involved leave without pay that appeared to be a condition of employment rather than requested by the employees. These included seven employees awaiting assignment, and five school employees on leave without pay during the summer break. Thirteen cases were for leave without pay of less than 30 days - the employees were placed on leave without pay for 1 or 2 days by management to

meet year-end employment limitations. Table 1 shows the reasons that were given for the rest of the cases in the sample.

Table 1: Why Sampled Defense Employees Requested Leave Without Pay

Reason	Number	Percent
To accompany relocating spouse	115	31.3
Attend school	81	22.0
Illness	39	10.6
Maternity	38	10.3
Personal reasons	16	4.4
Military active duty training	13	3.5
Receiving workers' compensation	13	3.5
Care for family member	4	1.1
Other	6	1.6
Reason not indicated	43	11.7
Total	368	100.0

Because only the Department of Defense was sampled, these results cannot be projected to other agencies or the government as a whole.

Benefits Entitlement

Whether an employee is entitled to benefits while in a nonpay status depends on the benefit and is generally based in law.¹ Following is a brief description of these benefits.

Retirement

Under the civil service retirement system (CSRS) and the basic annuity portion of the federal employees' retirement system (FERS), employees can receive up to 6 months of service credit each calendar year of nonpay status. Employees make no contributions while they are in a nonpay status. Working employees contribute 7 percent² of salary to the retirement fund if they are in the CSRS, and 1.3 percent³ if in FERS. These contributions are set by law without regard to the cost of retirement benefits which OPM has calculated as 34.9 percent of pay for CSRS and 16.1 percent for the basic annuity portion of FERS. The difference

¹5 U.S.C. 8332(f) and 8411(d) for retirement; 5 U.S.C. 8706(a) for life insurance; 5 U.S.C. 8906(e)(1) for health insurance; and 5 U.S.C. 6303(a) for annual leave accrual; The Federal Personnel Manual provides that creditable service for severance pay (5 U.S.C. 5595) is the same as for annual leave accrual.

²Firefighters, law enforcement officers, congressional staff, and Members of Congress contribute 7.5 to 8 percent of salary.

³The percentage reduces to 0.94 percent in 1988 and 1989, and 0.8 percent in 1990 and after.

between employee contributions and the total cost of retirement is made up by agency contributions and other government payments to the retirement fund.

The average number of CSRS employees in a nonpay status in 1985 (46,853) times their average salary (\$26,265) times the 34.9 percent cost factor equals \$429.5 million, the estimated annual cost of retirement benefits that accrued to nonpay CSRS employees. A similar calculation for FERS employees (11,660 with an average salary of \$17,898, and a cost factor of 16.1 percent) resulted in \$33.6 million, for a total of \$463.1 million for retirement. This estimate is a maximum because the 58,513 nonpay employees would include some who have been in a nonpay status for more than 6 months during the year and at that point stopped accruing retirement benefits. The number who had been in a nonpay status longer than 6 months was not available. According to a Defense Manpower Data Center analysis of leave without pay data, about 16 percent of Defense employees who had been on leave without pay for 30 days or more during 1984 had been there for 6 months or longer.

Life Insurance

Benefits under the federal employees' group life insurance program are based on employees' salary amounts. Participating employees pay two-thirds of the cost of basic life insurance, and the government pays one-third.⁴ Employees may elect to purchase additional optional insurance with no government contributions. Nonpay status employees get both basic and optional insurance free if they had been participants while working. The law provides that insurance on any employee will cease at separation from the service or 12 months after pay is discontinued, whichever is earlier.

Life insurance has been determined by OPM to cost the government 0.3 percent of pay. Applying this factor to the average number of employees in a nonpay status in 1985 and their average salaries resulted in an estimated annual cost to the government of \$4.3 million for life insurance benefits for nonpay employees. Again, information was not available on the number of employees in a nonpay status longer than 12 months.

When OPM calculated the rates for life insurance in 1985, it determined that the premiums for basic life insurance were 2.5 percent higher

⁴The U.S. Postal Service pays the entire premium for its employees.

because of the free coverage provided to nonpay employees. This amounted to an \$8.4 million increase in cost for working employees.

Health Insurance

Permanent federal employees may select health insurance coverage from among about 300 plans of varying cost, benefits, and geographical coverage. Premium cost is shared by employees and the government, with employees paying up to 40 percent of the cost.

The law covering the health insurance program says that employees placed in nonpay status could have their health insurance coverage continue for up to a year under regulations prescribed by OPM, and that the regulations could provide for waiving of employee and government contributions for those employees. Before August 1982, OPM's regulations waived the employee and government contributions for up to 1 year of nonpay status. This resulted in higher premiums for working employees.

In August 1982, OPM revised the regulations to require all covered employees, whether or not in nonpay status, and their agencies to pay their respective shares of the cost of health insurance. OPM said that the continuation of free health insurance coverage for nonpay status employees was not warranted at a time when the cost of insurance was increasing dramatically.

Health insurance is determined by OPM to cost the government 4.4 percent of pay. Applying this factor to the average number of employees in a nonpay status in 1985 and their average salaries resulted in an estimated annual cost to the government of \$63.3 million for health insurance benefits for nonpay employees.

Severance Pay and Annual Leave Accrual

Severance pay is based on an employee's ending salary and years of service. The rate at which employees earn annual leave (13, 20, or 26 days a year) is based on their years of service. In determining years of service, employees are credited with the same time creditable for purposes of determining a retirement annuity. Thus, up to 6 months of unpaid absence each calendar year can be used to determine severance pay and annual leave benefits. Because the cost of these benefits would be relatively small compared to the cost of retirement and insurance, we did not attempt to calculate them.

As arranged with your office, copies of this report are being sent to the Director, Office of Personnel Management; the Secretary of Defense; and to others who have an interest in this subject.

Sincerely yours,

W. J. Anderson

William J. Anderson
Assistant Comptroller General



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