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Testimony

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S. 42,
Optional Early Retirement Program
For Federal Employees

Statement of
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Before the
Committee on Governmental Affairs
United States Senate



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss S. 42, a bill that proposes to reduce federal employment levels by authorizing a temporary governmentwide early retirement opportunity for federal civilian employees. The bill would allow employees who meet specified age and years of service criteria (any age with 25 years of service, age 50 with 20 years of service, age 55 with 15 years, or age 57 with 5 years) to retire on immediate annuities. Their benefit amounts would be reduced by 2 percent for each year they are under age 55.

The bill's early retirement option would be available for a 90-day period beginning 60 days after enactment, and apply to all federal retirement systems for civilian employees. Certain employees in designated positions and those already covered by special early retirement provisions would be excluded. Moreover, unless waivers were granted by the President or his designee, agencies could not replace for 3 years any employees who retired early or under the regular provisions during the 90-day period, but they could promote internally to fill vacant positions.

Most of the employees who would be eligible to retire under the bill are covered by the civil service retirement system. It is the government's largest retirement system for civilian employees. The system generally requires employees to be age 55

with 30 years of service, age 60 with 20 years, or age 62 with 5 years, before they can retire. Thus, the bill is proposing a considerable expansion of the pool of individuals who would be eligible for early retirement.

Early retirements can be authorized under current law. However, they are limited to situations where agencies are undergoing major employment reductions or instances where individuals' positions are abolished. No such requirement would be imposed by S. 42. Also, early retirement is now available only to employees who are at least age 50 with 20 years of service or any age with 25 years. As of April 8, 1988, the Office of Personnel Management had approved agencies' requests to offer early retirement to over 50,000 eligible employees primarily in the Department of Defense. This high number of early retirement authorizations resulted from agencies' staffing cutbacks based on fiscal year 1988 budget reductions.

To the extent that employees retire early and are not replaced, the bill would result in the eventual reduction of federal expenditures. If the workforce is reduced, this bill would also help to save jobs for recently hired employees, many of whom are women and minorities with little seniority. Also, promotion opportunities would be increased for younger employees. However, in our opinion, workforce reductions should generally be based on program cutbacks or elimination. By not considering the effect

on program performance and efficiency, arbitrary reductions may be counterproductive.

According to the latest data available from the Office of Personnel Management, about 175,000 federal employees are eligible for regular retirement. Under the bill, an additional 430,000 employees would be eligible for early retirement. Thus, nearly 600,000 employees, or about 20 percent of the workforce, could elect immediate retirement if the bill were enacted.

Obviously, if all eligible employees elected to retire, the effect on the administration of government programs could be devastating. Normally, about one-third of all employees eligible for regular retirement retire each year. However, it is difficult to estimate with any degree of precision how many employees would retire early. Eligible employees usually consider a host of factors in deciding whether to retire, including their financial situation, satisfaction with their jobs, health status, and opportunity for other employment.

The Congressional Budget Office, recognizing the difficulty of predicting how many employees would leave, estimated that 42,000 or about 10 percent of the eligible employees would elect early retirement. About 16,000 other employees would be expected to retire under the regular provisions during the 90-day period. As a result of these early retirements, government outlays will

increase for payments of retirement benefits and unused annual leave. In addition, retiring employees will no longer be making contributions toward their retirement and basic life insurance benefits. Offsetting these items will be payroll savings from a reduced workforce. In October 1987, the Budget Office estimated potential savings of \$3 billion over the next 4 years if these retiring employees are not replaced. We agree with the methodology used in making this estimate. However, we understand that the Budget Office is currently updating its estimate.

We believe S. 42 is an improvement over the previous early retirement proposal the Committee considered which had no restrictions on who would be allowed to retire early. S. 42 authorizes the President to exempt up to 25 percent of the otherwise eligible employees to preclude the early retirement of employees who occupy essential positions. Similarly, the bill would exempt the Postal Service from the hiring limitation in order to avoid disruptions in mail service and would authorize the President to waive the hiring limitations in certain other circumstances as well.

With these provisions and if such a reduction is found to be desirable or necessary, we believe the bill could provide an effective approach to reducing the size of the federal workforce. Should this be the case, Congress may also wish to consider

coupling this expanded early retirement authority with reductions in agencies' programs during the budget reconciliation process. Regardless of the action taken on this bill, Congress may want to broaden the Office of Personnel Management's existing authority by making permanent the provisions for the expanded eligibility and restrictions on who may leave in order to better manage any future workforce reductions.

This concludes my prepared remarks. I would be pleased to answer any questions you may have.