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Report to the Chairman, Subcommittee on Civil Service, Committee on Government Reform and Oversight, House of Representatives

May 1996

FEDERAL DOWNSIZING

The Costs and Savings of Buyouts Versus Reductions-in-Force

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May 14, 1996

The Honorable John L. Mica
Chairman, Subcommittee on Civil Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

As part of our ongoing work examining how federal agencies have used buyouts to downsize the federal workforce, you asked that we compare the projected costs and savings of buyouts with an alternative downsizing strategy, reductions-in-force (RIF), over a 5-year period. Because such an analysis is dependent on many factors that may vary considerably among agencies, we used a variety of assumptions and scenarios in our analysis to determine the average costs and savings of each method. We based our analysis on available workforce data and on the results of earlier studies completed by us and by other organizations. This report describes and compares the circumstances under which buyouts or RIFs offer greater potential savings, but it does not calculate or compare the actual costs of either alternative in past years.

Results in Brief

Our analysis shows that agencies could realize net savings over a 5-year period through workforce reductions using either buyouts or RIFs, because salaries and benefits saved from either strategy should exceed costs. However, savings from buyouts would generally exceed those from RIFs over a 5-year period, because buyout recipients typically have higher grades and salaries than employees separated by RIFs. Separation data from fiscal year 1993 through March 31, 1995, show that buyout recipients had an average annual salary ranging from $34,745 for resignees to almost $48,000 for retirees, while RIFed employees averaged $29,495. A primary reason for the salary differences is that a person who would otherwise be separated under a RIF can often displace a lower-graded employee with less retention rights who is then separated. This process, which is referred to as "bumping and retreating,"[1] has occurred in most recent RIFs. Our analysis shows that, assuming that bumping and retreating will occur, buyouts could generate over $60,000 (up to 50 percent) more in net savings than RIFs for each vacated position over a 5-year period. RIFs,

[1]"Bumping" means displacing an employee in the same competitive area who is in a lower-tenure group (type of appointment category). Although the employee who displaces another employee through bumping must be qualified for the position, it may be a position that he or she has never held. "Retreating" means displacing an employee in the same competitive area who has less service within the same tenure group. The position into which the employee is retreating must be the same or an identical position the employee held in the past on a permanent basis.

however, could generate greater savings than buyouts in those instances where (1) bumping and retreating does not occur, and (2) the employees separated are eligible for either regular or early retirement. By separating employees who are eligible for retirement, the cost of severance pay is eliminated. In such cases, we calculated that RIFs would generate around $29,000 (up to 12 percent) more in net savings than buyouts for each position vacated over the same 5-year period. However, if the separated employee (with the same salary, age, and years of experience) is not eligible for retirement and receives severance pay, buyout savings would exceed the RIF savings over the 5-year period by about 10 percent.

Estimated savings from buyouts are projected on the assumption that the positions vacated by separated employees are eliminated. However, agencies could refill a bought-out position, as long as another position in the agency is eliminated to meet downsizing goals. If the eliminated position is vacant or filled with a lower-graded employee, the savings from the buyout would be reduced. Likewise, an agency could contract out the work previously performed by the employee in the bought-out or RIFed position. To the extent such actions are taken, savings from buyouts and RIFs could be reduced.

Recent studies and our own analysis of agency-reported data suggest that when employees anticipate buyout offers, normal attrition slows considerably, because some employees delay their separations to receive buyouts. This phenomenon tends to increase the number, and therefore the cost, of buyouts.

RIFs, however, have historically been difficult and complex to administer and are often viewed as decreasing employee productivity and morale. Agency officials told us that, in contrast, the use of buyouts has been an effective tool in accomplishing their workforce restructuring goals. Furthermore, they said that buyouts helped them maintain or improve diversity profiles compared with RIFs, because RIFs are likely to result in the separation of proportionately greater numbers of women and minority employees. We did not attempt to quantify these factors in our analysis.

Savings from downsizing in an individual agency will largely depend on (1) how effectively the agency had planned its workforce restructuring, including the likelihood that bumping and retreating would take place with RIFs, (2) employee demographics, including who would likely be separated under a RIF versus who would likely take a buyout; (3) how effectively the agency had targeted the use of RIFS or buyouts, and (4) how the agency defined its competitive levels and areas for RIFS.

Decisions on which downsizing strategy to use—buyouts or RIFS—depend on these savings as well as noneconomic factors, including how effectively an agency can use buyouts or RIFS to eliminate specific positions, and the potentially adverse effect the strategy might have on agency operations and employee morale.

Background

Both Congress and the administration have agreed that federal employment levels should be cut as a means of reducing federal costs and controlling deficits. Through a series of executive orders and legislation, goals have been established for reducing federal staffing levels. Two driving forces in the reductions have been the Federal Workforce Restructuring Act of 1994 and the National Performance Review (NPR). The act, passed in March 1994, mandated governmentwide reductions of 272,900 Full Time Equivalent (FTE) positions through fiscal year 1999.[2] The NPR recommended that any reductions be accomplished through agency efforts to streamline operations, reduce "management control" and headquarters positions, and improve government operations through reinvention and quality management techniques.

For many federal agencies, achieving reduced staffing levels cannot be attained by relying solely on attrition. Consequently, alternate methods of workforce reductions must be explored. One approach that has been historically available to agencies is RIFS. During RIFS, staff reductions are achieved by eliminating positions and involuntarily separating employees from federal service.

The employee who is actually separated in a RIF may not hold the position an agency actually abolishes. Agencies that need to lay off employees must follow a complex set of procedures to determine who will be separated. These procedures give favorable consideration in layoff decisions to employees with (1) career appointments, (2) military veteran status, (3) seniority, and (4) good job performance. The agencies rank employees according to these four factors and place them on retention registers where they will compete with others in similar positions. Such competition is generally limited to employees who fall within what the agency designates as the competitive area (geographic, organizational, or

[2]According to OMB guidance, an FTE or work year generally includes 260 compensable days or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

both) and the competitive level (those positions in a competitive area with similar work and the same pay grade).

During RIFs, higher ranked employees may take the positions of others at lower grades or in different jobs through bumping and retreating. Although opportunities to bump and retreat may be limited if the competitive areas and levels are very small, past experience has shown that, on average, for every employee separated from federal employment under a RIF, at least one bumping or retreating action has taken place. Employees taking lower-graded positions keep the grade of their former positions for 2 years. After that time, they are entitled to indefinite pay retention but do not receive full annual pay comparability increases until the rate of their new grade equals or exceeds their current pay.

Employees separated involuntarily may be eligible to receive severance pay. The amount received is based on the employee's pay, years of creditable service, and age at the time of separation.[3] The maximum amount that may be paid is limited to one year's salary.

The buyouts, authorized by the Workforce Restructuring Act of 1994, allowed agencies to make a Voluntary Separation Incentive Payment of up to $25,000 to eligible employees in exchange for their voluntary retirement or resignation from the federal government. These employees were entitled to a payment equal to the amount of severance pay for which their age and length of service qualified them or $25,000, whichever was less. The act authorized buyouts at non-Department of Defense (DOD) agencies from March 30, 1994, through March 31, 1995. DOD was authorized use of the buyout authority through separate legislation.[4] Over 112,500 buyouts have been paid to employees governmentwide since DOD was authorized use of the authority in early 1993.

Congress is considering new legislation that would again give non-DOD agencies temporary authority to pay retirement and separation incentives. If an agency has a downsizing goal that requires personnel reductions in excess of normal attrition, should the agency conduct a RIF or, if legislatively authorized, offer buyouts? This decision involves not only the economics of each strategy but also how effectively the agency can use

[3]To be eligible, the employee must not decline a reasonable job offer within two grades of the current grade level in the same commuting area, must have served at least 12 months, and must not be eligible for an immediate annuity.

[4]P.L. 102-484 authorized DOD buyouts through fiscal year 1997; P.L. 103-337 extended this authority through fiscal year 1999.

buyouts and RIFs to eliminate specific positions, and the potentially adverse effect the strategy might have on agency operations and employee morale.

Scope and Methodology

Varying assumptions have been used in past economic studies of buyouts and RIFs. We analyzed these studies to obtain the factors that should be included in an economic analysis of costs and savings associated with buyouts and RIFs. The studies we reviewed included our 1985 study of RIFs,[5] a 1994 DOD study of buyouts and RIFs, a 1993 Congressional Budget Office study of buyouts and RIFs, and a 1995 Office of Personnel Management (OPM) analysis of buyout and RIF costs.

Although a detailed analysis of agency buyout and RIF costs was beyond the scope of our current review, we contacted some agencies that have experienced buyouts and RIFs in the past 2 fiscal years to obtain cost data. We found that little, if any, data had been tracked or collected. We asked general questions on how RIFs and buyouts were administered to get a better understanding of the factors to include in our economic analysis.

We developed an economic analysis comparing buyouts and RIFs on the basis of our review of past studies, contacts with agency officials, and our analysis of OPM data from the Central Personnel Data File (CPDF) on the average demographics of employees separated from the federal government under buyouts and RIFs during the past 3 years. Those separated through buyouts tend to be older employees with higher salaries and more years of service than those separated through RIFs.

We obtained updated information from the Department of Labor on average number and amount of unemployment compensation payments. Whenever possible, we attempted to verify cost estimates from past studies before inclusion in the cost analysis. In cases where we could not do this, we have included appropriate cost factors and noted the potential weaknesses of the specific cost estimates (see appendix III).

We based our economic analysis on the assumption that positions vacated through buyouts and RIFs were eliminated and not refilled with other federal employees or with contractor employees. Without extensive analysis of agency buyouts and RIFs, we have no way of determining the extent to which vacated positions were refilled or the work performed in

[5] Reduction in Force Can Sometimes Be More Costly to Agencies Than Attrition and Furlough (GAO/PEMD-85-6, July 24, 1985).

eliminated positions contracted out. Thus, the savings we have calculated from these downsizing strategies could be overstated.

Our work was performed in Washington, D.C. and Denver, CO, between July 1995 and January 1996, in accordance with generally accepted government auditing standards.

We provided the Director of OPM with a draft of this report for his comments on March 13, 1996. OPM's written comments are summarized and evaluated at the of this letter and are presented in full in appendix IV.

Buyout Savings Generally Exceed RIF Savings

The economics of workforce reduction strategies can vary widely among agencies depending on (1) the positions eliminated, (2) the demographics of the retirement eligible population, (3) how early in the fiscal year separations are made, and (4) whether positions are refilled, eliminated, or the work contracted out.

On the basis of our work, we determined that agencies could realize net savings from workforce reductions using either strategy, since the savings over a 5-year period from salaries and benefits of separated employees should exceed costs. However, our analysis shows that net savings accruing from the use of buyouts will generally exceed net savings from RIFs over a 5-year period if bumping and retreating take place . Buyouts would generate over $60,000 (up to 50 percent) more in net savings than RIFs for each vacated position over the 5 years. This is primarily true because the buyout population is different from the RIF population. Employees separated from the federal government through buyouts are typically at higher grade levels than those separated through RIFs, thereby producing greater savings in salaries and benefits. Governmentwide data on average salaries and other characteristics of separated employees taken from the CPDF for fiscal year 1993 through the first half of fiscal year 1995 are shown in table 1.

Table 1: Average Characteristics of Separated Employees

Characteristic	Regular retirement with buyout	Early retirement with buyout	Voluntary resignation with buyout	Involuntary RIFs
Salary	$47,940	$44,259	$34,745	$29,495
Years of service	29.0	27.5	12.8	10.6
Age	61.5	53.7	42.8	41.8

Source: GAO calculations based on data from OPM's CPDF for fiscal year 1993 through the first half of fiscal year 1995.

However, if employees separated from the federal government through RIFs are retirement eligible and do not displace lower-graded employees, savings from RIFs could marginally exceed savings from buyouts over a 5-year period. For these cases, RIFs could generate around $29,000 (up to 12 percent) more in net savings than buyouts for each position vacated over the 5-year period.

The major costs associated with RIFs are those of placement, relocation, retraining, unemployment compensation, and, for those employees not retirement eligible, severance pay. The major cost of buyouts is the amount of the separation incentive, up to $25,000. Savings from RIFs and buyouts are generated by removing the obligation to pay the salaries and benefits of those separating.

Tables 2 and 3 represent the results of a comparison of costs and savings of buyouts and RIFs using weighted CPDF separation data for fiscal year 1993 through the first half of fiscal year 1995. Individual examples of three basic separation scenarios are shown: (1) an employee who is eligible for regular retirement, (2) one who is eligible for early retirement, and (3) one who resigns. For each scenario, the 5-year costs and savings of separations with buyouts are compared with the 5-year costs and savings that would likely accrue if the employee were separated through a RIF instead of a buyout. Net savings are shown for the year of separation and for the cumulative 5 years after separation. Because first-year costs and savings are greatly dependent on the time of year the employee separates, net savings are shown for an assumed separation date of December 31, 1994, (table 2) and March 31, 1995, (table 3). See appendix I and II for a more detailed cost analysis.

Table 2: Net Savings From Separation Scenarios With a December 31, 1994, Separation Date

Separation scenario	First-year net savings (FY 1995)	Five-year cumulative net savings
Regular retirement eligible (salary = $47,940)		
Retirement with buyout	$10,546	$284,720
RIF - bump/retreat	9,986	201,859
RIF - no bump/retreat	$32,484	$306,658
Early retirement eligible (salary = $44,259)		
Retirement with buyout	94	$253,217
RIF - bump/retreat	8,138	185,322
RIF - no bump/retreat	$28,908	$282,031
Resignation (salary = $34,745)		
Resignation with buyout	3,052	$203,509
RIF - bump/retreat	(1,374)	136,379
RIF - no bump/retreat	$1,066	$196,715

Source: GAO calculations based on data from OPM's CPDF and GAO assumptions.

If separations occur later in the fiscal year, first-year costs increase and total savings through fiscal year 1999 are reduced, as shown in table 3.

Table 3: Net Savings From Separation Scenarios With A March 31, 1995, Separation Date

Separation scenario	First-year net savings (FY 1995)	Five-year cumulative net savings
Regular retirement eligible (Salary = $47,940)		
Retirement with buyout	($4,975)	$269,199
RIF - bump/retreat	(878)	190,995
RIF - no bump/retreat	$16,963	$291,137
Early retirement eligible (Salary = $44,259)		
Retirement with buyout	($14,234)	$238,889
RIF - bump/retreat	(1,892)	175,292
RIF - no bump/retreat	$14,580	$267,703
Resignation (Salary = $34,745)		
Resignation with buyout	($8,196)	$192,261
RIF - bump/retreat	(9,248)	128,505
RIF - no bump/retreat	($10,182)	$185,467

Source: GAO calculations based on data from OPM's CPDF and GAO assumptions.

While RIF savings in tables 2 and 3 exceed buyout savings for the retirement-eligible employee who does not bump or retreat, the results would be different if the employee were not eligible for retirement. For these cases, the cost of severance pay, which could equal up to one year's salary, would reduce the RIF savings below those of the buyout scenario. On the basis of the above demographics of salary, age, and years of service, buyout savings could exceed RIF savings in these cases by 10 percent over the 5-year period.

While these comparisons are examples of what savings might accrue for each separated employee under various scenarios, experience at individual agencies will largely depend on (1) how effectively the agency had planned its workforce restructuring, including the likelihood that bumping and retreating would take place with RIFS; (2) employee demographics, including who would likely be separated under a RIF versus who would likely take a buyout; (3) how effectively the agency had used RIFS or buyouts to eliminate specific positions; and (4) how the agency defined its competitive levels and areas for RIFS.

Bumping and Retreating Reduces RIF Savings

The right of federal employees to bump and retreat reduces the savings achieved under a RIF, because the savings realized represent the salary and benefits of the lower-graded employee who actually leaves the federal payroll. Data we gathered for a prior report[6] showed the average salaries of separated employees under RIFS equaled about 70 percent of the salaries of the employees in the eliminated positions. Also, our prior study showed that, on average, for each employee separated from the federal government through a RIF, at least one other person had bumped or retreated to a position at least two grade levels below the position eliminated.

Our analysis shows that RIF savings can increase if the RIF separations occur without bumping and retreating. In fact, RIFS can generate more savings than buyouts over a 5-year period for retirement-eligible employees under such conditions. Consequently, the anticipated extent of bumping and retreating can be a factor an agency considers in deciding whether to pursue RIFS or buyouts as a downsizing strategy. Agency officials, however, told us that generally it is difficult to predict with any certainty the extent of bumping and retreating under a RIF.

[6]GAO/PEMD-85-6 July 24, 1985.

Savings Could Be Reduced If Vacated Positions Were Refilled or Work From Eliminated Positions Were Contracted Out

Savings should result with the use of either buyouts or RIFs, as long as vacated positions are eliminated and not refilled, and the work previously performed by the separated employee is not subsequently contracted out. Under provisions of the Workforce Restructuring Act and OMB guidance, agencies are to reduce one FTE for each buyout granted. However, agencies can refill a bought-out position, electing instead to eliminate another position in the agency. Likewise, under certain conditions, agencies could contract out the work of a position vacated through a buyout or eliminated through a RIF. In such instances, any savings from buyouts or RIFs could be reduced by the cost of refilling the position or contracting out the work.

More Buyouts Than RIFs May Be Needed to Reach an Agency's Downsizing Target

An agency may need a larger number of buyouts than RIFs to reach its downsizing target. More buyouts may be needed because normal attrition slows considerably during the time period preceding a buyout, since some employees delay their planned separations in order to receive a buyout. Indeed, as shown in table 4, annual governmentwide separations dropped by over 20 percent from the end of fiscal year 1991 through fiscal year 1992, as proposed legislation to authorize buyouts was under consideration. Separations then rose by 35 percent in fiscal year 1994, when both DOD and non-DOD agencies had buyout authority. Although some of the drop in separations may have been due to economic conditions at the time, it is possible that some employees delayed their separations so that they could receive a buyout.

Table 4: Historical Voluntary Separations, Fiscal Year 1991 Through First Half Fiscal Year 1995

Fiscal year	Regular retirement	Early retirement	Resignations	Totals	Percent change from previous year
1991	33,064	3,454	74,221	110,739	
1992	22,076	851	65,259	88,186	- 20.4
1993	27,266	9,144	50,909	87,319	- 1.0
1994	37,682	17,861	62,684	118,227	+ 35.4
1995 (first half)	23,626	12,562	30,145	66,333	

Note: Separations are combined figures for Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) employees.

Source: GAO calculations based on data from OPM's CPDF.

When analyzing the relative costs of buyouts and RIFs, the fact that more buyouts than RIFs may be needed to meet downsizing goals should be taken into account. Recent studies and our own analysis of agency reported data support this conclusion. We concluded, on the basis of data agencies reported to us, that 100 buyouts avoids about 68 RIFs. This relationship of "buyouts granted to RIFs avoided" has been considered in our cost analysis of buyouts. The effect of this relationship on the cost analysis is to increase the costs of buyouts relative to RIFs.

Buyouts Avoid Noneconomic Effects of RIFs on Workforce

Agency officials noted that buyouts avoid or reduce some of the negative noneconomic effects of RIFs, such as diminished workforce diversity. Since retention during a RIF is based largely on seniority and military veteran status, women and minorities—who generally rank lower in one or both of these factors, compared with white males—tend to be separated disproportionately during a RIF. In addition, some agencies that recently conducted RIFs said they experienced other adverse effects historically associated with RIFs, including decreased productivity and lower employee morale. They also reported that the burden of administering RIFs was significant and tended to disrupt normal agency operations. The following are examples of statements from agency officials:

- "Since employees with the greatest seniority would normally be retained [under a RIF], we would need to release the group of employees in which the greatest training costs have been expended."
- "When people leave involuntarily, you get an unhappy workforce, and it takes a tremendous amount of administrative time to deal with that."
- "[We have] seen some cases of severe resentment on the part of employees who have successfully bumped and retreated to a lower-graded position. They are resentful of having to work in a lower-graded position and often are not as productive as they should be."

However, agencies reported that buyouts can be an effective restructuring tool and improve workforce diversity profiles. As we reported in our August 1994 congressional correspondence[7] on the use of the buyout authority by the Department of Education, department officials reported they used buyouts to adjust staffing levels when changes in mission requirements occurred. Officials at the National Aeronautics and Space Administration reported that buyouts helped them better manage their staffing levels during the current downsizing period. Agencies also reported that buyouts have enabled them to either maintain or improve

[7] Buyouts at the Department of Education (GAO/GGD-94-197R, Aug. 17, 1994).

their diversity profiles, because the separation of many buyout takers who are older white males opens additional opportunities for women and minorities. RIFS, with their cascading effect of bumping and retreating, effectively prohibit such workforce restructuring and improvements to diversity.

Conclusions

Buyouts are again being considered in pending congressional legislation. The results of our work show that buyouts granted under the criteria of the Workforce Restructuring Act of 1994 will generate more savings than RIFS if typical bumping and retreating take place. However, in those instances where bumping and retreating do not take place, RIFS may generate more savings than buyouts for retirement-eligible employees. If the employee separated by a RIF is not eligible for a retirement annuity, the projected buyout savings would be 10 percent more than the net RIF savings for this same employee. Projected savings from both buyouts and RIFS could be reduced if vacated positions were refilled and not eliminated or if work previously performed by separated employees is later contracted out. Although the extent of bumping and retreating under a RIF may be difficult to determine, it may have a significant effect on the economics of the downsizing strategy used.

While economics play an important part in an agency's decision on which downsizing strategy to use, noneconomic effects were also described to us by agency officials. These effects included the ability to use buyouts to restructure agency workforces, retain or improve workforce diversity, and avoid lowering productivity and morale.

Agency Comments and Our Evaluation

OPM provided written comments on a draft of this report. These comments are summarized below and included in their entirety, along with our specific responses, in appendix IV.

OPM agreed with the conclusions of our report, saying the conclusions supported OPM's belief that the government will be best served if involuntary separations are minimized while downsizing. OPM made a few technical suggestions, and we have incorporated them into the report where appropriate. More important, OPM recommended that some additional RIF costs be included and questioned the validity of how buyout costs were computed. We do not agree with these recommendations and have not made changes to the report to reflect these additional costs, explaining our reasons in appendix IV. It is important to note that the inclusion of these additional RIF costs and the suggested revisions to buyout costs would increase the savings differential between buyouts and RIFs but would not change the conclusions we have reached. Buyouts would still save more than RIFs over 5 years when bumping and retreating occur, and RIFs would still save more than buyouts over the same period if bumping and retreating do not occur.

As arranged with your office, unless you announce the contents of this report earlier, we plan no further distribution until 30 days after its issue date. At that time, we will send copies to the Director of OPM and the Director of the Office of Management and Budget. We will make copies available to others on request.

The major contributors to this report are listed in appendix V. If you have any questions about the report, please call me on (202) 512-8676 or Associate Director Timothy P. Bowling on (202) 512-3511.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Director, Federal Management
and Workforce Issues

Contents

Abbreviations

CBO	Congressional Budget Office
CPDF	Central Personnel Data File
CSRS	Civil Service Retirement System
DOD	Department of Defense
FERS	Federal Employees Retirement System
FTE	full-time equivalent
NPR	National Performance Review
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RIF	Reduction-In-Force

Five-Year Buyout-RIF Savings/Cost Comparison (December 31, 1994, Separation Date)

Savings/cost factors	Voluntary optional retirement (with buyout)	RIF no bump retreat	RIF bump retreat
Grade/Step/Salary	GS12/6-$47,940	$47,940	$33,558
Years of service	29.0	29.0	10.6
Age	61.5	61.5	41.8
FY 1995 SAVINGS/(COSTS)			
Buyout amount	($36,016)	0	0
Severance pay	0	0	($8,529)
Refund - Retirement contribution	0	0	0
Agency payment to retirement fund	0	0	0
Unemployment	0	($1,222)	($1,222)
Outplacement	0	($7,456)	($7,456)
Retraining	0	($1,900)	($1,900)
Relocation	0	($3,500)	($3,500)
Gross cost	($36,016)	($14,078)	($22,607)
Salary/benefit savings	$46,562	$46,562	$32,593
FY 1995 net savings	$10,546	$32,484	$9,986
FY 1996 SAVINGS/(COSTS)			
Salary/benefit savings	$64,565	$64,565	$45,196
Unemployment	0	0	0
FY 1996 net savings	$64,565	$64,565	$45,196
FY 1995-1996 net savings	$75,111	$97,049	$55,182
FY 1997 SAVINGS/(COSTS)			
Salary/benefit savings	$67,148	$67,148	$47,004
FY 1995-1997 net savings	$142,259	$164,197	$102,186
FY 1998 SAVINGS/(COSTS)			
Salary/benefit savings	$69,834	$69,834	$48,834
FY 1995-1998 net savings	$212,093	$234,031	$151,020
FY 1999 SAVINGS/COSTS)			
Salary/benefit savings	$72,627	$72,627	$50,839
FY 1995-1999 net savings	$284,720	$306,658	$201,859

Voluntary early retirement (with buyout)	RIF no bump retreat	RIF bump retreat	Voluntary resignation (with buyout)	RIF no bump retreat	RIF bump retreat
GS12/3-$44,259	$44,259	$30,981	GS11/1-$34,745	$34,745	$24,322
27.5	27.5	10.6	12.8	12.8	10.6
53.7	53.7	41.8	42.8	42.8	41.8
($36,459)	0	0	($20,626)	0	0
0	0	($7,874)	0	($13,342)	($6,182)
0	0	0	($8,326)	($8,326)	($6,085)
($6,433)	0	0	0	0	0
0	($1,222)	($1,222)	0	0	($1,222)
0	($7,456)	($7,456)	0	($7,456)	($7,456)
0	($1,900)	($1,900)	0	($1,900)	($1,900)
0	($3,500)	($3,500)	0	($3,500)	($3,500)
($42,892)	($14,078)	($21,952)	($28,952)	($34,524)	($26,345)
$42,986	$42,986	$30,090	$33,746	$33,746	$23,623
$94	$28,908	$8,138	$4,794	($778)	($2,722)
$59,608	$59,608	$41,725	$46,795	$46,795	$32,757
0	0	0	0	($1,222)	0
$59,608	$59,608	$41,725	$46,795	$45,573	$32,757
$59,702	$88,516	$49,863	$51,589	$44,795	$30,035
$61,992	$61,992	$43,394	$48,667	$48,667	$34,067
$121,694	$150,508	$93,257	$100,256	$93,462	$64,102
$64,472	$64,472	$45,130	$50,614	$50,614	$35,430
$186,166	$214,980	$138,387	$150,870	$144,076	$99,532
$67,051	$67,051	$46,935	$52,639	$52,639	$36,847
$253,217	$282,031	$185,322	$203,509	$196,715	$136,379

Note: Lump-sum annual leave payments and annuity costs were not included in the analysis (see appendix III).

Source: GAO calculations based on OPM's CPDF - FY 1993, 1994, and first half of FY 1995, and GAO assumptions. (See appendix III for explanation of assumptions and computations made.)

Five-Year Buyout-RIF Savings/Cost Comparison (March 31, 1995, Separation Date)

Savings/cost factors	Voluntary optional retirement (with buyout)	RIF no bump retreat	RIF bump retreat
Grade/Step/Salary	GS12/6 –$47,940	$47,940	$33,558
Years of service	29.0	29.0	10.6
Age	61.5	61.5	41.8
FY 1995 SAVINGS/(COSTS)			
Buyout amount	($36,016)	0	0
Severance pay	0	0	($8,529)
Refund - retirement contributions	0	0	0
Agency payment to retirement fund	0	0	0
Unemployment	0	($1,222)	($1,222)
Outplacement	0	($7,456)	($7,456)
Retraining	0	($1,900)	($1,900)
Relocation	0	($3,500)	($3,500)
Gross cost	($36,016)	($14,078)	($22,607)
Salary/benefit savings	$31,041	$31,041	$21,729
FY 1995 Net Savings	($4,975)	$16,963	($878)
FY 1996 SAVINGS/(COSTS)			
Salary/benefit savings	$64,565	$64,565	$45,196
Unemployment	0	0	0
FY 1996 net savings	$64,565	$64,565	$45,196
FY 1995-1996 net savings	$59,590	$81,528	$44,318
FY 1997 SAVINGS/(COSTS)			
Salary/benefit savings	$67,148	$67,148	$47,004
FY 1995-1997 net savings	$126,738	$148,676	$91,322
FY 1998 SAVINGS/(COSTS)			
Salary/benefit savings	$69,834	$69,834	$48,834
FY 1995-1998 net savings	$196,572	$218,510	$140,156
FY 1999 SAVINGS/(COSTS)			
Salary/benefit savings	$72,627	$72,627	$50,839
FY 1995-1999 net savings	$269,199	$291,137	$190,995

Voluntary early retirement (with buyout)	RIF no bump retreat	RIF bump retreat	Voluntary resignation (with buyout)	RIF no bump retreat	RIF bump retreat
GS12/3 –$44,259	$44,259	$30,981	GS11/1- $34,745	$34,745	$24,322
27.5	27.5	10.6	12.8	12.8	10.6
53.7	53.7	41.8	42.8	42.8	41.8
($36,459)	0	0	($20,626)	0	0
0	0	($7,874)	0	($13,342)	($6,182)
0	0	0	($8,326)	($8,326)	($6,085)
($6,433)	0	0	0	0	0
0	($1,222)	($1,222)	0	0	($1,222)
0	($7,456)	($7,456)	0	($7,456)	($7,456)
0	($1,900)	($1,900)	0	($1,900)	($1,900)
0	($3,500)	($3,500)	0	($3,500)	($3,500)
($42,892)	($14,078)	($21,952)	($28,952)	($34,524)	($26,345)
$28,658	$28,658	$20,060	$22,498	$22,498	$15,749
($14,234)	$14,580	($1,892)	($6,454)	($12,026)	($10,596)
$59,608	$59,608	$41,725	$46,795	$46,795	$32,757
0	0	0	0	($1,222)	0
$59,608	$59,608	$41,725	$46,795	$45,573	$32,757
$45,374	$74,188	$39,833	$40,341	$33,547	$22,161
$61,992	$61,992	$43,394	$48,667	$48,667	$34,067
$107,366	$136,180	$83,227	$89,008	$82,214	$56,228
$64,472	$64,472	$45,130	$50,614	$50,614	$35,430
$171,838	$200,652	$128,357	$139,622	$132,828	$91,658
$67,051	$67,051	$46,935	$52,639	$52,639	$36,847
$238,889	$267,703	$175,292	$192,261	$185,467	$128,505

Note: Lump-sum annual leave payments and annuity costs were not included in the analysis (see appendix III).

Source: GAO calculations based on OPM's CPDF - FY 1993, 1994, and first half of FY 1995, and GAO assumptions. (See appendix III for explanation of assumptions and computations made.)

Assumptions Made in Economic Analysis and Sources of Data

Basis for Economic Analysis

When faced with staffing reductions that require the separation of employees, an agency must consider which positions need to be eliminated, how many employees in those positions will be separated, and how they will be separated. Historically, agencies have relied on normal attrition (including regular retirements), hiring freezes, furloughs, RIFS, and the use of early retirement authorities to reduce staffing levels. In 1993 and 1994, DOD and non-DOD agencies were given the additional authority to pay financial incentives (buyouts) to eligible employees who voluntarily separated from government service. Our economic analysis compares two of these reduction strategies: buyouts and RIFS. Our assumption is that the agency must reach a reduced staffing level and must decide whether it will rely on the use of RIFS or buyouts to help it reach this goal.

In either strategy, the potential savings to the government is in the salary and benefits of the employees separated. However, it may be difficult to estimate potential savings because it is often difficult to predict who will actually leave federal employment under either strategy. Separation with a buyout is a voluntary action. Although buyouts can be targeted to specific groups of employees or occupational levels, agencies may not know exactly who will leave under a buyout. Conversely, while agencies can eliminate specific positions in a RIF, the employee in that position can often displace a lower-graded employee who is then forced to leave.

Costs for each strategy vary. The primary cost of the buyouts is the financial incentive. The primary costs of RIFS are severance pay for those who are not eligible for retirement, unemployment, outplacement, and relocation costs.

Any governmentwide analysis of the costs and savings of buyouts and RIFS must, of necessity, be based on average demographics. Actual demographics and separation experiences at individual agencies may vary from this analysis; thus, actual costs and savings may also vary. We had neither the time nor resources to complete an in-depth economic analysis at individual agencies that would capture these experiences. Consequently, our analysis is based on demographic data from OPM showing average salaries, ages, and years of service for separated employees. It assumes that the position eliminated through a buyout also would have been the position eliminated through a RIF.

To show net savings in the first year and subsequent years, our analysis extends out 5 years from the date of separation. Because first-year savings are dependent to a great extent on when the separation occurs, we have computed net savings on the basis of two different separation dates during the fiscal year. The analysis assumes a standard yearly inflation rate but does not take into account such factors as life-cycle costing or discounting techniques.

We compared the costs and savings of buyouts given to regular retirement-eligible employees, early retirement-eligible employees, and resignees with the estimated costs and savings that would result if the positions these employees filled were subjected to elimination under a RIF. Costs and savings for each buyout and RIF scenario are based on the weighted average CPDF data for buyout and RIF separations from fiscal year 1993 through the first half of fiscal year 1995.

Assumptions, Sources of Data, and Calculations Used in Economic Analysis

The following presents an explanation of some of the economic assumptions we used in our analysis, along with the sources of the data we included and the basis of our calculations:

1. Salaries, years of service, and ages shown for employees who received buyouts and were separated by retirement and resignation are weighted averages of actual figures for separated employees (CSRS and FERS) taken from the CPDF data tape for fiscal year 1993 through the first half of fiscal year 1995. Fiscal year 1993 and 1994 separation salaries were adjusted for inflation to fiscal year 1995 at 4 percent per year. Years of service and ages shown for employees separated by RIFS are weighted averages for CSRS and FERS employees taken from the CPDF tape for fiscal year 1993 through the first half of fiscal year 1995. Average grades and steps were estimated by comparing salary data from the CPDF tape with the 1995 national General Schedule pay rates.

2. Salaries of employees who actually separated from the federal government through RIFS were calculated as 70 percent of the salary of employees in the eliminated position, on the basis of the results of our 1985 study of RIF costs at eight agencies. These salary levels are comparable with the average salaries of employees RIFed, which were calculated from the CPDF for fiscal year 1993 through the first half of fiscal year 1995.

3. The buyout amounts for retirees and voluntary resignations were computed using weighted CSRS and FERS data from the CPDF. Amounts were calculated as the lesser of the $25,000 maximum buyout amount or the amount of severance pay that employees would have received if separated

by RIFs. Based on these calculations, we arrived at the following average buyout amounts:

- Regular retirement - $24,501
- Early retirement - $24,802
- Resignation - $14,031

4. Analysis of agency reported data from our 1994 agency questionnaires shows that one buyout avoids about 0.68 RIFs. Therefore, it takes 1.47 buyouts to avoid one RIF. This number agrees with similar data obtained by the Congressional Budget Office (CBO) and DOD in their cost studies. To account for this conclusion, the costs of the average cash incentive payments (listed in item 3) were multiplied by 1.47. This results in a number in the analysis that exceeds the amount specified in the law.

5. Costs of retirement annuities and payments for annual leave accrued have not been included in the analysis. We did not conduct an in-depth examination of buyouts to determine how buyouts affect the number and timing of governmentwide separations. However, we believe, on the basis of available data, that it is possible many employees who separated with buyouts would have separated close to the time they did even without buyouts. Recent CPDF data showed that almost half of the buyout recipients were already eligible for regular retirement, while another 39 percent were eligible for early retirement. CPDF data also showed that those regular retirees who separated with a buyout had from 1 to 1.7 more years of service than their counterparts who retired without buyouts. It is possible that some retirees delayed their separations in order to receive a buyout. Because we could not determine the effect that buyouts had on the timing of separations, and the fact that payments for annuities and annual leave likely would have been made for these separations whether or not they were accompanied by buyouts, we did not include these payments as costs in the analysis.

6. We included a cost of 15 percent of the final salary of employees who retired early under CSRS and took the buyout as the increased contribution by the agency to the retirement fund. The Federal Workforce Restructuring Act of 1994 specified that agencies were to make additional contributions to the retirement fund to cover the higher levels of annuity payments resulting from the expected increase in early CSRS retirements. Although the act set the amount of the increased contribution at 9 percent of the salary of the CSRS early retiree, a recent analysis by CBO has estimated that this agency contribution would currently need to be

15 percent in order to offset the higher annuities. Therefore, we calculated the cost of agency retirement contributions for early CSRS retirees taking buyouts as 15 percent of their final salaries at separation and included this as a buyout cost in the first year of the analysis.

7. Costs for accrued sick leave have not been included in the analysis. Accrued sick leave would slightly increase the amounts of annuity payments but would not affect our analysis since we have not included the costs of annuities in our calculations (see number 5 above).

8. To determine refunds of retirement contributions, we estimated the amount of retirement contributions that would have been made by the separated employees on the basis of their average salaries and years of service at the time of separation. Employees under CSRS contribute 7 percent of pay each year towards future benefits, FERS employees contribute 0.8 percent under the defined-benefit plan that is part of the system. We multiplied the estimated contribution amounts by the percentage of employees who would be expected to request refunds (on the basis of OPM data showing those who actually separate and request a refund of their contributions). The resulting figures were divided by the number of buyouts and RIFs to obtain a per buyout/RIF figure.

9. We calculated severance pay for the average employee separated after bumping and retreating by using the weighted demographics (years of service and age) from the CPDF of employees separated by a RIF from fiscal year 1993 through the first half of fiscal year 1995. The salary of the separated employee was assumed to be 70 percent of the salary of the employee in the position eliminated by the RIF.

10. Employees who displace lower-graded employees through bumping or retreating are allowed to retain their grades for a 2-year period and keep their salaries indefinitely, as long as they fill the lower-graded positions. This "cost" is not included in the analysis as an additional cost of RIFs, because these "costs" already are reflected in the reduced savings of the separated employee compared with the salary of the employee in the eliminated position. The inclusion of this salary differential as a RIF cost would increase the savings attributable to buyouts over the 5-year period when compared with RIF savings where bumping and retreating occur.

11. If an employee is separated from the federal government by a RIF without bumping or retreating, and is not eligible for an immediate annuity, the cost of severance pay could reduce the amount of savings

achieved under the RIF. For these cases, we calculated severance pay on the basis of the same salary as the retirement eligible employee, but with an age of 49 years and with 24 years of service at separation. Reducing the net savings of the "no bump/retreat scenario" by the amount of severance pay, equal in this instance to the employee's annual salary, would reduce net RIF savings below the corresponding buyout savings. The extent to which an agency could avoid severance payments through effective job placements could result in RIF savings in these cases remaining greater than buyout savings.

12. Outplacement costs were derived from an OPM cost study of outplacement activities and were assumed to be the same for all RIFed employees.

13. Although our 1985 report[8] on RIF costs identified RIF processing and appeals costs, we have not included these costs in the current analysis. Our recent contacts with agencies who have had buyouts and RIFs, including OPM, showed that most, if not all, of the increased workloads for processing buyouts and RIFs and the additional workload for RIF appeals have been absorbed by existing staff; no additional staff have been hired or contracted to perform the work. Some agency officials reported that they detailed employees from one unit to another to handle the increased workloads. Cost estimates made in other studies for processing RIFs have ranged from $100 per RIF to $2,900 per RIF. The only other recent estimate for appeals cost was $2,400 per RIF. The inclusion of these estimates as RIF costs would slightly decrease the 5-year savings of RIFs but would not change the results of our analysis.

14. Unemployment compensation was computed from the Department of Labor data on unemployment compensation payments for 1994. It showed the average person received total unemployment payments of about $3,233 over an 18-week period. However, the data also showed that only about 60 percent of separated employees filed claims, and about 63 percent of them received first benefit payments. Thus, multiplying the number of employees separated from the federal government through a RIF during fiscal year 1994 (5,470) by 60 percent, who filed claims, and then by 63 percent, who received benefits, equals 2,068 first-time claims paid. Multiplying this number by the $3,233 and dividing by the total 5,470 employees separated equals a per RIF cost of $1,222. Since most states do not pay unemployment compensation until severance pay expires, the

[8]GAO/PEMD-85-6.

unemployment compensation payments were assumed to begin after biweekly severance payments stopped for each RIF example.

15. Retraining and relocation costs were taken from a 1993 CBO study on RIF costs and were assumed to be the same for all RIFed employees. CBO based its analysis on actual DOD cost experiences. To the extent these experiences may differ from non-DOD experiences, these costs may not reflect actual average governmentwide costs.

16. On the basis of guidance from OMB in Circular A-76, we calculated benefits to equal 29.5 percent of salary.

17. On the basis of the OPM study, we assumed a 4-percent per year inflation factor for salaries and benefits.

Comments From the Office of Personnel Management

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

APR 1 1996

Mr. L. Nye Stevens
Director
Federal Management and Workforce Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Stevens:

Thank you for the opportunity to comment on the General Accounting Office (GAO) draft report entitled Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions in Force.

We are pleased that you have undertaken this timely and comprehensive analysis of the costs of RIF and buyouts. In this time of widespread downsizing, this type of study is vital to evaluating which reduction strategies work better and cost less. We are also pleased that the report's conclusions support our belief that the Government will be best served if we minimize involuntary separations while downsizing.

Please find enclosed our comments on this report.

Please feel free to contact me or my staff if there is anything we can do to assist you.

Sincerely,

James B. King

James B. King
Director

Enclosure

OPM's Comments and Suggestions for General Accounting Office (GAO) Draft Report Entitled: Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions in Force

GRADE AND PAY RETENTION: The report states "(t)he major costs associated with RIFs are the costs of placement, relocation, retraining, unemployment compensation, and, for those not retirement eligible, severance pay" [page 12]. One of the highest costs associated with RIF is the cost of grade and pay retention. This report does not include grade and pay retention as a "cost" but instead, characterizes it as "reduced savings" "since agencies do not incur costs (budget outlays) to account for this factor" [Appendix III, page 37]. In GAO's 1985 report (Reduction in Force Can Sometime Be More Costly To Agencies Than Attrition and Furlough) grade and pay retention **was** identified as a **cost**. We agree with the position of the 1985 report and recommend that this significant cost be more thoroughly addressed and included in the report as a stated cost of RIF.

After a bump or retreat occurs, lower graded work is typically performed by a higher graded employee who still is entitled to be paid at his or her prior salary. Thus, an agency pays more to have a higher graded employee do the work once performed by a lower graded employee. The added cost is the difference between the level of work actually performed and the higher salary of the employee on grade and pay retention who is performing it.

While it is generally true that additional money is not appropriated to pay the costs brought about by grade and pay retention, the cost of work that is being performed by an employee at a higher grade than the former employee encumbering the same position is a cost the agency would not otherwise incur. Moreover, using the argument that "agencies do not incur costs (budget outlays) to account for" grade and pay retention would be the same as saying that *buyouts* really cost nothing because the law requires buyouts to be "paid from appropriations or funds available for the payment of the basic pay of the employee," thus, no additional budget outlays are incurred for the payment of buyouts.

In several places, the report incorrectly states an employee exercising bump or retreat rights "is allowed to retain his/her previous salary for a 2-year period" [Appendix III, page 37. See also page 6]. An employee who has moved due to bumping or retreating is entitled to keep his/her grade for a 2-year period and is entitled to keep his/her salary indefinitely as long as he/she encumbers the lower graded position.

RETIREMENT COSTS: We recommend changes in three areas:

1) Use more consistent treatment of retirement costs
2) Make a distinction as to when additional retirement costs are applicable.
3) Avoid shifting back and forth and mixing costs to the agency with costs to the retirement fund.

1) The report needs to be more consistent in its treatment of retirement costs. For example, the report adds a 15 percent cost to voluntary retirements with a buyout. However, the same cost is NOT added when retirement results from a RIF separation (i.e., a Discontinued Service Retirement, an involuntary retirement based on the same age and service requirements as voluntary early retirement). Generally, regardless of the reason an employee retires, when the age and service requirements are identical, the cost of retirement is the same. Therefore, additional retirement costs should either be uniformly excluded, or uniformly applied to both RIF and buyout (involuntary or voluntary retirements).

2) The report should clearly specify when additional retirement costs would be applicable. The Federal Workforce Restructuring Act of 1994 required agencies to contribute 9 percent of the final basic pay of each employee who 1) received a buyout, 2) took voluntary early retirement on or after March 30, 1994, and 3) was covered by the Civil Service Retirement System (CSRS). This report mentions a CBO estimate that "an increase of 15 percent would currently be needed to offset higher annuities" [Appendix III, page 36]. Should it be applied to both FERS and CSRS retirements? To both optional and early retirements? If there are distinctions, you will need to adjust the calculations to properly reflect the correct distribution of employees who would be covered by additional retirement contributions.

3) The report shifts back and forth and mixes costs to the agency with costs to the retirement fund. For example, the report included refunds of retirement contributions as a cost of both RIF and buyout. Refunds are made from the retirement trust fund and not from agency appropriations. If refunds are included as a cost, then the complete cost of annuities should also be included.

DIVERSITY: Although workforce diversity is certainly important in any staffing decision, it does not represent an expense or savings and cannot be quantified as a cost of either RIF or buyouts. We recommend dropping it as an issue from this report except for instances it which it is shown as an ancillary consideration.

RIFS PER BUYOUT: The report bases some cost considerations on the assumption that "one buyout avoids about 0.68 RIFs" [Appendix III, page 35]. This seems rather speculative and anecdotal. The report would benefit from a more detailed explanation of the basis for this assumption and we would like to see a more definitive model for calculating this comparison. We do not completely agree that it takes nearly two buyouts to offset one RIF. Since cuts in the Executive branch and the buyout law itself require the elimination of one position for each buyout paid, we recommend a one for one accounting of RIFs to buyouts.

Page 7: Update sentence which reads "Over 100,000 buyouts have been offered..." by replacing the beginning with "Over 112,500 buyouts have been paid" to reflect updated data collection.

Appendix III, Page 36: Number 7 seems to indicate that accrued sick leave balances are considered in the calculation of an employee's severance payment (i.e., "While this would slightly change the computation of severance pay amounts..."). This is not the case. Accrued sick leave is used to adjust the annuity of a CSRS employee's annuity, but otherwise is "lost" to FERS employees and is not a cost to the agency after the employee's separation.

Appendix III, Page 38: The cost of appeals is a real and important cost of RIF which should be captured and included in this report. It is possible to capture the percentage of appeals per RIF versus the percentage of appeals per buyout. We see *far* more appeals of RIF separations than buyout separations and there *are* added costs involved in litigating a case as opposed to using methods that avoid litigation.

The following are GAO's comments on the Office of Personnel Management's letter dated April 1, 1996.

GAO Comments

1. GAO agrees that grade and pay retention is a cost of a RIF where bumping and retreating occur. However, we believe, as we state in the report, that this cost is taken into account in our analysis through the reduced savings realized by the separation of a lower-graded individual. Therefore, it would not be appropriate to count this cost again by including it as an additional cost of a RIF. Although our 1985 study identified this factor as a RIF cost, that study compared RIF costs with attrition costs, and not with buyout separations. We are assuming in our present study that the person separating with a buyout would, in the absence of a buyout, have been separated by a RIF, or would have displaced a lower-graded employee under a RIF action. As such, the bumping and retreating process would result in reduced savings from what would have happened under a buyout or under a RIF without bumping and retreating. Further, the inclusion of grade and pay retention again as a RIF cost would increase the savings of buyouts relative to RIFs, but would not change our study's basic conclusions.

2. The report has been revised to clarify that an employee who exercises bump and retreat rights is entitled to keep his/her grade for a 2-year period and is entitled to keep his/her salary indefinitely while in the lower-graded position.

3. The Workforce Restructuring Act required increased agency contributions to the retirement fund to cover retirement costs of those CSRS employees retiring early with buyouts. Since the act did not require increased agency contributions to account for those forced into retirement by RIFs, we did not include this as a cost of a RIF.

4. We agree with OPM that the Workforce Restructuring Act required increased agency contributions to the retirement fund for only those early CSRS retirees separating with buyouts. Accordingly, we have revised the report to show that this agency contribution applies only to these early retirees under CSRS. In doing our analysis, we used the 15 percent contribution figure CBO cited because this is the most current estimate available.

5. We realize some costs are technically accrued by agencies as opposed to the federal government (retirement fund). However, because the cost to

taxpayers is not affected by this distinction, and to simplify the analysis, we aggregated costs and did not differentiate between agency or federal government costs.

6. We agree with OPM that diversity cannot be quantified as a cost or savings of a RIF or buyout. Although we have not included it as an economic issue in the report, we discuss its implications on RIF and buyout decisions because of the importance placed on it by agency officials we contacted. These officials often identified the adverse effects of RIFs on the representation of women and minorities in their agencies, and told us that buyouts allowed them to maintain or improve their diversity profiles.

7. The economic assumption that one buyout avoids 0.68 RIFs is based on evidence from two other major cost studies of buyouts and RIFs, and on our own analysis of data reported by agencies. Although the act requires the reduction of one FTE for each buyout granted, the FTE reduction does not have to be in the position occupied by the buyout taker, and may in fact be in a vacant position. Some buyouts will be granted to employees who would have left in the absence of the buyout; thus, the cost of these additional buyouts should be included in the analysis. Data from the CPDF indicate that almost half of the buyout takers were already eligible for regular retirement. It is likely that some of these buyouts were granted to employees who would have retired in the absence of a buyout program.

8. The report language has been changed to show that over 112,500 buyouts have been paid.

9. We have modified report language to show that sick leave balances can slightly increase annuities (as opposed to severance pay).

10. We did not include the costs of appeals as a RIF cost in our analysis because we could not identify additional costs associated with appeals due to RIFs. On the basis of our contacts with officials of agencies that had undergone RIFs, we determined that the personnel costs to process RIF appeals were always absorbed in current budgets. Although agency officials agreed that there may be additional costs, they had no data available to support these costs. On the other hand, we identified added costs associated with other factors such as outplacement of displaced employees, where agencies often contracted with private organizations for outplacement services. Although appeals costs could be included in an economic analysis of RIFs and buyouts if such cost data were available,

their inclusion would only slightly increase the economic advantage of buyouts over RIFS.

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