BUYOUTS: BOON OR BOONDOGGLE?

HEARING

BEFORE THE

SUBCOMMITTEE ON
CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

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BUYOUTS: BOON OR BOONDOGGLE?

WEDNESDAY, MAY 17, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 311, Cannon House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Morella, Bass, Moran, and Mascara.

Staff present: George Nesterczuk, staff director; Daniel R. Moll, senior policy director; Garry Ewing, counsel; Susan Mosychuk, Ned Lynch, and John Ciccone, professional staff members; Caroline Fiel, clerk; Cedric Hendricks, minority professional staff; and Jean Gosa, minority staff assistant.

Mr. MICA. Good morning, and welcome to the Subcommittee on Civil Service. I wanted to call the meeting to order first of all and begin by welcoming everyone to this hearing entitled "Buy-outs: Boon or Boondoggle?"

I have an opening statement, and then will yield to some of the other Members. We will try to proceed as quickly and orderly as possible so that we can complete our agenda. I know that people have busy schedules and there are some conflicts with other hearings and floor activity at this time.

First of all, I entitled this hearing "boon or boondoggle" because, quite frankly, I do not know whether this approach that we have undertaken to personnel management and downsizing has been beneficial or detrimental. Our hearing today will focus on the successes and problems relating to Federal Government employee buy-outs.

As we conduct this interim evaluation of a major factor in our administration's efforts to reduce the Federal workforce, we must carefully measure both the costs and benefits of this program. So far it is my understanding that more than 104,000 Federal employees have taken advantage of buy-out opportunities, including more than 36,000 employees in non-Defense agencies and more than 68,000 workers from the Department of Defense.

In today's testimony CBO will report that many of these buy-outs cost, on average, exceed $24,000 each, meaning that the total cost of the non-Defense Department buy-outs is somewhere in the neighborhood of $1 billion. For non-Defense agencies, authority to extend incentives for early retirement expired just a short time ago, March 31. In current legislation, the Budget Committees of the House or Senate have proposed eliminating the Departments of Education, Commerce, Housing and Urban Development, Energy, and several other agencies, and we have heard a number of proposals from across the Hill and the administration on eliminating various departments and agencies. Currently a bill to consolidate the Department of State and absorb three other agencies has gained the approval of committees in the House and Senate, with a new authority for buy-outs in both of the bills. Senator Bill Roth, chairman of the Senate Committee on Governmental Affairs, has long supported buy-outs to facilitate staff reductions.

Clearly, buy-outs have proven popular among agencies administering them as a tool for staff reduction. Departing employees also may benefit from buy-outs when they are eligible for retirement. In fact, many of those who leave these agencies now leave with a sizable award, and that is one of the questions we need to examine.

What is not clear from the evidence to date is, is the national interest well served because of these buy-outs? Should Congress approve additional buy-outs as a tool to reorganize and manage our Federal Government? The General Accounting Office has been monitoring efforts to reduce the size of organizations in both the public and private sector. They have conducted extensive studies of downsizing in private companies, State governments, and foreign governments that provide a baseline for assessing workforce reduction in Federal agencies. As we evaluate the implementation of the Workforce Reduction Act, we will focus on the dimensions of the National Performance Review's criteria. We need a government that works better and costs less. Many of us have heard that phrase before, and we are trying to give it real meaning with this 104th session of Congress.

To assist us in gauging techniques and developing methods of managing workforce reductions, we will hear from two private organizations that have studied workforce restructurings around the world. Their surveys and analysis conclude that successful workforce restructurings require advance planning, a strategic perspective and plans for the new organization. Let me cite a number of points are raised as a result of their studies.

When the methods of working are not reformed but further workforce is reduced, the organization will find itself with a smaller workforce and often a bigger backlog. When senior experienced professionals are replaced by untrained, young employees, the organization will face the same work loads and sometimes increased training costs. Or when we pay an additional $24,000 or $25,000 to each employee who is already able to retire, as the General Accounting Office will testify was the case for more than 52 percent of the non-Defense employees collecting buy-outs, have we spent that half a billion dollars in the public interest? That is kind of a startling figure—that 52 percent of those folks were on the verge of retirement anyway—so maybe we handed them a cash bonus on the way out the door?

Where Congress has authorized increases in agencies' staffs, special care must be taken to be certain that buy-out authority, if used at all, is used sparingly, so that Government does not bear the cost of replacing the same people who benefited from the buy-out.

This hearing is more than a review of a completed program and much more, I hope, than an academic exercise. Legislation is pending to consolidate or to eliminate several agencies and departments. Authority to offer buy-outs has been proposed in draft legislation affecting several of those agencies. This subcommittee will consider carefully the testimony presented today to identify the conditions under which it could recommend to the House that it extend future buy-out authority to various agencies.

We want to support the executive branch and enhance its ability to deliver more effective government at reduced cost. The American taxpayer cannot forgive us if we fail to evaluate and revise this program and let buy-outs turn into a $1 billion boondoggle of the nineties.

Our first witness today is our good friend and able administrator, Director Jim King of the Office of Personnel Management. We welcome him back. He heads one of the agencies with leading responsibilities for coordinating all the agencies' management plans and their implementation of various strategies.

The Office of Management and Budget was invited today, but a schedule conflict does not permit them to be present. We are submitting questions, however, and they have agreed to respond.

Our second panel is composed of the General Accounting Office and the Congressional Budget Office, two arms of the Congress that have been monitoring workforce reductions and who will assist our efforts to develop criteria to evaluate these strategies for restructuring our workforce.

Our third panel will be Dr. Peter Scott-Morgan of Arthur D. Little and Mr. Robert Ellis of the Wyatt Co. These companies have reviewed the restructuring of corporations around the world and can provide useful insights to keep us away from what I've termed boondoggle boulevard.

May I say as we begin, I come to this hearing without a firm opinion on whether or not we should continue these buy-outs. There is some evidence I have heard casually that does support their continued enactment and adoption by the Congress, and there are some negative responses that I have heard from folks who have been involved with the program. So I don't bring any preconceived notions or position to this hearing, and I look forward to this being a good session and a cooperative effort from the various agencies to reach some conclusions on what this program has done and how we can make it work for the benefit of the tough task we have of restructuring our Federal workforce.

So with those comments, I appreciate your indulgence. I now turn to the gentleman from Pennsylvania, Mr. Mascara, to see if he has an opening statement or comments.

Mr. MASCARA. I do, Mr. Chairman, but I'll have them entered into the record.

Mr. MICA. Without objection, that is so ordered.

Did you have any informal comments?

Mr. MASCARA. No. Other than I'm concerned about the direction here.

I know back in Pennsylvania we had a bill called the Mellow bill in Pennsylvania, and as a trustee with California, University of Pennsylvania, that we lost some of our best people to the Mellow bill, which encouraged buy-outs. So I'm a new Member here, and I'm just looking to see how all of this is going to affect the caliber of people who work for the Federal Government. I do have a concern, but I'm going to listen and then comment later.

Thank you.

[The prepared statement of Hon. Frank Mascara follows:]

PREPARED STATEMENT OF HON. FRANK MASCARA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Good morning, Mr. Chairman. As always it is good to be here. I want to thank you for holding this hearing so we can carefully examine the results of the Federal Workforce Restructuring Act.

I was not a Member of Congress nor a member of this subcommittee when this legislation allowing government-wide buyouts was enacted. However, I must say the evidence we will hear this morning clearly confirms these buyouts have been more boon than boondoggle.

Before the Federal Workforce Restructuring Act expired this spring, almost 80,000 defense and non-defense Federal workers took advantage of the buyouts. The good news is that most of these employees were in the middle management levels targeted for reduction by Vice President Gore's reinventing government efforts.

As a result, for the first time in many years, the government's attrition rate climbed and agencies are ahead of schedule meeting the 272,900 drop in full-time job slots required by last year's crime bill.

Perhaps most significantly, the buyouts have allowed the government to reduce its workforce in a very humane fashion. Instead of facing massive layoffs and pink slips, employees were provided the financial security and incentive to retire or to move along to private sector job opportunities.

The whole process was targeted and really very civilized. It was much preferable to the mass confusion and low morale that are inherent in an uncontrollable reduction in force, or RIF as you call it down here.

If there were any snafus in the year-long buyout process, the most grievous seems to be that agencies and departments were slow to develop the organization plans required to move forward with their buyouts. Some departments also lost talented employees who will be impossible to replace.

Moreover, I know my Republican colleagues will point out that despite the requirement that one full-time slot be cut for each buyout granted, employment at several departments, Education, Energy, Justice and the Environmental Protection Agency, increased. However, the facts are this is the result of increased responsibilities added by Congress last year and the conversion of outside contracts to in-house workloads.

The point of today's hearing is to determine whether buyouts should be reauthorized and utilized in such situations as the proposed reshuffling of our Nation's foreign policy operations which includes plans to eliminate the Department of State.

I must say I think such a discussion is putting the cart before the horse. Moreover this whole exercise would be meaningless if my Republican colleagues succeed in their plans to wholesale eliminate departments left and right.

If that scenario comes true, and we are left with a shell of a government, the numbers of employees let go would make the costs of buyouts prohibitive, pink slips would, by necessity, be the order of the day. Federal employees and citizens alike would suffer.

Basically, I support the buyout concept and feel it has a role to play in government personnel policies. Still, I remain convinced our Nation would be better served in the long run by allowing departments and agencies to proceed with their reinventing government reviews. This would obviously lead to further reductions in the Federal workforce.

Simply put, I am not a fan of the "meat ax" approach and feel it should be avoided at all costs.

Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman.

We do value your experience, particularly in local and State government, and the expertise you bring to our panel. I'm a new chairman so I'm learning too, and, again, I don't have any preconceived notions.

I yield at this time to the gentleman from New Hampshire, Mr. Bass.

Mr. BASS. Thank you, Mr. Chairman.

I would like to thank you for calling this hearing. I think it is important. I think it is timely. At no time in the history of this country have we faced the potential for greater changes in the nature and the quality and the quantity, if you will, of the Federal workforce.

I will only echo some of the observations made by the distinguished chairman of this committee, as one who has cosponsored or will cosponsor legislation to eliminate three major cabinet departments of government. One of the major concerns that we will face not only with respect to meeting the consolidation, elimination, and decentralization goals that will be envisioned in this legislation will be the fate of the employees who currently work within the existing system as we move to make government more responsive and more flexible and smaller.

This is a time for imagination, this is a time for new ideas, and I think that the issue of buy-outs is certainly one of those ideas, but we certainly want to try to balance the need to downsize government as we have never done before with the need to be sensitive and concerned about the livelihoods and futures of the individuals who will be adversely affected by this process.

So I welcome this hearing, and I would like to welcome you here again, Mr. King, and I look forward to your testimony.

Thank you very much, Mr. Chairman.

Mr. MICA. I thank the gentleman, and now want to welcome the ranking member of our subcommittee. I'll give him a second to catch his breath, though he is never at a loss for words, at least in the 2 years I have known him.

Our distinguished ranking member from Virginia—if he has any opening statements or remarks. Welcome.

Mr. MORAN. Thank you, Mr. Chairman.

I do, but since there have already been three opening statements, I think rather than be duplicative, I'll wait until we hear from the witnesses and I'll submit my opening statement for the record.

Mr. MICA. Thank you, and we will accept that without objection.

[The prepared statement of Hon. James P. Moran follows:]

PREPARED STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman:

This is a very important hearing today. There is no question that the downsizing currently underway in the federal government is being accelerated and that many employees will further be affected as we close different federal agencies and departments. The 272,900 reduction goal, which the Administration is meeting and exceeding could raise by 50,000 or even 100,000.

There are different ways to cut your workforce. You can do it through attrition, and not hire new employees to replace retiring employees, or you can lay employees off. In the private sector, companies effectively use both and have the ability to pare its workforce through selective lay-offs.

But in the federal government, the only viable option in reducing the workforce is attrition. In the federal sector lay-offs or involuntary separations are performed through the Reductions-in-Force procedures which are expensive for the agency, frustrating for the employees, and difficult to properly manage. When we RIF employees, we lose the less senior employees who ultimately do not have the same protections and create a situation where more senior, more expensive and sometimes less effective personnel have the ability to bump down into lower jobs where they become overpaid and underworked.

But in the federal sector, voluntary separations can be an effective workforce management tool. If done right, the manager can encourage more senior and more expensive personnel to leave the civil service earlier than they had planned. The effective manager can then restructure the agency and streamline different functions. The key to success is the ability of the manager, the communication between management and the employees, and the existence of a comprehensive and effective restructuring plan. The Department of Defense offers an excellent example of how well this process can be carried out.

This hearing is important today because it gives us an opportunity to examine the successes and failure of the Federal Workforce Restructuring Act and determine what went right and what went wrong. It also gives us the opportunity, in light of the possibility of greater workforce reductions, to examine other possible ways to encourage voluntary separation.

In examining the Federal Workforce Restructuring Act, we must first look at what the bill tried to achieve and whether it met those goals.

- The legislation was designed to encourage voluntary separations. It did so. The most recent buyout data from OPM shows that 24,863 non-DOD employees separated with buyouts. When the Department of Defense is included, the number rises to 78,863.
- The legislation was designed to encourage employees to retire before they had originally planned. It did so. The average age of an employee retiring with a buyout was 59.9 years—2 years earlier than the average retirement age of 62. The average age of those retiring early was 54.1. The average age of those who resigned was 42.1.
- The buyouts were designed to reduce higher grade employees. It did so. The average grade of those retiring with a buyout was GS-11.6. The average grade of those retiring early was GS-11.1. The average grade of those resigning was GS-9.0. While these may be lower grades in the Washington DC area, they are managers and supervisors in other areas.
- The buyouts were designed to improve the diversity within the federal government. They did so. Minorities received only 24% of the buyouts while non-minorities received 75.8%.
- Finally, the buyouts were designed to lessen the cost of federal downsizing. They did so. While the buyouts did cost up to $25,000 for each employee retiring, they are certainly cheaper than RIFs which cost $36,000 per employee.

There have been some examples of agencies improperly using the buyouts and not having comprehensive workforce restructuring plans. But those were the exception rather than the rule. Most agencies properly followed the requirements of the Federal Workforce Restructuring Act and have used the buyouts to streamline their operations.

There were examples of some employees not retiring until they received the buyout. In these cases we paid an employee to do something he or she had already intended to do. But those were the exception rather than the rule. It is hard for us to know the many decisions an employee makes in considering when and whether he will retire. While the possibility of a buyout may have kept some employees on longer than normal, the recession probably had a much greater impact. Attrition is always lower when alternative jobs are not available.

In addition to examining the effectiveness of the Federal Workforce Restructuring Act, we should look to the future and examine ways to further encourage employees to voluntarily separate. This should include a discussion of future buyout authority, particularly for those agencies slated for elimination. One of the reasons the DOD has been so successful is that it has a continuing buyout authority. It does not need to separate a maximum number of workers in one fell swoop, but can effectively apply the authority to functions as appropriate. It makes no sense to offer buyout authority for one year to ease a downsizing effort that will take five years.

We should also examine other mechanisms to encourage voluntary separation, an alternative to lump sum cash payments. The goal is to examine how you can encourage people to get out of the civil service. Maybe we can look at ways to put into CSRS a permanent early retirement provision with an actuarial reduction or allow people to leave at age 55 with fewer than 30 years of service, maybe 55/25. This could be offered it to people for a limited period of time, made as part of the permanent retirement system, or available to agencies as they are downsizing. Part of the problem with CSRS is that it has golden handcuffs where you can't leave unless you have 30 years of service. For some people, you want them to leave.

Again, I welcome this discussion and this hearing. Thank you.

Mr. MICA. Again we appreciate your indulgence in hearing these opening comments from the Members but would like to welcome our first panel. We have James King, who is the Director of the Office of Personnel Management, and Leonard Klein, Associate Director.

Welcome to our panel.

As is customary, I need to swear you in, so if you wouldn't mind, stand and raise your right hand.

[Witnesses sworn.]

Mr. MICA. Thank you.

Let the record show that the witnesses answered in the affirmative. Welcome, Mr. King. It is good to have you back. I have read some of your comments, and you now have the floor. We would like to hear your observations on this important issue.

STATEMENT OF JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY LEONARD KLEIN, ASSOCIATE DIRECTOR FOR EMPLOYMENT

Mr. KING. Mr. Chairman, by the way, I was just wondering when I took the oath, I often wonder what happens when you deal with economists here and the conflicting numbers they bring to you. I do hope—well, excuse me, Mr. Chairman, it was just a thought flashed through my mind.

Mr. MICA. So far we haven't had any economists.

Mr. KING. Mr. Chairman and members of the subcommittee, I want to thank you for giving OPM an opportunity to comment on the Government-wide program of separation incentive payments or, as they are better known, buy-outs, which we played a key role in designing and implementing.

As you mentioned, Mr. Chairman, I'm accompanied this morning by Leonard Klein, our Associate Director for Employment, who worked closely with the buy-out program.

Mr. Chairman, during the 1980's, private industry really popularized the use of buy-outs as a way of achieving downsizing in a manner that was humane and conducive to employee morale and productivity. I don't believe anyone would argue that private employers offered buy-outs only for the benefit of their employees, they offered them because they also were good business, and that means there was a bottom line. The same has been true in Government.

In the fall of 1993, the Clinton administration's National Performance Review recommended that the Federal civilian nonpostal workforce be reduced by 252,000 full-time positions by 1999. Congress increased that figure to 272,900. With large scale downsizing ahead, the administration looked to buy-outs as a way to help to achieve downsizing in a manner that was orderly and cost effective and would minimize disruption in the workplace.

Throughout the fall and the winter of 1993 and 1994, OPM worked with OMB, the Congress, and other interested groups to develop the Federal Workforce Restructuring Act, which was passed by the Congress and signed by the President in late March 1994. As you know, the legislation expired on March 31 of this year.

In developing that legislation, we studied both the successes and failures of previous—and I would like to emphasize, both the successes and the failures of previous buy-out programs in the private sector and in State and local government. The legislation permitted agencies to offer buy-outs of up to $25,000 to employees who voluntarily separated through regular retirement, early retirement, or resignation. These buy-outs were not an entitlement available to all employees. The agencies had the authority to target them to specific jobs and locations, not to individuals; to use them, in short, to serve the Government's specific workforce needs.

An employee who accepted a buy-out could not, with only rare exceptions, return to Government service or accept a personal services contract within 5 years without first repaying the entire incentive, and, by the way, that is the entire incentive before all taxes have been taken out of it, so there was a really negative impact. And to ensure that buy-outs resulted in permanent personnel cuts, the legislation required a reduction on a Government-wide basis of one full-time equivalent position, or FTE, for each buy-out taken for all non-Defense agencies. As the legislation neared passage, time was clearly a factor since cost savings demanded its maximum usage early in the fiscal year.

Prior to the passage, OPM created a Workforce Restructuring Office that prepared the documents and guidelines that enabled agencies to move quickly to implement the program. Because of these efforts, the program began operations literally within hours after President Clinton signed the bill on March 30, 1994, and within 5 weeks buyouts had been paid to more than 11,000 employees. Our Workforce Restructuring Office, with a staff of about 10, continued to work aggressively to see that the program was implemented Government-wide in a manner that was fast, fair, and orderly.

OMB, the Office of Management and Budget—I always do that in reverse because they seem to be better known by their initials than their name—estimates that by the end of this fiscal year about 105,670 executive branch employees will have left Government service with buy-outs. That figure includes 68,837 Department of Defense employees and 36,835 non-Defense employees.

During fiscal years 1996/97 an estimated 6,200 non-Defense employees will take delayed buy-outs. These separations must take place before March 31, 1997.

Defense is projected to offer some 42,000 buy-outs between now and the end of fiscal year 1997, Mr. Chairman. Thus, by the end of fiscal year 1997, we estimate about 154,000 executive branch employees will have left the Government under these incentive programs.

Frankly, Mr. Chairman, we believe that OPM's efforts made possible an orderly buy-out program, one that avoided the confusion and additional expense that would have occurred if more than 40 participating agencies had attempted to develop programs of their own.

Now let me address the questions that you raised in your letter of May 3 inviting us to this hearing, Mr. Chairman. You asked for a description of the process for approving agency buy-out implementation plans to ensure that they conformed with the law and Title 5 requirements. The legislation authorized the head of each executive agency to establish buy-out programs and directed the Office of Management and Budget to ensure that they complied with the reductions spelled out in the law. OPM was directed to administer the program.

We met with officials of more than 50 agencies to discuss program strategies and regulatory requirements and to ensure that their plans conformed to the law and with Title 5 and then to provide them with the legal authority to offer early retirement with buy-outs.

You also asked for a description of training programs provided to agencies and employees on buy-outs. From the outset we recognized that for each individual involved, whether or not to accept a buy-out was an extremely significant decision to them personally. We therefore worked in many ways to provide information to Federal employees who faced this difficult decision. We brought agency personnel managers to OPM for briefings, we sponsored seminars open to all employees, and they were widely attended. We wrote and distributed brochures and fact sheets. Our officials gave newspaper and radio interviews and went on satellite TV to reach employees across this country. Agency officials and union representatives were included in this process. We published a buy-out newsletter that was widely circulated. We operated a telephone hotline, and we literally received thousands of calls on that hotline.

Mr. Chairman, you also asked us about procedures and safeguards we used to monitor the program. We published strict regulations to ensure that employees who returned to the Federal service within 5 years after receiving an incentive payment must repay the entire amount of the buy-out. These regulations address congressional concerns that the buy-out program might become a revolving door for Federal employees. That has not been the case. We have conducted spot checks via computer of OPM's central personnel file, and to date we have found no cases of abuse.

OPM has also consolidated its reporting requirements to enable agencies to report the use of buy-outs on the same format with early retirement and other data. Through these quarterly reports and occasional updates and close contact with the agencies we have tracked the buy-out system continuously, Mr. Chairman.

I realize that some might ask, why pay people to leave the Government? There is a solid dollars and cents case for buy-outs. By our projections, the typical buy-out is significantly less expensive than the typical RIF that is, reduction in force. Moreover, as we downsize we must seek to keep up the morale and productivity of workers who continue on the job and are expected to do more work than ever before.

RIF's can be more expensive than buy-outs because RIF's involve increased administrative costs, severance pay, the real possibility of appeals, litigation, and unemployment payments, and pay and grade retention for other employees affected. Buy-outs have clearly defined short-term costs, but they lead to much larger long-term savings from salary and benefits that will not be paid due to the FTE reductions.

It might also be asked, Mr. Chairman, whether buy-outs don't simply pay people for what they would have done anyway. Our experience indicates otherwise. From 1983 to 1991, the Government-wide attrition rate averaged 7.9 percent, but in fiscal year 1992 that figure had declined to 5.2 percent, and in fiscal year 1993, it was as low as 2.9 percent, Mr. Chairman. We attribute this decline in attrition to a sluggish economy. People feared they couldn't find a new career either in the public or the private sector.

When the Department of Defense began using its buy-out authority in 1993, the attrition rate in Government increased for the first time in 5 years. White-collar retirements almost doubled from 1.4 to 2.7 per 100 employees; blue-collar retirements did more than double from 2 to 5.5 per 100 employees. In short, the buy-outs were instrumental in jump starting departures from Government on a voluntary basis.

Mr. Chairman, your letter asked whether we thought the Federal Workforce Restructuring Act was an appropriate model to be used when agencies face substantial personnel reductions. Obviously, we feel that the buy-out program has been an effective tool. However, it was never anticipated that the program would be permanent. These incentives were seen as an instrument the Government could use for a specific period of time to achieve specific workplace goals.

We are not advocating a new Government-wide buy-out program. We are currently looking at a variety of programs to assist in the humane downsizing of agencies. If an agency's specific buy-out program is included, we believe it should be modeled on the 1994 Restructuring Act. It should be targeted, it should be budget neutral, it should be used to avoid RIF's, and it should include program controls including the requirement for an FTE reduction in each buyout. There should be Government-wide standards to avoid the confusion and inequity of different agencies offering different packages.

Should such a program be authorized, Mr. Chairman, I believe OPM, on the basis of our recent experience, can play a valuable role in its design and successful implementation.

What I'm saying, Mr. Chairman, in answer to your rhetorical question as the hearing started, we see the buyout program as a boon by any standard, Mr. Chairman, and we would be glad to respond to any of your questions or the questions of the committee, sir.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. Chairman and Members of the Subcommittee.

Thank you for giving OPM this opportunity to comment on the Government-wide program of separation incentive payments—or buyouts—which we played a key role in designing and implementing.

I am accompanied this morning by Leonard Klein, our Associate Director for Employment, who worked closely with the buyout program.

Mr. Chairman, during the 1980s, private industry popularized the use of buyouts as a way of achieving downsizing in a manner that was humane and conducive to employee morale and productivity.

I don't believe anyone would argue that private employers offered buyouts only for the benefit of their employees—they offered them because they were also good business.

The same has been true in government.

The first government buyout program was begun in 1991 for the benefit of members of the armed services who faced cutbacks at the Department of Defense.

Late in 1992, legislation was passed that made buyouts available to civilian employees of the Defense Department.

In the fall of 1993, the Clinton Administration's National Performance Review recommended that the Federal civilian non-postal workforce be reduced by 252,000 full-time positions by 1999.

Congress increased that figure to 272,900.

With large-scale downsizing ahead, the Administration looked to buyouts as a way to help achieve downsizing in a manner that was orderly and cost-effective and would minimize disruption in the workplace.

Throughout the winter of 1993-94, OPM worked with OMB, Congress, and other interested groups to develop the Federal Workforce Restructuring Act, which was passed by Congress and signed by the President late in March, 1994. As you know, the legislation expired on March 31 of this year.

In developing that legislation, we studied both the successes and failures of previous buyout programs in the private sector and in state and local government.

The legislation permitted agencies to offer buyouts of up to $25,000 to employees who voluntarily separated through regular retirement, early retirement, or resignation.

These buyouts were not an entitlement available to all employees. The agencies had the authority to target them to specific jobs and locations—to use them, in short, to serve the Government's specific workforce needs.

An employee who accepted a buyout could not, with rare exceptions, return to government service, or accept a personal services contract, within five years without first repaying the entire incentive.

And to ensure that buyouts resulted in permanent personnel cuts, the legislation required a reduction, on a Government-wide basis, of one full-time equivalent position (FTE) for each buyout taken for all non-defense agencies.

As the legislation neared passage, time was clearly a factor, since cost savings demanded its maximum usage early in the fiscal year. Prior to passage, OPM created a Workforce Restructuring Office that prepared the documents and guidelines that enabled agencies to move quickly to implement the program.

Because of these efforts, the program began operations literally within hours after President Clinton signed the bill on March 30, 1994. Within five weeks buyouts had been paid to more than 11,000 employees.

Our Workforce Restructuring Office, with a staff of about ten, continued to work aggressively to see that the program was implemented, Government-wide, in a manner that was fast, fair, and orderly.

OMB estimates that by the end of this fiscal year, about 105,670 Executive Branch employees will have left government service with buyouts. That figure includes 68,837 Department of Defense employees and 36,835 non-Defense employees.

During FY 1996-97, an estimated 6,200 non-Defense employees will take delayed buyouts; these separations must take place before March 31, 1997.

Defense is projected to offer some 42,000 buyouts between now and the end of Fiscal Year 1997.

Thus, by the end of FY 1997, we estimate that about 154,000 Executive Branch employees will have left government under these incentive programs.

Frankly, Mr. Chairman, I believe that OPM's efforts made possible an orderly buyout program, one that avoided the confusion and additional expense that would have occurred if more than forty participating agencies had attempted to develop programs on their own. It also avoided the disruption, hardships, and additional costs that RIFs would have produced.

Now let me address the specific questions you raised in your letter of May 3. You asked for a description of the process for approving agency buyout implementation plans to ensure that they conformed with the law and Title 5 requirements.

The legislation authorized the head of each Executive Agency to establish buyout programs and directed OMB to monitor the programs and ensure that they were in compliance with the mandatory reductions spelled out in the law.

OPM was directed to administer the program. We met with officials of more than fifty agencies to discuss program strategies and regulatory requirements and to ensure that their plans conformed to the law, and with Title 5, and to provide them with the legal authority to offer early retirement with buyouts.

You asked for a description of training programs provided to agencies or employees on the buyouts.

From the outset, we recognized that for each individual involved, whether or not to accept a buyout was an extremely significant decision. We therefore worked in many ways to provide information to Federal employees who faced this difficult decision.

We brought agency personnel managers to OPM for briefings. We sponsored seminars that were open to all employees and were widely attended. We wrote and distributed brochures and fact sheets. Our officials gave newspaper and radio interviews and went on satellite TV to reach employees, agency officials, and union representatives. We published a buyout newsletter that was widely circulated. We gave one-on-one assistance via a telephone hot-line that received thousands of calls.

Finally, Mr. Chairman, you asked about procedures and safeguards we used to monitor the program.

We published strict regulations to ensure that employees who returned to Federal service within five years of receiving an incentive payment must repay the entire amount of the buyout. These regulations addressed Congressional concerns that the buyout program might become a revolving door for Federal employees. That has not been the case. We have conducted spot checks via computer of OPM's Central Personnel File and to date have found no cases of abuse.

OPM also consolidated its reporting requirements to enable agencies to report the use of buyouts on the same format with early retirement and other data. Through these quarterly reports, occasional updates, and close contact with the agencies, we tracked the buyout program continuously—always in close contact with OMB, I might add.

Mr. Chairman, I realize that some might ask, "Why pay people to leave government?"

There is a solid, dollars-and-cents case for the buyouts. By our projections, the typical buyout is significantly less expensive than the typical RIF.

Moreover, as we downsize, we must seek to keep up the morale and productivity of workers who continue on the job and are expected to do more work than ever before.

RIFs can be more expensive than buyouts because RIFs involve increased administrative costs, severance pay, the possibility of appeals, litigation and unemployment payments, and pay and grade retention for other employees affected.

Buyouts have clearly-defined short-term costs, but they lead to much larger long-term savings from salary and benefits that will not be paid due to required FTE reductions

It might also be asked, Mr. Chairman, whether buyouts don't simply pay people to do what they would have done anyway.

Our experience indicates otherwise. From 1983 through 1991, government-wide attrition rates averaged 7.9%. But in Fiscal Year 1992, that figure had declined to 5.2% and in FY 1993 it was as low as 2.9%.

We attribute this decline in attrition to the sluggish economy. People were not leaving their jobs because they feared they couldn't find a new career in either the public or private sector.

When the Department of Defense began using its buyout authority in 1993, the attrition rate in government increased for the first time in five years.

White collar retirements almost doubled, from 1.4 to 2.7 per 100 employees.

Blue collar retirements did more than double, from 2 to 5.5 per 100 employees.

The buyouts were instrumental in jump-starting departures from government. Without them, agencies would have had to resort to expensive and disruptive layoffs to achieve significant downsizing.

Mr. Chairman, your letter asked whether we thought the Federal Workforce Restructuring Act was an appropriate model to be used when agencies face substantial personnel reductions.

Obviously, we feel that the buyout program has been an effective tool, has benefited both individual employees and the government itself, and in the long run will save the taxpayers significant amounts of money.

However, it was never anticipated that the buyouts would be permanent. They were seen as an instrument the government could use for a specific period of time to achieve specific workplace goals.

We are not advocating a new Government-wide buyout program. We are currently looking at a variety of programs to assist in the humane downsizing of agencies. If an agency-specific buyout program is included, we believe it should be modeled on the 1994 Restructuring Act. It should be targeted, it should be used to avoid RIFs, and it should include program controls, including the requirement for an FTE reduction for each buyout. There should be Government-wide standards to avoid the confusion and inequity of different agencies offering different packages.

Should such a program be authorized, I believe OPM, on the basis of our recent experience, can play a valuable role in its design and implementation.

We will be glad to take your questions.

Mr. MICA. Thank you, Mr. King, for your comprehensive opening remarks and response to our questions.

A couple of things. Most significantly, I think I picked up your comment that you do not recommend an agency-wide buy-out legislative authority. Is that correct?

Mr. KING. We are hesitant for a government-wide authority, but there may be situations in individual agencies that may be brought to your attention, Mr. Chairman, that are so unique that they should be dealt with. Once again, we do have a checklist that we think makes a great deal of sense, and that is that it be budget neutral, and the list that I suggested, and that it be for a limited time.

Mr. MICA. I think you had also gone on to recommend that we be agency specific so we tie the buy-outs into specific areas where we are doing downsizing or there are some dramatic cuts as proposed either by Congress or the administration. Is that correct?

Mr. KING. That is correct.

Mr. MICA. OK. That is an interesting point of view, and it is probably the path we are on right now, because we are getting requests already from the Department of State for some waivers and ability to conduct buy-outs. As we do that, you did say that you wanted some standards——

Mr. KING. Mr. Chairman——

Mr. MICA. OK.

Mr. KING. You mentioned the State Department. There is one thing that I didn't give in the list but I think is essential. The amount of the buy-out should be cost effective, but then there is a question of whether you move from being generous to being of a questionable business practice, and I think in some of these suggestions that come forward we may cross the line on that, and that is why we are speaking of having a standard that would be reasonable, that would be decent and adequate but, on the other hand, would be still responsive to the concerns everyone faces.

Mr. MICA. You would probably like to retain that authority to set some parameters, as OPM, as an oversight responsive agency.

Mr. KING. Well, I sometimes think, Mr. Chairman, when we draft legislation it is like a labor negotiation that uses position and bargaining. People come in with everything anyone has suggested because they don't want to say no in the preliminary stages. Rather than laying what their interests are on the table, they get into position types of things.

We would like to stay within the confines of where the interests lie for all of the parties so there can be true reconciliation and fairness, and that is really what we would be looking for, and we have guidelines that would help any organization that would be coming forward or the committee itself as they are looking at this, because we do have a model, I think, that reflects success and decency.

Mr. MICA. You have cited some instances where you, in fact, believe that this program to date has been a boon and some statistics to back it up. I'm kind of concerned that we also look for protections where it may have been a boondoggle. One of the things that concerns me is where you get this figure of close to 52 percent of the folks were just on the verge of retiring. Were we handing them cash on the way out?

Mr. KING. I would submit——

Mr. MICA. And, you know, I don't know these figures to be accurate.

Mr. KING. I think what people do, they see 52 percent were eligible. That does not mean they were going to leave.

Mr. MICA. Do you have a study of how many people, like what number of years is that?

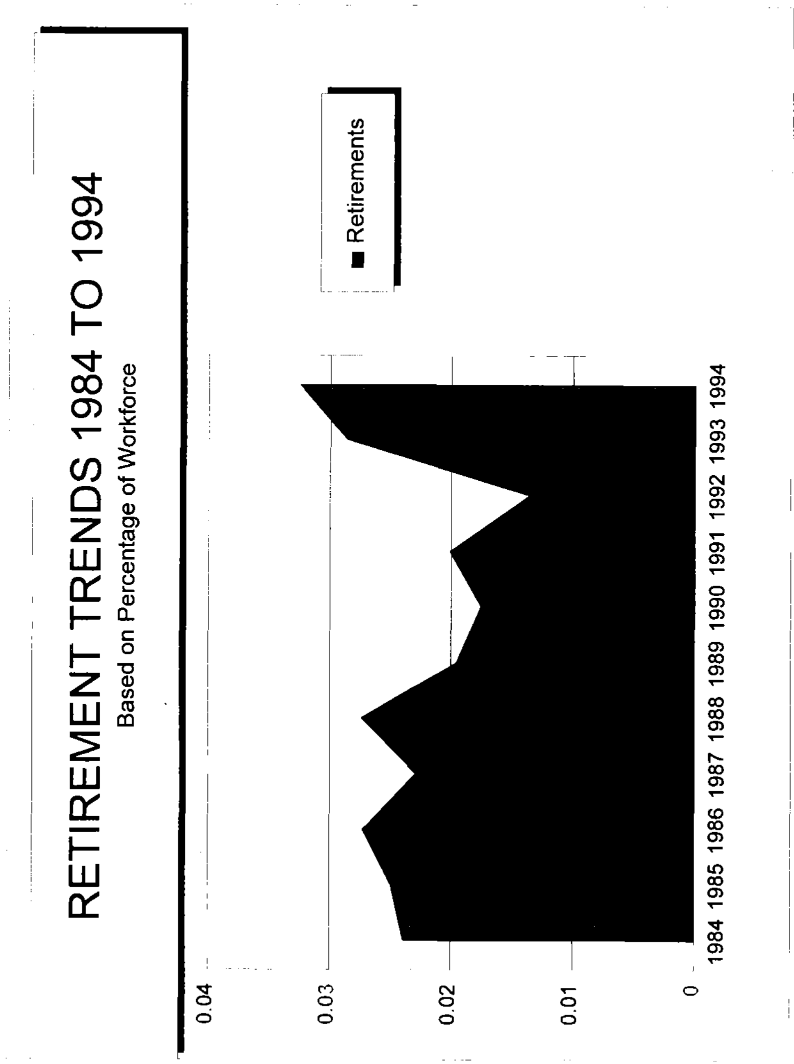
Mr. KING. What we have is what the reality was that we were facing.

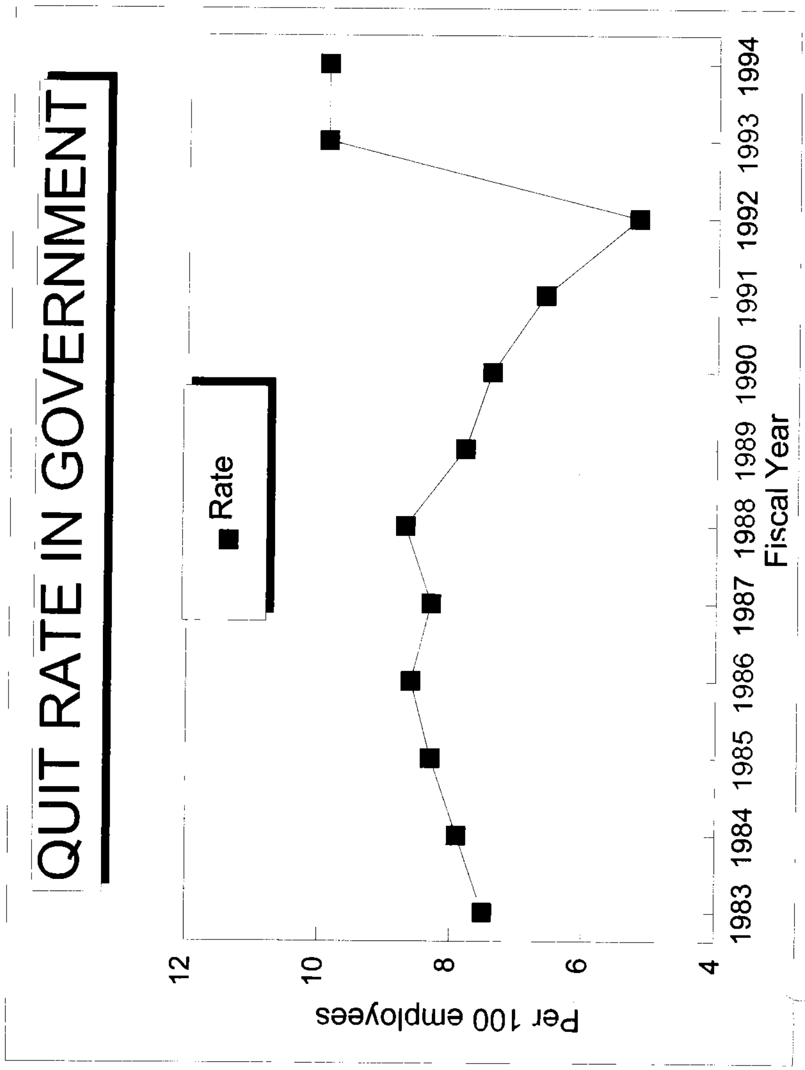
Do we have these charts?

What we had was a reality, and what you can see even at this distance—why don't I share them? This is unfair to the chairman to talk to something he can't see.

Thank you so much.

[The charts referred to follow:]


RETIREMENT TRENDS 1984 TO 1994
Based on Percentage of Workforce
Retirements
0.04
0.03
0.02
0.01
0
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994


QUIT RATE IN GOVERNMENT
Rate
Per 100 employees
12
10
8
6
4
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
Fiscal Year

Mr. KING. I think if you look at both of these—and I'll pause for a second.

Mr. MICA. Would there be any type of restrictions or do you see any additional legislation that needs to be adopted? For example, now they are coming at us with all these separate legislative authorities for buy-outs. Is there some protective language to avoid abuse or unnecessary use of the buy-outs that we should incorporate in that language, or do you have enough authority to see that this is prevented?

Mr. KING. Yes, as best we can. I think what we are back to is, how do you create an incentive for someone to do something voluntarily, and that is really what we are looking at.

What the charts reflect was that Federal employees were not voluntarily leaving the Federal service, period. Even though they were fully eligible and had their appropriate time in and everything else, they weren't leaving.

What I'm talking about is—let me give you a quick example. I had one unit that had always had a very high turnover. We basically train people for other people in the government. We averaged in that unit for a number of years almost 22 percent attrition. That attrition rate dropped into the 3 percent range in 1½ years and has stayed that way to date.

I'm just suggesting that what had been a very dynamic situation in employment and in the employment profile ceased to exist in the last few years, and what happened was, the action on buy-outs stimulated leaving Government on a voluntary basis, and I stress voluntary, Mr. Chairman, because, as you know, the cost implications of involuntary separations are very, very substantial in dollars and cents.

The disruption from RIF within the operating units is spectacular. It is totally disproportionate to anything that you would see in the private sector and in many cases even in other public sector areas, because of the ability to bump back and retreat, so that there are some enormous impacts in the organizations.

Mr. MICA. One last question, and I want to give everyone a chance here. When you buy these folks out, have you gone back to study to determine if the positions are being filled again, or are they eliminated? Is there any statistical evidence that those positions will no longer exist, or are we just spending a lot of money to train somebody, bring somebody new on, or fill the position?

Mr. KING. The first thing I think the thing that struck us, Len, when we were looking at it was that the people who left us were generally—who were very senior and they were at the highest—they were very substantially paid, and that if the job was—again, we are talking about the job though, not the individual. The job was looked at, basically redefined, and that was the reason why they were able to take this particular buy-out.

Am I correct, Len?

Mr. KLEIN. Right.

Mr. MICA. Has the position been eliminated, or is it just a reshuffling and you get somebody new in?

Mr. KLEIN. Actually an FTE was reduced for every buy-out. In fact, another 50,000 FTE were reduced during that period of time, so we are confident that they weren't just restaffing positions.

As an example, about 40 percent of the buy-outs were in overhead functions that we had determined—the administration had determined were targets for downsizing like personnel management, procurement, finance, those kinds of overhead functions. We know for a fact, for example, in our personnel community that the agencies are downsizing those staffs. For example, the Interior Department has reduced half of its staff in personnel. They had buyouts there. They are not refilling jobs. They are under great internal pressure, budget pressure, to reduce those staffs and reduce senior level jobs.

Mr. MICA. Thank you.

I've taken more than my time, and I'll yield to our ranking member, Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

I have a sense that a number of managers felt under the gun to reach the buy-out targets and in fact have been guided by that pressure rather than the desire to be able to implement the agency's mission most effectively, and so anyone who was willing to leave, seized the opportunity rather than the agency in determining the relative need of that person within the organization. In fact many of the people who have left because they knew they would have opportunities in the private sector, which generally indicates they were the more marketable and had the most to deliver to whatever organization they were part of.

I'm wondering whether you have been able to conduct exit interviews with the individuals and with their supervisors to get a sense of what is happening to the agency's mission and exactly why they left and whether in fact they were going to a higher paid job or whether they might be going into a contractual arrangement with the Federal Government for more money.

Mr. KING. Exit interviews are done by the agencies themselves.

Mr. MORAN. Do you compile the results though?

Mr. KING. Of who leaves or where——

Mr. MORAN. Well, is anybody then taking the exit interviews and making some sense out of them, deducing why people are levering and what kinds of trends——

Mr. KING. I would ask Mr. Klein——

Mr. KLEIN. There were several things we tried to do in this. Of course, one area for error is procedures, and we tried to take care of that by having briefings and discussions and so forth for all the agencies and the people running the buyout programs.

The other is the one you put your finger on, which is sort of a judgment problem, someone allowing someone to leave or pressuring someone to leave or treating someone perhaps unfairly during that process, or a manager having a question how he might proceed.

What we did there was, we set up a hotline in OPM. In fact, we received over 2,000 calls a week for a number of weeks from managers, agencies, and employees who had questions: Why am I not allowed to have a buy-out, or why I feel that perhaps this is unfair. We tried to handle those questions for the employee, talked to their managers, talked to their personnel people to resolve those issues before they became a problem.

We have checked with other agencies like the EEOC, the Merit Systems Protection Board, the special counsel of MSPB, to see if there have been complaints to them. We have no—we have zero complaints that yield complaints or appeals coming out of these. We think we have resolved those problems as we went through this process by constant talking and briefings, and we had the agency personnel people in our auditorium on three occasions all but fill up the auditorium briefing all day long, trying to see that everyone understands how to treat people, that we shouldn't identify individuals, that we ought to identify functions, that you ought not to let a function have a buy-out if they are required for the future.

For example, Mr. King would not permit buy-outs in his retirement operation because we needed all the people there to process these retirements, obviously. But decisions like that——

Mr. KING. Which made some people unhappy, I believe, Mr. Klein.

Mr. KLEIN. Yes, it certainly did.

Mr. MORAN. Yes.

Is it Mr. Klein?

Mr. KLEIN. Yes, sir.

Mr. MORAN. That's just the answer I thought I was going to receive, and it is not the answer I wanted to hear. I understand that you were making a special effort to keep everybody happy, to make sure that the process was fulfilled so that everybody is treated fairly and that any discomfiture is dealt with. That is not my concern, and I don't think it should be the overriding concern of this process.

The overriding concern of this process is whether we have the best people left in the Government to serve the American people in the most efficient and effective manner possible, and that really has very little to do with whether people are happy with the process, because you can have people more than happy if they are leaving the Government for a better job. They are taken care of, they are getting more money, the process was followed, the supervisor is happy because everybody is smiling and he can show that he crossed every "t" and dotted every "i" and so on, but what has happened is that the people who are dependent upon that particular Federal program and—I happen to think that there are some Federal programs that actually are important to this economy and this society and ought to be retained and that the American people's quality of life is dependent upon them. Those are the people that are going to suffer, because they are losing the best people, they are losing the most mobile people who have the most options on the outside, and I have a sense that that is not the concern, the concern is to meet the 272,900 and to do it in a way that everybody is happy, and that whether it be employee unions or whether it be the senior executive level—but that shouldn't be our principal concern.

Our principal concern is, are the people who are dependent on Federal programs going to be served in the best way possible, and, again, my observation I think is borne out that if this is your emphasis, then I think it is a misplaced emphasis and it really mitigates against keeping the very people who are the least expendable.

Mr. KING. Mr. Chairman, if I could, through the chair, I don't disagree with what the comment and the observation is.

I think first we should appreciate the fact that we have been through 100,000 personnel actions, and, as Mr. Klein suggested, there is basically—we haven't ended up with anything in special counsel, zero in EEOC, and zero in—what was the third area now?

Mr. KLEIN. In Merit Systems.

Mr. KING. Merit Systems Protection.

I understand—no, no; please, if you would, I'm just setting the platform so I can respond——

Mr. MORAN. OK.

Mr. KING [continuing]. I'll try to be responsive.

Mr. MORAN. Everybody is happy. I agree with that.

Mr. KING. No, no. This agency that I represent went through RIF's, substantial RIF's, and let me tell you what I heard at that time. I heard at that time that RIF's destroy diversity, RIF's take the best and the brightest and drive them from government, so what I'm suggesting is, what we are doing here is balancing on the job, not on the individual, identifying jobs that should be done differently and that those jobs can be redesigned and reconfigured and reengineered to meet the new needs of the agency and do it in a way that is totally humane and responsive.

Now, there may be managers out there—and I don't doubt this for a moment—who didn't take either the spirit or the law itself to heart or to mind and maybe acted somewhere in an imprudent fashion, but I honestly do believe that this method helps us to maintain the integrity.

The second thing is, though, I have extraordinary confidence in—we are not just talking about young people, we are talking about very experienced people who are waiting and are prepared to take over the leadership for the next generation of Federal employees. I have a great deal of confidence in our succession setups in virtually all of the organizations I've seen.

So I share your concern. I genuinely do hear what you are saying. We just haven't seen it manifest itself in this particular program.

Mr. KLEIN. I might add, there are a couple of reports that we might provide that might help here. Your concern is a good one. We have had the concern from a number of sources for a number of years, the last 4 or 5 years, that we are not recruiting the best people, that somehow the quality of the recruits today is not what it used to be and that there is a disparity between the more senior people and the more junior people.

We have had our psychologists do several large studies of scientific, clerical, and administrative professions to see if that in fact is true. We went back over 30 years and looked at numerous factors like their rank in class when they graduated and their grade point average, the number of patents they produced, the performance ratings by their supervisors, the number of books they might have written, et cetera, and the end result was, there was no difference, that the civil service today had the same quality quotients as it did 30 years ago.

It is just, I think, part of our perception, and I have that problem myself, that I somehow see the juniors coming in, they aren't quite as good as I was and my gang when I came in. They in fact are. They are very high quality people coming into the workforce, and their position in class is over 50 percent in the top 10 percent of their class.

We are recruiting excellent people, but the buy-out was obviously attractive to the older, more senior people. RIF's would have hit our junior people, and it was a balance for the future of where we thought the—assuming the quality was evenly distributed across our workforce—of where did we want to see that attrition happen.

Mr. MORAN. The time for my questioning has expired.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

I think you raise some very good questions, Mr. Moran, particularly the question of retaining quality in Government as far as our employee base, and we will get into that probably in additional questioning.

I'll yield now to the gentleman from Pennsylvania for questions.

Mr. MASCARA. Thank you very much, Mr. Chairman.

I share some of your concerns, Congressman Moran, as it relates to the quality drain on the employees of this Federal Government, and I read in your testimony, Mr. King, that within 5 weeks of the President signing the bill, that 11,000 employees left the Federal Government and they hope by the end of this fiscal year that 105,000 employees will have left. Do you have in place some system that will be able to measure the effect of these employees leaving the Federal Government? Is there some way to measure?

I mean, first of all, I think OPM would not have been able to measure anything if 11,000 employees left within 5 weeks of the President signing the bill. Do you have in place some mechanism that can measure the impact of the quality of the performance of these employees that are leaving?

Mr. KING. I think what we heard from Mr. Klein is that we have done the ongoing surveys. When we are talking about the numbers that left, the 11,000 in a short period of time, because it was midway through the fiscal year, it was the end of March when the legislation was passed and signed, and in order for buyouts to be budget neutral the action had to take place in a rather compressed time period, No. 1.

No. 2, though, the discussion in the Federal Times and among Federal employees relative to this piece of legislation had been going on for over a year. We had drafted the legislation where the people had actually drafted it. We had been talking to the agencies and their representatives and the IAG for months. The Federal Times had been carrying this regularly, the Post had, other groups that focus on Federal moves had covered it, and then of course its progress, which was extraordinarily thoughtful as it moved through the Congress itself, so this was very, very public to the community.

So when it did arrive, Mr. Mascara, when it was signed, there was no surprise to any of the folks in the Federal Government, least of all our senior people, who we said right from the beginning as it went through the fiscal year would be really the only place you could be budget neutral on a buy-out, because of their salaries. It had to be budget neutral at the agency level, not at the national level, it was at the agency level, so that there were people standing by, as it were, who had been going through the thought process.

I know in our agency we opened and closed the door for 2 weeks, and then we reopened it near the end of the fiscal year when we identified that we did have some additional moneys that might be available if we would do it in that fiscal year, and that would be a prudent way to use that money, in the downsizing effort.

So that we can get back to you, if you would like, to see what the effects have been and share them with you, because we do collect the data and we would be more than glad to share that with the committee and directly to you, sir.

Mr. KLEIN. In fact, the legislation requires OPM to report to Congress annually on December 31, and we intend to do that this year, try to pull some of that data together and take a look at it for you.

Mr. MASCARA. Sure. I'd like an opportunity to see that.

Mr. Moran was making a point, are we just downsizing because we want to downsize, or are we downsizing with the understanding that we do not want to have a negative impact on the Government itself, and we don't want to end up with a shell for a Government just to say we want to get the 270-some-thousand employees by the year 2000. It has to make some sense, is what I'm saying.

Mr. KING. Exactly.

Mr. Mascara, again on our own organization, we downsized our supervisory and our managerial staff by 40 percent. Those folks had retention rights and a number of other issues. I think when they took a look at what was happening within the agency and they had an opportunity, a number of them examined that. Others felt that they were going to live with where they were and do an excellent job, and they have.

What I'm saying is, we tried not to force individuals, what we did was to look at the jobs and positions and say how do they fit into the future, and that was the tone we tried to set across Government.

As I'm suggesting, somewhere someone may not have been in the spirit of that, but I would like to think just from what we have seen that the vast majority were and it was cost beneficial, and it was from the productivity point of view beneficial, and from the diversity aspects and keeping your seed corn, as it were, intact, it was spectacular. The numbers on that are very, very impressive.

If I could, with RIF's we lose 53—53.5 percent are female, and 43 percent are minorities. Under buy-outs we found almost 33 percent female, and 24 percent minority, so that the numbers vary substantially on who was affected in that particular arena too. So we were able to retain the face of America, as it were, in the context of Government and I think maintain the best and the brightest, and those of us who were in charge or responsible for succession planning, we had minimum effect on the overall things that we are supposed to do, and that is serve our customer.

Mr. MASCARA. I have another question as it relates to making that final decision on who should be offered a buy-out. First of all, I think it is your testimony, or somewhere I read, where OPM had been given the responsibility of handling this rather than having each particular agency do it themselves. My concern is what expertise does OPM have to make a decision on agency A who may have some unique duty? How do you decide who goes or who is offered a buy-out?

Mr. KING. Let me yield to Mr. Klein.

Mr. KLEIN. Sir, we did not try to make those kinds of decisions in each agency. We set up basic generic criteria on how this should work and briefed them over and over and met with them, had individual briefings with agencies. But each agency was responsible for its own plan. They developed a strategic plan on how their workforce should look in the future. That was approved by OMB in terms of how many people and what the structure should look like, but once that was done then OPM took over and we helped them implement that.

So you are right, the decisions have to be made on point.

Mr. KING. And you are right, by the way, you are right on target, and please, if you ever find us or anyone else drifting into the area of making the decisions outside of that, grab us; that is not the intention, and it is not the way to go. It should be a decentralized decisionmaking, but it should be within the structure of what is fair and what is equitable to everyone involved.

Mr. KLEIN. We certainly spent a lot of time on that within OPM, on how the structure ought to look, and each agency did the same thing.

Mr. MASCARA. Well, I support the overall concept, Mr. King. There are just some concerns that I know we have asked you to address.

Mr. KING. You are right on target, and we share the concern.

Mr. MASCARA. Thank you, Mr. King.

Thank you, Mr. Chairman.

Mr. MICA. Thank you, and I had a couple of quick points here. First of all, do you have an agency-by-agency breakdown of how the buy-outs occurred? I think Defense is forty-some-thousand?

Mr. KING. Yes, sir.

Mr. MICA. 47,000 more. Can you provide us with that?

Mr. KING. Absolutely, Mr. Chairman.

[The information referred to follows:]

NON-DEFENSE BUYOUTS BY AGENCY

[BUYOUTS PAID AS OF MARCH 7, 1995]

Agency	Amount
Interior Dep't	4,607
Agriculture Dep't	4,302
Transportation Dep't	3,230
General Services Admin	2,281
Veterans Affairs Dep't	1,618
NASA	1,177
Social Security Admin	1,164
HHS	1,163
Commerce Dep't	843
Energy Dep't	789
Justice Dep't	585
EPA	462
Education Dep't	367
OPM	282
Labor Dep't	274
HUD	260
Treasury Dep't	242
USIA	218

NON-DEFENSE BUYOUTS BY AGENCY—Continued

[BUYOUTS PAID AS OF MARCH 7, 1995]

Agency	Amount
Smithsonian	208
all other non-Defense	791
total non-Defense	24,863

Note: Data are for buyouts actually paid as of March 7, 1995. OPM estimates that by the end of Fiscal Year 1995, non-Defense buyouts will total 36,800, in addition to 68,800 buyouts in the Department of Defense.

Mr. MICA. Did you see any correlation between the agencies that are slated for some type of reorganization and the number of buy-outs, or was there no connection in those figures?

Mr. KLEIN. Yes, sir. Generally the agencies that knew they had a budget problem or were facing some major concern in the future were the major users of this plan.

Mr. MICA. Also, I don't know if you have been able to prepare an estimate of the total cost of buy-outs. I know the program is just ending and we have some obligations too that will be picked up. Do you have any figures you can provide us?

Mr. KING. We have some figures. I always, when I get to numbers, I yield to OMB, but our figures are probably a little more conservative than some that have been used. Our figures show that it is between 13 and 15 billion depending on——

Mr. KLEIN. Savings.

Mr. KING [continuing]. Savings, on a 5-year planning horizon. The costs——

Mr. MICA. Did you say savings?

Mr. KING. Yes, sir.

Mr. MICA. And what is the actual cost of the buy-outs?

Mr. KING. The costs were all front-end loaded, and we have that too.

Mr. KLEIN. Yes, sir, we have a breakout, and we can provide a copy of this.

The separation costs—that is, the buy-outs paid and so forth, were about 2 billion 400 million.

[The information referred to follows:]

COMPUTATION OF GOVERNMENTWIDE SAVINGS FROM BUYOUTS

	Amount
INITIAL SEPARATION COSTS:	
Number of buyouts paid	85000
Average buyout payment	24,000.00
TOTAL COST OF BUYOUT PAYMENTS	2,040,000,000.00
Average annual leave payment (per employee)	4,488.46
TOTAL ANNUAL LEAVE PAYMENTS	381,519,230.77
TOTAL INITIAL SEPARATION COSTS	2,421,519,230.77
ADDITIONAL COSTS OVER 5 YEARS:	
Average annuity (optional-estimated)	21,000.00
Average annuity (early-estimated)	12,000.00
Number of optional retirements	44965
Number of early retirements	33575
Annual annuity costs (optional)	944,265,000.00
Annual annuity costs (early)	402,900,000.00
5 YEAR COST OF ANNUITY PAYMENTS (optional)	4,721,325,000.00
5 YEAR COST OF ANNUITY PAYMENTS (early)	2,014,500,000.00
TOTAL ADDITIONAL COSTS (5 YEARS)	6,735,825,000.00

COMPUTATION OF GOVERNMENTWIDE SAVINGS FROM BUYOUTS—Continued

	Amount
ANNUAL SAVINGS WHEN POSITIONS ARE NOT REFILLED:	
Salary and benefits per employee	54,460.00
SALARY AND BENEFITS SAVINGS (all employees)	4,629,100,000.00
TOTAL SAVINGS OVER 5 YEARS:	
ANNUAL SALARY AND BENEFITS	23,145,500,000.00
Less all costs	9,157,344,230.77
NET SAVINGS OVER 5 YEARS AFTER ALL COSTS ARE DEDUCTED	13,988,155,769.23
MODEL IS BASED ON THE FOLLOWING ASSUMPTIONS:	
Total number of buyouts paid	85000
Average buyout amount	24,000.00
Average salary of buyout taker	38,900.00
Annual employee benefits average 40% of salary costs	
Total salary and benefit costs	54,460.00
Assumes maximum annual leave balance (in hours)	240
Reduction pressures on most agencies will keep hiring down.	
Since many managerial/supervisory jobs are being eliminated, similar positions will not be recreated.	
The number of positions eliminated over the next five years will equal at least the number of positions vacated by buyouts.	

Mr. MICA. Now is that non-Defense? Is that just the non-Defense figure?

Mr. KLEIN. This is for all buy-outs.

Mr. MICA. That includes the Defense?

Mr. KLEIN. Yes, sir.

Mr. MICA. The 2 billion figure?

Mr. KLEIN. Two billion four for the initial separation costs.

Mr. KING. We figured about a billion for non-Defense and then about a billion and four for—a billion five for Defense. Is that right?

Mr. KLEIN. That is probably within the target, about right.

Additional costs over 5 years, for example, we cranked in the costs of annuities, and when someone takes a buy-out you generally have to pay them an annuity, so we can't ignore that cost. That was 6.7 billion. The annual savings for the positions that aren't refilled because the law wisely says you lose an FTE for each buyout, was 4.6 billion. So the 5-year savings between now and the end of the century, 2000. The net savings is 13 billion, 988 million.

Mr. KING. Calculated on that basis.

Mr. KLEIN. Calculated on that basis, and those positions will not be filled because that target is for 5 years out, so there is no way we can go back and refill those jobs.

Mr. KING. That is why, Mr. Chairman, I use the 13 to 15 billion, because it could—the 13 would be the extreme conservative, the 15 would be the high side, and I think we fully loaded it. But this is an estimate, and we would yield to our colleagues at OMB to produce the Government-wide numbers for you.

Mr. MICA. OK.

Are there any legislative or regulatory changes that you would like to recommend to the subcommittee or to Congress to reduce the costs of buy-outs? Anything that you have seen that stands out, or anything if we look at adopting something, say, Government-wide or incorporated in the various legislation to authorize the buy-outs?

Mr. KING. I think one of the concerns, as you suggested in your opening statement, and we have looked at the numbers, is that when you talk buy-out in an agency you would be amazed what happens to attrition. There seems to be a relationship between talk of a buy-out and attrition; people don't leave, they will wait. So if you are going to do it, I think that you move very quickly. I think that there should be a time line, a very careful time line, and it should be done early in the fiscal year so you get optimum savings or budget neutral, and that was one of the difficulties that you experienced. I think you raised that on the 11,000.

Mr. MICA. So those two points, early and a short timeframe, would help.

Mr. KING. Yes, sir.

Mr. KLEIN. I would add too, ensure there would be a clause in the bill that required an FTE reduction, as this legislation did.

Mr. MICA. OK.

Mr. KLEIN. And that there be some repayment to the retirement fund so that we don't wind up——

Mr. MICA. That was my next question, is: What impact does it have on the retirement fund or are there obligations?

Mr. KING. That is where the agencies sometimes come in, and they talk about all sorts of incentives that have enormous economic implications but not to their budget. I think we are looking at this from a corporate perspective and saying, let's look at all the costs, if you would, to the corporation, the Government of the United States, and does it really make sense, and that is where some of the proposals that have been put forward look modest, may not look overly generous, but their impact is spectacular as far as the overall budget is concerned.

Mr. MICA. Two more questions. One: Have you identified any instances to date where employees have chosen to buy-out and then to pay back to come back to take other positions?

Mr. KING. You have had a couple of comments on that.

Mr. KLEIN. OPM must waive the repayment of the buy-out. We have had four requests since the buy-out legislation, and we have approved one.

Mr. MICA. OK.

Mr. KLEIN. Only the Forest Service when they were having those fire storms out west.

Mr. KING. That was the smoke jumpers last summer.

Mr. KLEIN. A few people came back for a short period of time.

Mr. MICA. I can see the headline now: OPM approves 25 percent of requests to buy back in.

Mr. KLEIN. One approval, and those were temporary—those were people who had experience in fire fighting, and they came back and helped out during that period.

Mr. MICA. Final question, as you know, some of these agencies are slated for almost total close down. Do you think we have an obligation to offer buy-outs in those programs, or are we carrying the program too far? I mean there are closedowns in the private sector. What is the experience in State and local government? Are they doing this when they have downsized?

Mr. KING. I think we have gone beyond them. We have had a lot of success because, again, there are costs that sometimes don't appear.

Let me use, for example, the cost of unemployment insurance, which goes up. There are a number of issues that come in here, you know, that aren't really built into the equation. I think it should be a multidimensional approach if you are talking about major downsizing. I think the Department of Defense understands this very clearly. I'm not sure that our other colleagues in Government who have had little, if any, experience on the downsizing of budgeting fully appreciate that, No. 1, the threat or the loss of your job is the equivalent to a death in the family and that the work that one does isn't just the simple kind of mechanistic thing that all too often we read about. If we are really going to be addressing the genuine concerns of our workers, there will be ongoing issues with the workforce that is left.

So not only is it the humane thing to do, it is the prudent thing to do from a business perspective, and that is to work with people on outplacement as we are doing and to understand the circumstances they are in and to work with them from beginning to end.

Our outplacement program in our agency—as I said, we have downsized 25 percent as of this morning, and we have outplaced over 90 percent of our people ourselves, and it is interesting to note that 60 percent of them, consistent with Mr. Moran's observation, went into the private sector. Others went into other governmental agencies at various levels, but 60 percent went into the private sector, and that was right across the board, and a number of these, because they were being RIFed, were our younger, less experienced people whom we were able to work with.

We worked with them in a constructive fashion, and we made the commitment to them, and, in turn, to us, that we were going to be successful in this work. So that there are a number of things that fit together. It isn't a single item, it is a question, as you know, Mr. Chairman, of using it and looking at it from a systems point of view and putting it forward and dealing with folks, though, as human beings, not just statistics.

Mr. MICA. Well, we appreciate your observations.

Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

How many people have actually been RIFed since we started the downsizing?

Mr. KING. About 15,000 would be the number across——

Mr. KLEIN. Both Defense and non-Defense.

Mr. MORAN. It has been said that the average cost of a RIF is $36,000.

Mr. KING. Correct.

Mr. MORAN. How do you derive that?

Mr. KING. Let me just—there is a little breakout here. The personnel processing cost is about $4,100. Their annual leave is about $4,000. The appeals cost, because usually you affect two other people on a RIF, so invariably they generate an enormous number of appeals. Unemployment is $1,700. By the way, the appeals cost is around $2,400 average. The pay and grade retention for the other people affected is about $16,800, and their severance pay is about $7,300 on average. So that we come up with a total of $36,300, and, again, as we have said before, Mr. Moran, these costs only reflect the dollar costs. The disruption internally to an organization going through a RIF is beyond anything on this sheet of paper or any of the statistics I can give you or budget numbers as far as negative goes, so that voluntary departure, whenever possible, is the way to go.

Mr. KLEIN. GAO, by the way, did a separate calculation on this several years ago, and we come up with the same kinds of conclusions.

Mr. MORAN. I understand that the system is set up so that it would only reflect bad judgment on a supervisor's part to try to get rid of anybody even if they were dumped on them from some other supervisor who had more influence. I have never seen anybody RIFed effectively in the Federal Government. But one of the ways of dealing with that is to change the Civil Service Code. Have you considered doing that, changing the bumping rights and the—all of the things that mitigate against the possibility of anyone actually being fired?

You see, what I'm getting at again is this quality issue. All of the people who have mobility are those who would be most likely to take buy-outs and least likely to stay in an agency that was going to get downsized or if they felt that the Federal Government was no longer an employer that would give you reason to be proud of your profession, et cetera, then they are going to take up and leave because they know they can probably get paid higher outside the Federal Government. But those people who have no other options, who in fact are employed by the Federal Government because it provides security and they know that they can—and that in fact is their goal, they know that they can never effectively be fired without it becoming a very punitive experience for the supervisor and the agency that tries to fire them, those are the people that are least likely to take buy-outs, and so you would wind up with a disproportionate number of those people.

Now I understand from your response that you have been able to keep everybody happy and follow the process and so on and you have had very few EEOC complaints, et cetera, but, again, that doesn't get at the concern—I'm talking a little while so you can organize your answer here—that doesn't get at my concern at all. In fact, it may underscore the concern.

So now I'm ready to ask you, what is in the civil service reform and the extent to which you enable managers to retain the highest quality employees and effectively remove the lowest quality employees?

Mr. KING. I think the RIF regulations by law, as you are suggesting, are mechanistic and they fall in that way, but there is a managerial input that almost no Federal manager wants to address. If I give you an "outstanding" rating, I also give you 20 years seniority; if I give you "fully successful," I give you 12 years seniority; and if I give you "exceeds fully successful," I give you 16 years seniority.

It is interesting to note—and, again, I will draw from my own organization—when we looked at this, the number of people who were wringing their hands saying, "But we are going to lose so-and-so, and so-and-so stays," and we went to the ratings sheets. I would turn and say, "But you rated them outstanding." So that the accountability goes into managerial ranks too.

So the mechanistic thing we talk about is on a seniority basis and it is mechanistic because you have built in the veterans preference, and the departure out of Government has a number of the same elements that bring you into Government, and it is a fairness that has been established within the context of our Federal service.

I think you will see some of that being addressed in the reform legislation that does come forward, and we are waiting, as you are, to see that legislation when it is brought forward. But I think at this time one of the concerns that I think is quite genuine in the Federal ranks is, are you going to change the rules at a critical moment and how will they affect "me". So that's part of it.

But I think there is no question, your point is very well made, but on the other hand there may be an interesting adjustment that could be made on the ratings system.

Also in other things we get asked about, we have approved a change in the rating system to a pass/fail. Well then you change that particular element, and then it goes purely to seniority.

Mr. KLEIN. I might add too, sir, that there is a proposal in the legislation that would help get at what your concern is, and that is that managers would be able to reduce the salaries of poor performers by 25 percent for a period of time to put some pressure on them, and that should have some good effect, we think.

Mr. MORAN. You know, I hate to tell you this, but my experience in working with the Federal Government was that those people who the manager knew were the most likely to challenge them if they got anything but an outstanding rating were likely to get the outstanding rating because it wasn't worth the effort to try to explain why they didn't. There is a different culture in the Federal Government. Now that may have changed since——

Mr. KING. If it has, it was this morning while I was away from the office.

Mr. MORAN. Right. OK. And that is clearly part of the problem that we are dealing with.

I think, personally, it is amazing that we have as high a quality civil service as we do. It is a testament to the people who do go into the workforce, and it is a testament to the quality of the management that we have. But your answer, Mr. King—and I'll say it because you know I have the highest respect for you, but your answer was something less than precise. I was looking for a yes or no.

Mr. KING. I don't think you will see in the reform legislation anything that directly affects RIF's as we know them today.

Mr. MORAN. OK. So we are not going to change the system. You are saying that makes it virtually prohibitive to fire anybody?

Mr. KING. Well, I think there will be some materials in there about identifying nonproducers. That is a separate issue, but on the RIF——

Mr. KLEIN. There is a separate system for performance issues.

Mr. MORAN. I understand that, but it is not fair for a supervisor to fire somebody when ultimately it means that you are going to wind up bumping somebody who could very well be doing an excellent job lower down the ladder. In that case you are going to wind up paying the person you are trying to get rid of even more money than what they deserve because they are going to be in an even less challenging job ultimately and they are not going to be out of the Federal Government, but somebody who may be performing very well is the one who is actually going to be penalized by your attempt to get rid of them.

Mr. KLEIN. You are right, and in fact that is why we believe that the buy-out approach is far more effective. We limited the number of RIF's to only 15,000 in 2 years, and there would have been far more people RIFed had we not had the buy-out program.

Mr. KING. But I do think what we are talking about is affecting the culture, and that was one of the things, that Reinvention was designed to start to attack the culture to say we do not have expanding resources, you can no longer layer managers in, and that is one of the difficulties that we see throughout. Now we are going to be making very tough choices, and if the tough choice is going to be keeping and rewarding competence and identifying competence and those who aren't fully competent or aren't at the standard that you have established to function in that unit, then you are going to have to make hard choices, and I think that is what we are talking about now in Government, harder choices in a climate where there are not expanding resources.

Mr. MORAN. I don't want to belabor this, but what is the hard choice?

Mr. KING. The hard choice, in the past it was, Mr. Klein promoted me, by the way, because I'm an excellent whatever I was working with him. So in order to, quote, keep me for a whole number of reasons, I may have been promoted, and I am promoted and he discovers that I'm not a very effective manager. In the happy days we had a phrase called layering. He found another person whom he promoted to a manager. They did the job I would be doing if I were fully competent for the task I was in.

Mr. MORAN. But you are saying the hard choice is not to promote somebody.

Mr. KING. No. The hard choice is to come to Jim King and say, "Jim, you are not cutting the mustard, you are getting a marginal performance. We are going to do the work plan with you, and here's what is expected, and if it is not done, then, Jim, you are going to have to fall back into this position. Here's what we are looking for"—and then work the process so that I'm working in an area where I am competent and we have people who have the ability needed for the job at hand, and that has been the unwillingness there has been up and down.

And, by the way, this is not uniquely Government. That was one of the things that I think IBM went through the pains of hell dealing with, and so did Sears, and so did Xerox. Every one of the places that reengineered and downsized were confronted with a number of those issues. So we are not unique. Anyone that suggests that somehow we have a higher level of incompetence or anything else in our workforce doesn't understand the labor force in America or in the world, and we have the best labor force in the world.

Mr. MORAN. I don't disagree with that, and I know it is not unique to Government.

Thank you, Mr. Chairman.

Mr. KING. Thank you.

Mr. MICA. I thank the gentleman and yield to Mr. Mascara.

Mr. MASCARA. I share your concerns about treating the employees fairly and the sensitivity that you've expressed, Mr. King.

My problem is, how do we attract on an ongoing basis? This Government is still going to need to recruit new employees, and if we don't treat them fairly how are we going to attract competent people to work for the Federal Government if they see that we are talking about downsizing, we are downsizing, we are contracting out, we are privatizing? Have you given any thought to recruitment in the future given the scenario that is developing here on Capitol Hill?

Mr. KING. Well, it just so happens that Mr. Klein's area of expertise and the program he manages is called employment, so——

Mr. MASCARA. It's called what, sir?

Mr. KING. Employment. So he does the work in that specific area.

Mr. KLEIN. Yes, sir, that is a big concern. We want to assure we continue to attract bright young people to Government and not present too negative a message to them so they don't wish to come. We have been trying to track that to see if our intake of quality people is being maintained.

Now the total numbers obviously are down. As you know, we are not recruiting the numbers of people we were 5 or 6 years ago when we were bringing in about 120,000 people a year into permanent jobs. The past year we hired about 35,000 people. So the numbers are way down. But we are tracking the quality of people coming in from the colleges, and it is very good. We are still getting the top rung kids. As I mentioned, over 50 percent are in the top 10 percent of their class. So I hope we can maintain that.

We have put a lot of effort into making sure that every college has information about our employment. We have computers now on the campuses and libraries, so they can find out where our jobs are and how to apply and so forth. We have formed a partnership with the College Placement Council to do that. So we are trying to maintain a positive image on the campus. But, as you state, we are concerned, and I'm sure you are, that we can continue that.

Mr. KING. I think our young people and others coming into Government still find it very exciting, very attractive, and very challenging, and there are still large numbers of people, very, very competent Americans who want to be part of this Government, and we are looking forward to receiving them.

Mr. MASCARA. If I'm a young man or woman deciding to make a career choice, and knowing what is going on currently in the downsizing effort in the Federal Government, and I want to make this career choice, I'm going say this might happen to me 20 years down the line, that somehow I don't feel sure about this choice that I'm making now, and I might go someplace else other than coming to the Federal Government. You say you are considering that and your recruiting efforts are going well?

Mr. KLEIN. Yes, and I think some of the structural changes that have been made in recent years—for example, the retirement system that now allows people to leave and take their retirement with them, rather than being the old golden handcuffs that, once you were in the previous retirement system, you had to stay or you got no benefits. Some of those things may help the new generation be more mobile.

Mr. MASCARA. Thank you.

Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. Our colleague, the gentlelady from Maryland, has just arrived and has expressed some keen interest in the subject of buy-outs. We want to give her an opportunity.

We have gone through several rounds awaiting your arrival—just teasing—but we have gone through several rounds, and we do want to extend to you the courtesy of making any remarks or any questions before we dismiss the panel.

Mrs. MORELLA. Thank you very much, Mr. Chairman.

I apologize for being late. It is because, as I mentioned to you yesterday, I was chairing a security briefing on the FAA and safety, but this is a hearing obviously that I care very much about and wish I could have been in two places, but I did have staff here. I appreciate, Chairman Mica, your having this hearing because I have been interested in how the buy-outs were working. I think your title is somewhat provocative in terms of buy-outs: boon or boondoggle.

Mr. KING. We have agreed that it is a boon.

Mrs. MORELLA. I'm sorry.

Mr. KING. We have agreed it is a boon, I think.

I'm sorry, I didn't mean to interrupt you. My apologies.

Mrs. MORELLA. OK. But I would like for my opening statement, which addresses some of the concerns of the committee, to be included in the record without mentioning it.

Mr. MICA. Without objection.

[The prepared statement of Hon. Constance Morella follows:]

PREPARED STATEMENT OF HON. CONSTANCE MORELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

I would like to thank Chairman Mica for calling this hearing of the Subcommittee on Civil Service to examine the effectiveness of Federal agencies' implementations of the buyout legislation. Although the Chairman's title for this hearing is a little on the sensational side [jokingly], I, too, wish to know if this has been a boon or boondoggle.

A little over a year ago, Congress approved H.R. 3345, which allowed the head of a non-Defense agency to authorize a payment of up to $25,000 to employees agreeing to voluntarily resign or retire.

Our goal in approving this legislation, which the President signed into law on March 30, 1994, was to give the heads of non-Defense agencies and their managers a tool to assist them in meeting the streamlining goals that were recommended by the National Performance Review.

In principle, this legislation paved the way for the strategic integration of mandated staff reductions and human resources planning—an integration that is virtually impossible with a reduction in force (RIF). The legislation, again, in principle, offered the agencies the flexibility of retaining a cadre of experienced workers, who are crucial to organizational effectiveness, while lessening the potential reduction of younger employees, who are crucial to the future effectiveness of agencies.

Now, we all know there are other options for reducing the number of employees on a voluntary basis, including hiring freezes, early retirement options and attrition.

However, OPM has said that the attrition rate in Government is at an all time low. And, many Federal employees, including those in my district, speak openly against accepting an early retirement option (without incentive) because of the two percent penalty.

Recently, we have heard that some Federal workers, who were eligible for a regular optional retirement or an early retirement option, did not retire because they were waiting to be bought out. I hope our panel members will address this phenomenon.

On the other hand, a RIF, although an effective way to reduce staff, has severe operational, economical and emotional consequences for agencies and their workers. OPM, updating figures from a General Accounting Office report, found that if an employee earning $36,000 in FY 94 retired early on December 31, 1993 and received a $25,000 severance incentive, the agency avoided net RIF costs of $8,300.

Now that we have more experience with buyouts, we need to revisit these figures and determine if they are still applicable. Today's witnesses should be able to address this and other cost/benefit issues.

As most people here could attest, the current RIF rules are no friend to an agency's succession plans, workforce planning strategies, or employee morale. Experts on organizational development suggests that it could take years before an agency recovered from a reduction in force.

I was a supporter of the buyout legislation. And, like my colleagues on this Subcommittee, I hope that this hearing will provide objective information on the effectiveness of the buyout initiative, particularly its integration with agency streamlining plans and other human resources strategies as well as its economic impact across Government.

The lessons learned today, including those we acquire from our friends from the private sector, may provide a strong framework and benchmark for reshaping the buyout initiative, especially if this body decides that new authorization is needed to help meet agency streamlining goals.

In addition, although not the major focus of this hearing, I hope some information is brought to light on transition and outplacement strategies that respond to organizational needs, while minimizing the trauma workers will experience if RIF-ed. I believe this is truly an important issue—one this subcommittee should perhaps hold hearings on in the near future—because there is a human side to downsizing. Again, I thank Chairman Mica for having this hearing, and I look forward to hearing from our witnesses.

Mrs. MORELLA. I am concerned about, as we do the downsizing, as we come up with Reinvention I, Reinvention II, the fact that in the budget resolution, even though there is nothing in concrete, there are possibilities of consolidations, eliminations. I am concerned about what is happening with these people who are making America run—again, that scientist at NIH that is isolating the colon cancer gene and the breast cancer gene, that is a Federal employee; that person in the FAA who is checking our security, that is a Federal employee. I know a lot of the questions have been posed and answered, and I may have a few more to submit to you in the record for your response, but there is one I could ask now, and that is, could you tell us what OPM's role is now in assisting agencies in integrating the buy-out plans with streamlining strategies, particularly since a number of streamlining plans were not accepted by OMB before the buy-outs were offered?

Mr. KING. Yes. First, I would like to apologize through the chair to the member. I was presumptuous, so please forgive me for my comment.

Mrs. MORELLA. Oh, Mr. King, please.

Mr. KING. And also to the chair.

Let me—I think on the streamlining, OMB and their management unit had been working with the agencies in relation to streamlining, and we have raised the personnel issues that affect streamlining, and since we are dealing in a people business we would speak to it from that view, and Mr. Klein, who is with me today, I would ask, would you respond?

Mr. KLEIN. I might offer, your point is well taken. If this round of buy-outs or even if buy-outs are over completely, we have been working with agencies, with OPM, to develop a plan on where we go from here.

One of our difficulties is, in terms of placing people who lose their jobs, there just aren't going to be enough Federal jobs for them. We need to look more at how we can place people in the private sector. At OPM we placed over 60 percent of our people in the private sector, not in other Federal jobs. We have linked up with other agencies, and we have prepared a report which we submitted to Chairman Mica just a few weeks ago on additional things we might do to help the transition of people who lose their jobs in the Federal service. There are 8 or 10 specific recommendations in that report that agencies agree with and things we could do. We might want to look at some of those if there is a need for additional legislation to help transition people into either other agencies or into the private sector.

So I would recommend that to you, and we can provide you a copy of that report.

Mr. KING. Right. The Interagency Task Force——

Mr. KLEIN. That is correct.

Mr. KING [continuing]. Has been the unit we have been using, which are the key personnel in every single agency in Government, and so that we have anticipated, as we did on the buy-outs—we have anticipated difficult times ahead and tried to deal directly with the agency professionals, so they are ready, so that they are giving advice to their senior managers within their organizations to prepare for the reality.

One of the things, as you know so well, is that people, when they are facing a very difficult human decision, go into denial, and one of the things you can do in denial, and it is done most often, is that you fail to plan, and by failing to plan you create crisis, and sometimes within organizations crisis is a way of perpetual management. So it is the alternative, if you will, to planning.

What we are trying to do is avoid that from the beginning, and to share with all the parties what is being done and what we know to be best practices both in the private sector and in the public sector, and we are trying to keep ourselves advised and current on that.

Mrs. MORELLA. The difficulty is that sometimes a crisis occurs to begin with and then one has got to try to adjust.

Are you talking about the report that is called "Improving Transition Assistance for Federal Employees Affected by Downsizing"?

Mr. KLEIN. Yes, ma'am.

Mr. KING. Yes.

Mrs. MORELLA. OK. And you have concluded that it wasn't feasible to establish a mandatory interagency program of placement, and the Department of Defense disagrees with you and——

Mr. KING. That is the mandatory placement.

Mr. KLEIN. Yes, yes. Let me describe what we have proposed instead of that, and which all the other agencies think will work well. We have had such a large turndown rate from people being referred by our central personnel referral system currently—over half the people who are offered jobs turn them down, or don't reply—we now have a Government-wide job information system. Every job is available in that electronic and telephone system.

What we are suggesting is, we allow people to apply for the job they wish to be considered for rather than one we might refer them to, and if they are well qualified for that job, they get the job. If they meet that agency's criteria for what they consider as competent for that job, they get the job. So it is a different approach to how we have a mandatory placement. It would be mandatory, but we would put more of the control in the hands of the employees rather than some central bureaucracy sending their name out to jobs that we think they might be interested in.

Mrs. MORELLA. And this information is being disseminated to employees and agencies so that there is kind of a leveling——

Mr. KLEIN. Yes, ma'am, through our personnel community.

Mr. KING. By the way, we also want the folks to know how to access that data, so that is part of the training. As you know, it is not just throwing them a fish, it is teaching them how to.

Mrs. MORELLA. OK. I don't want take up any more of your time and the committee's time, and I thank you very much for this courtesy, Chairman Mica.

Mr. MICA. We thank the gentlelady. And, Mr. King and Mr. Klein, we also thank you for your testimony and participation today.

We have some additional questions, both from the majority and the minority side, that will be submitted to you. Obviously, we have raised a number of questions that need further response, and will submit them to you.

Again, we thank you for your participation and your assistance, and we have enjoyed working with you on this and some of the other tough personnel problems that we face. We will excuse this panel, and call the second panel, if I may.

Mr. KING. Thank you, Mr. Chairman.

Mr. KLEIN. Thank you.

Mr. MICA. Mr. Tim Bowling of the General Accounting Office and Mr. Jim Blum, Deputy Director of the Congressional Budget Office.

Gentlemen, if you will come and just stand for a second, I'll swear you in.

[Witnesses sworn.]

Mr. MICA. Thank you.

Let the record reflect again that the witnesses answered in the affirmative, and, again, we thank you for joining us today. Mr. Bowling, from General Accounting Office, why don't we start out with you? Welcome, and the floor is yours for remarks.

STATEMENT OF TIM BOWLING, ASSOCIATE DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE; AND JIM BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. BOWLING. Thank you very much, Mr. Chairman.

With your permission, I would like to read a shortened version of my statement and submit the full text for the record.

Mr. MICA. We look forward to that.

Mr. BOWLING. Thank you.

I'm pleased to be here today to present our observations on the way Federal agencies have used the buy-out authority enacted under the Federal Workforce Restructuring Act of 1994. At your request, my statement will provide information on the results of the buy-outs, the management strategy used to implement the buy-out authority, the restructuring plans developed by those agencies that offered buy-outs while also being authorized staff increases, the effects on agencies of the workforce reductions, and restructuring initiatives at the Department of State.

Given that Federal downsizing efforts are still in process, our observations today should be considered preliminary. Although the Government-wide authority for non-Defense agencies to offer buy-outs expired on March 31, 1995, the full effects of some of these reductions will not be apparent for some time. Moreover, plans to reduce the size of the Federal workforce still further are under consideration, making it premature to draw any final conclusions. We will be preparing a comprehensive report on Federal downsizing for issuance to this subcommittee in the fall.

According to the latest OMB data, non-Defense agencies expect to pay roughly 36,800 buy-outs between March 1994 and the end of fiscal year 1995. The Department of Defense expects to pay 68,800 buy-outs by the end of fiscal year 1995. An additional 6,200 deferred buy-outs are expected in fiscal years 1996 and 1997.

Most of the demographic information that has been reported thus far on the buy-outs is for fiscal year 1994. As more comprehensive data become available, we will include it as part of the longer-term study that we are preparing for the subcommittee. Until then, the latest demographic information we were able to obtain from OPM includes the following facts.

As of March 7, 1995, 43 non-Defense agencies reported paying buy-outs in fiscal year 1994 and/or 1995. Of the fiscal year 1994 buy-outs paid by non-Defense agencies, roughly 38 percent went to employees in overhead positions such as general administration, personnel, budgeting, accounting, and supply; 69 percent went to mid- to upper-level employees; that is, in grades GS–11 up through the SES ranks. And, finally, in fiscal year 1994 males received 62.9 percent of the buy-outs while females received about 37 percent; minorities received roughly 24 percent of the buy-outs compared to about 76 percent for nonminorities.

Table 1 in our statement shows selected characteristics of three categories of employees who received buy-outs in fiscal year 1994: Those who were eligible for regular optional retirement, those who retired early, and those who resigned. In particular, I would like to draw your attention to the fact that the average age of those taking buy-outs who were eligible for retirement is 60, which is about 1 year less than usual. So it appears that some people are in fact taking retirements earlier than they otherwise would have.

There is also our August 1994 survey of 34 non-Defense agencies which showed that buy-outs nearly eliminated the need for RIF's at these agencies in fiscal year 1994. Of the 32 agencies responding to this item on our questionnaire, only two reported that they had RIFed employees in 1994. Nine agencies reported that were it not for the buy-outs, RIF's would have been necessary in that fiscal year. Twelve said that they would have needed RIF's in 1995.

The results of our February 1995 survey of 28 non-Defense agencies showed that 25 agencies were targeting their workforce reductions toward specific positions in fiscal year 1995. The most frequent targets, those identified by 14 or more of the agencies responding, included headquarters staff, supervisors and managers, employees in grades 14 and above, regional office staff, and employees in occupational series that included such fields as acquisition, personnel, accounting, and budgeting.

As part of our longer-term study for the subcommittee, we will examine Government-wide data to determine whether buy-outs were actually made in these targeted positions.

The strategy used to implement the buy-out authority was based on the goals of the NPR. These goals included a reduction in overhead staff by 50 percent and an increase in the supervisor to staff ratio from 1:7 to 1:15 by the end of this century.

So that agencies would accompany their downsizing of management reforms consistent with these objectives, the President directed each Federal agency to submit a streamlining plan to OMB. Through a series of detailed memos and bulletins, OMB provided the heads of executive agencies with information on how to prepare these streamlining plans. OMB officials said the quality of the plans played an important role in OMB's decisions to approve or disapprove of the buy-outs.

While the administration was initially disappointed with the quality of many of the streamlining plans, OMB officials told us that their quality has since improved. Since the data on agencies' use of the buy-outs is not yet available, it is really too early to tell conclusively whether the agencies are in fact following these plans when implementing the buy-out authority.

Most Federal agencies that offered buy-outs in fiscal years 1994 and 1995 are planning to reduce their staffing levels from the 1993 enacted base through fiscal year 1996. Nevertheless, data from OPM and the President's fiscal year 1996 budget show that four large agencies offered buyouts—Education, Energy, Justice and EPA—that were expecting to receive staffing increases through fiscal year 1996.

Staffing levels have increased in these agencies due generally to shifts or increases in agency missions as a result of new programs mandated either by the administration or by Congress. At Energy and EPA the increase is also the result of an effort to convert work performed by contractors to work performed by Federal employees.

Because agencies are continuing to downsize, it is too early to say conclusively how they are compensating for reduced staff or how their productivity has been affected. In our contacts with agencies, some reported maintaining or improving services by initiating reinvention efforts while others said that they were experiencing adverse effects. In considering these reported successes and shortcomings, it is important to note once again that our information is preliminary and we will be looking at it in greater detail in coming months. Moreover, this information was obtained primarily from headquarters officials, and a different picture may emerge as we contact line employees, union officials, and field staff as part of our longer-term effort.

Very briefly, several agencies we contacted told us they were using a variety of strategies to cope with the workforce reductions. These strategies included restructuring work, using automation more extensively, and redeploying staff. For example, headquarters officials from the Department of the Interior told us that the agency has reduced its personnel staff by about 860 positions or about one-half. To maintain personnel services, the human resource office has, "reinvented"—and that is their term—its missions so that its personnelists now act as consultants to agency managers while the managers themselves are being given the authority to develop position descriptions, advertise positions, rate and rank employees, and make hiring selections.

In reviewing the effects of the buy-outs, we were also told of instances how downsizing had adversely affected the agencies. Most of these appeared to result from agencies trying to do the same or more work with fewer people. For example, representatives of a regional office in the U.S. Fish and Wildlife Service described a number of adverse effects of downsizing at its various program offices. In the Federal Aid Program Office, officials noted that the office is now staffed with 12 FTE's, which is 5 FTE's fewer than they considered optimum for effectiveness and productivity. As a consequence, they say that the office now has a skeleton workforce that is unable to perform many auditing and monitoring functions. The officials were concerned that the staff reductions could result in misuse of Federal funds.

At other offices, FWS representatives noted that service to the public has declined significantly, reports and correspondence receive less review and are often delayed, and vendors receive payments more slowly.

Another concern that has been raised is the backfilling of positions vacated through buy-outs with contractor personnel. While it is still too early to tell the extent that this may be occurring, we did find such backfilling had already taken place at NASA's Lewis Research Center. The center reported that 18 of the 199 employees that received buy-outs in fiscal year 1994 returned to Lewis as employees of service contractors. All but one received the maximum buy-out allowance of $25,000, and 5 of the 18 returned within 1 week of leaving the agency.

NASA officials told us that there exists no legal or contractual authority for the center to interfere with the contractors' decisions to hire the former employees rather than other individuals with the same skills. Nevertheless, to avoid an appearance of impropriety the center director has recently stopped the practice of using contractors to fill positions vacated by civil servants.

Another potential problem we noted is the contracting out of work without adequate cost comparisons. Section 5(g) of the Workforce Restructuring Act prohibits an increase in the procurement of service contracts as a result of buy-outs unless a cost comparison shows that such contracts are to the financial advantage of the Government. The absence of cost comparisons makes it impossible to determine whether such outsourcing is in fact beneficial.

Today, we have found isolated instances of contracting activities that occurred without the benefit of cost comparison. In the case cited above, for example, officials from NASA's Lewis Research Center told us that cost comparisons were not necessary because the former employees were hired under task orders of an existing contract and thus section 5(g) of the Workforce Restructuring Act did not in fact apply.

You also asked us about the need for buy-outs at the Department of State. State officials reported to us that 736 buy-outs have been granted during fiscal years 1994 and 1995. Department officials also told us that 212 of the 736 represent delayed buy-outs with separations scheduled to occur through March of fiscal year 1997.

According to Department officials, the use of the buy-out authority has been very successful and will enable the Department to reduce the number of supervisors and managers by about 130 by the end of this fiscal year, a reduction of about 5 percent from the 1993 total.

Congress is considering legislation that would consolidate the State Department with the U.S. Arms Control and Disarmament Agency, the U.S. Information Agency, and the Agency for International Development. According to the Secretary of State, the proposed consolidation would eliminate duplicate international operation among these agencies and reduce the staffing levels by an additional 500 FTE's.

A provision of the proposed legislation would authorize these agencies to provide buy-outs to employees eligible for retirement with separation dates for buy-out takers generally running through January 30, 1997, or until the particular agency is abolished. Department officials told us they have not yet developed firm projections on possible reductions to State's workforce or the number of buy-outs that may be required to implement any consolidation plan.

In summary, the buy-out program authorized by the Workforce Restructuring Act has helped agencies meet their workforce reduction goals while reducing the need for costly and disruptive RIF's. While agency officials described both positive and negative impacts from the buy-outs, their full effect will not be apparent for some time. Since further cuts in the Federal workforce are anticipated as a result of the second phase of the administration's reinventing government initiative, among other things, adequate strategic and workforce planning will be essential if agencies with fewer employees are to maintain and even increase their productivity and performance levels.

This concludes my prepared statement. I would be pleased to answer any questions you would like at any time.

[The prepared statement of Mr. Bowling follows:]

PREPARED STATEMENT OF TIM BOWLING, ASSOCIATE DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

OBSERVATIONS ON AGENCIES' IMPLEMENTATION OF THE BUYOUT AUTHORITY

To help federal agencies in their downsizing efforts, a provision of the Federal Workforce Restructuring Act of 1994 (P.L. 103-226) allowed non-Defense executive branch agencies to pay buyouts of as much as $25,000 to employees if they met certain requirements. According to the latest Office of Management and Budget (OMB) data, non-Defense agencies expect to pay about 37,000 buyouts by the end of Fiscal Year 1995. Defense agencies, which are covered under a separate buyout authority enacted in January 1993, expect to pay about 69,000 buyouts by the end of Fiscal Year 1995. The buyouts generally helped agencies eliminate staff thereby reducing the need for involuntary reductions-in-force. Nearly 40 percent of the non-Defense buyouts were paid to those employees in overhead positions such as personnel, budget, procurement, and accounting. About 70 percent went to mid- to upper-level employees.

The strategy used to implement the buyout authority was based on the goals of the National Performance Review (NPR). To ensure that agencies' downsizing efforts were consistent with NPR's goals, the President directed federal agencies to submit streamlining plans to OMB. Each plan was to be assessed by OMB according to a checklist of critical factors. OMB said that the quality of the plans played an important role in OMB's decisions to approve or disapprove agencies' buyout requests.

Four major agencies that offered buyouts—Education, Justice, Energy, and the Environmental Protection Agency—were also authorized staff increases. Agency officials said that they used the buyout authority to reduce staff in areas where mission priorities had changed.

Agencies reported experiencing different effects from the workforce reductions. Some agencies said that they were dealing successfully with reduced staff by using automation more extensively and/or redeploying staff. Other agencies said they experienced adverse effects such as reduced service to the public, backlogged work, and lost expertise.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present our observations on the way federal agencies have used the buyout authority enacted under the Federal Workforce Restructuring Act of 1994 (P.L. 103-226). We have been monitoring federal downsizing efforts since the Act's inception; our statement today is the latest in a series of briefings and testimonies designed to keep Congress fully informed of the progress being made in reducing the size of the federal workforce.

At your request, our statement will provide information on:

—the results of the buyouts,

—the management strategy used to implement the buyout authority,

—the restructuring plans developed by those agencies that offered buyouts while also being authorized staff increases,

—the effects on agencies of the workforce reductions, and

—restructuring initiatives at the Department of State.

We obtained information on the results of the buyouts and the management strategy used to implement them by interviewing officials from the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM), and by reviewing the statistics and documents they provided. Data on individual agencies were obtained by interviewing agency budget and personnel officials and by examining budget documents and streamlining plans. We also used the results of surveys of major non-Defense agencies we performed in August 1994 and February 1995. According to OPM data, the agencies in our surveys made more than 95 percent of the nearly 15,100 buyouts reported by non-Defense agencies in Fiscal Year 1994.

Given that federal downsizing efforts are still in process, our observations today should be considered preliminary. Although the governmentwide authority for non-Defense agencies to offer buyouts expired on March 31, 1995, the full effects of these reductions will not be apparent for some time. Moreover, plans to reduce the size of the federal workforce still further are under consideration, making it premature to draw any final conclusions.

We will be preparing a comprehensive report on federal downsizing for issuance to the Subcommittee this fall. In the interim, we would like to highlight the successes and potential problems arising from agencies' use of the buyout authority so that any buyout legislation that might be proposed in the future can be evaluated in light of these experiences.

BACKGROUND ON THE BUYOUT PROGRAM

The Federal Workforce Restructuring Act of 1994 (P.L. 103-226) requires the federal government to reduce its workforce by 272,900 full-time equivalent (FTE) positions between 1993 and 1999. (NOTE: 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.) To accomplish this downsizing while minimizing reductions-in-force (RIFs), the Act allowed non-Defense executive branch agencies, with OMB approval, to pay buyouts to employees who agreed to resign, retire, or take voluntary early retirement by March 31, 1995, unless deferred by the head of the agency, but no later than March 31, 1997. The Department of Defense, although subject to the act's governmentwide FTE ceilings, has the authority to offer buyouts through September 30, 1999, under separate legislation enacted in January 1993.

RESULTS TO-DATE OF THE BUYOUTS

Demographic Data on the Buyouts

According to the latest OMB data, non-Defense agencies expect to pay 36,835 buyouts between March 1994 and the end of Fiscal Year 1995. The Department of Defense expects to pay 68,837 buyouts by the end of Fiscal Year 1995.

Most of the demographic information reported thus far on the buyouts is for Fiscal Year 1994. As more comprehensive data become available, we will include it as part of the longer-term study we will be preparing for the Subcommittee. Until then, the latest demographic information we were able to obtain from OPM includes the following facts:

—As of March 7, 1995, 43 non-Defense agencies reported paying buyouts in Fiscal Year 1994 and/or Fiscal Year 1995.

—Of the Fiscal Year 1994 buyouts paid by non-Defense agencies, 38.3 percent went to employees in overhead positions, such as general administration, personnel, budget, accounting, and supply; 69.4 percent went to mid- to upper-level employees (grades GS-11 to GS-15, SES, and blue collar supervisors).

—In Fiscal Year 1994, males received 62.9 percent of the buyouts, while females received 37.1 percent. Minorities received 23.7 percent of the buyouts, compared to 76.3 percent for non-minorities.

Table 1 shows selected characteristics of three categories of employees who received buyouts in Fiscal Year 1994—those who were eligible for regular optional retirement, those who retired early, and those who resigned.

TABLE 1.—Characteristics of Employees Who Received Buyouts in FY 1994

Characteristic	Eligible for optional regular retirement	Retired early	Resigned
Percentage of total buyouts	52.5%	39.5%	8.1%
Average age	59.9	54.1	41.6
Average grade level (GS)	11.6	11.1	9.0
Average amount of buyout payment	24,435	24,861	13,691

Source: OPM.

Agencies Reported That Buyouts Mitigated RIFs

The results of our August 1994 survey of 34 non-Defense agencies showed that buyouts nearly eliminated the need for RIFs at these agencies in Fiscal Year 1994. Of the 32 agencies responding to this item on our questionnaire, only 2 reported that they had RIFed employees in Fiscal Year 1994. Nine agencies reported that, were it not for the buyouts, RIFs would have been necessary in Fiscal Year 1994. Eight of the nine estimated that they would have RIFed a total of nearly 2,800 employees in Fiscal Year 1994 without the buyout authority. (One agency did not estimate the size of its potential RIF.) Moreover, according to 12 agencies, without the buyouts, they would probably have needed to RIF a total of over 8,000 workers in Fiscal Year 1995.

Buyouts Are Generally Less Costly Than RIFs

RIFs can be costly. When agencies RIF employees, they are required to make severance payments that can be as much as 1 year's salary at the level immediately prior to separation. For example, a full year's salary in severance pay could be received by a 50-year old employee making $50,000 with around 18 years of service. By contrast, buyout payments under the Workforce Restructuring Act for this or any other employee could not exceed $25,000. Moreover, OPM data show that buyouts can be more cost-effective than RIFs, especially when a higher-graded employee displaces a lower-graded employee—a common occurrence during a RIF.

RIFs can be costly in nonfinancial ways as well. The involuntary nature of RIFs, their widespread impact, and regulations that limit agencies' control over who is ultimately separated, can disrupt agency operations and affect employee morale. Buyouts, on the other hand, enable agencies to better manage their downsizing. For example, the results of our February 1995 survey of 28 non-Defense agencies showed that 25 agencies were targeting their workforce reductions toward specific positions in Fiscal Year 1995. The most frequent targets (those identified by 14 or more agencies) included headquarters staff, supervisors and managers, employees in grade levels 14 and above, regional office staff, and employees in occupational series that included such fields as acquisition, personnel, accounting, and budgeting. As part of our longer-term study for the Subcommittee, we will examine government-wide buyout data to determine whether buyouts were actually made in these targeted positions.

Further control over separations is provided by the Workforce Restructuring Act, which, as noted above, allows agencies to defer separating those employees whose services will be temporarily needed to ensure the performance of an agency's mission. These deferred buyouts must be taken no later than March 31, 1997. According to OMB data, over 6,200 additional non-Defense employees are expected to take deferred buyouts in Fiscal Years 1996 and 1997.

MANAGEMENT OF THE BUYOUT AUTHORITY

The strategy used to implement the buyout authority was based on the goals of the National Performance Review (NPR). These goals included a reduction in "overhead" staff by 50 percent (including supervisors, personnel specialists, budget specialists, acquisition specialists, and accountants and auditors) and an increase in the supervisor-to-staff ratio from 1:7 to 1:15 by the end of Fiscal Year 1999.

So that agencies would accompany their downsizing with management reforms consistent with the NPR's objectives, the President directed each federal agency to submit a streamlining plan to OMB. Through a series of detailed memos and bulletins, OMB provided the heads of executive agencies with information on how to prepare these streamlining plans. OMB officials said the quality of the plans played an important role in OMB's decisions to approve or disapprove agencies' buyout requests.

In September 1994, OMB issued internal guidance to its reviewers on how to evaluate agency streamlining plans. OMB instructed them to ensure that each streamlining plan made sense programmatically, met FTE guidance, and was based on sound analysis. Further, if an agency was not meeting one or more of the NPR goals, reviewers were to ensure that the agency justified its reason for not meeting these goals and explained what it was doing instead to streamline and improve program performance.

The guidance also contained a checklist of critical factors that were to be considered when reviewing the streamlining plans. Assessments of the streamlining plans for each major agency were to be included in passbacks to agencies and in the budget presentations to the President.

While the administration was initially disappointed with the quality of many of the streamlining plans, OMB officials told us that their quality has improved. Since final data on agencies' use of the buyouts are not yet available, it is too early to tell conclusively whether agencies are following their streamlining plans when implementing the buyout authority or whether targeted populations actually received buyouts.

FOUR AGENCIES THAT HAVE INCREASED IN SIZE USED THE BUYOUT AUTHORITY AS A RESTRUCTURING TOOL

Most federal agencies that offered buyouts in Fiscal Years 1994 and 1995 are planning to reduce their staffing levels from the 1993 enacted base through Fiscal Year 1996. Nevertheless, data from OPM and the President's Fiscal Year 1996 budget show that four large agencies that offered buyouts—the Departments of Education, Energy, Justice; and the Environmental Protection Agency (EPA)—were expected to receive staffing increases through Fiscal Year 1996. (See table 2.)

TABLE 2.—Planned FTE Additions and the Number of Buyouts Offered at Agencies Experiencing Staff Increases

Agency	FTE increases, FY 1993 base* through FY 1996	Number of buyouts granted during FY 1994 and FY 1995**
Education	Less than 50	812
Energy	200	3,000 (est.)
Justice	9,800	730

TABLE 2.—Planned FTE Additions and the Number of Buyouts Offered at Agencies Experiencing Staff Increases—Continued

Agency	FTE increases, FY 1993 base* through FY 1996	Number of buyouts granted during FY 1994 and FY 1995**
EPA	300	638

*According to OMB, the Fiscal Year 1993 enacted base is the FTE level estimated by the previous administration in its final budget. OMB uses this as the starting point for calculating FTE reductions under the Federal Workforce Restructuring Act.

**Includes deferred buyouts.

Source: OMB data and agency interviews.

Staffing levels have increased in these agencies due generally to shifts or increases in agency missions as a result of new programs mandated by the administration or Congress. At Energy and EPA, the increase is also the result of an effort to convert work performed by contractors to work performed by federal employees. The following summary, based on interviews with agency officials, our review of the President's Fiscal Year 1996 budget, agency streamlining plans, and other agency documents, describes the new mission priorities at the four agencies and the role that buyouts played in meeting them. (We did not verify the information provided by agencies.)

Department of Education

According to an agency official, the 100 additional FTEs expected between the Fiscal Year 1993 base and the Fiscal Year 1996 FTE estimate are to go to several new programs. Most of these FTEs will be used to support the Direct Student Loan Program.

The Education official said that the agency hoped to use the buyout authority to achieve a better staff skill mix and to reallocate resources within the agency. The buyouts also helped the agency reduce its upper-level grades (GS-14 through SES) by 10 percent. The official explained that Education did not target its buyouts to the overhead positions cited by NPR but noted that these positions will probably be reduced in later years. In general, those individuals who took buyouts were either replaced by lower-graded employees or not replaced at all. About 800 buyouts were approved by the agency.

Department of Energy

According to agency officials, the increase in FTEs is due in large part to the pilot project Energy has entered into under the Government Performance and Results Act to identify contractor work that can be performed more economically by in-house employees. Under an agreement with OMB, Energy has studied its contractor workforce and concluded that 1,600 contractor positions could be performed better by civil servants. The additional FTEs are in the program areas of Environmental Management and Environmental Safety and Health. Other FTE increases have been responses to increased mission responsibilities in its energy efficiency programs. Defense-related programs, particularly the nuclear energy programs, are being de-emphasized.

According to Energy officials, the goals of the buyout program were to mitigate the need for RIFs in those parts of the organization that were downsizing; increase the supervisor-to-employee ratio; cut the ranks of overhead positions; reduce the number of employees in grades 14 and above; and improve the skill balances in various skill programs.

Energy officials maintained that before the buyouts the supervisor-to-staff ratio was about 1:4.5 and that this ratio increased to 1:7 following the buyouts. About 40 percent of the buyouts went to supervisors. While Energy has achieved reductions in occupations targeted by NPR, agency officials said that they must maintain or even increase control in such areas as procurement and personnel, where new demands to manage the streamlining effort have created more extensive work for human resource managers.

According to agency officials, while final buyout figures are not yet available, about 1,000 buyouts had been granted as of March 31, 1995. These employees have already left the government. In addition, 2,000 more deferred buyouts have been granted. About 400 of these individuals are expected to leave the agency this fiscal year, with the remainder separating in Fiscal Years 1996 and 1997.

Earlier this month, Energy announced a major downsizing initiative intended to trim more than 3,700 jobs over the next 5 years, with half of the reductions taking place in the next 2 years. Agency officials expect more than 60 percent of the cuts to come from headquarters operations.

Department of Justice

Budget documents show that FTE increases were requested at the Department of Justice to support staffing needs in response to congressional initiatives. Over 75 percent of the FTE increases from Fiscal Year 1994 through Fiscal Year 1996 are devoted to programs in support of the Violent Crime Control and Law Enforcement Act of 1994, the Bureau of Prisons, and the Immigration and Naturalization Service. Included in the staff needs are the hiring of additional U.S. Marshal deputies and Drug Enforcement Administration agents; 1,700 new immigration agents, officers, and other staff to support the Border Control Strategy; and additional staff for two new federal prisons and the expansion of five existing prisons to handle the anticipated increase in inmate population.

Although Justice is experiencing a significant increase in mission responsibilities as a result of these congressional actions, agency officials told us that they elected to use the buyout authority to target reductions in supervisory and administrative positions. They explained that these reductions were possible as a result of Justice's reinvention and reengineering efforts. In addition, they noted that the use of buyouts helped Justice improve its diversity profile. Buyouts were not used for the direct mission support functions in divisions that are increasing, such as the Bureau of Prisons. Most buyouts have focused on administrative support functions and on supervisory levels.

Environmental Protection Agency

EPA has been criticized for its reliance on the contractor workforce to perform many functions. To correct this situation, the agency has embarked on a project to convert contractor FTEs to in-house FTEs. According to agency officials, about 900 contractor FTEs will be converted. This effort, the officials say, will strengthen research programs, eliminate contractor access to confidential business information, increase EPA control over Superfund cost recovery information, and enhance in-house capabilities in regulatory and policy development processes.

According to agency officials, additional staff were also requested to respond to increasing mission requirements, particularly in the environmental cleanup area. Increased emphasis on congressionally mandated requirements for the Clean Air Act and additional research on global climate change have necessitated additional staff.

According to EPA officials, the agency used the buyout authority to target its supervisors and managers as opposed to the specific occupations cited by NPR. Reducing their corps of personnel, budget, and acquisition experts, they said, did not make sense given the workload and expertise needed to redesign administrative processes and streamline the organization. They told us the present personnel officer-to-staff ratio is 1:100, while the goal recommended by OPM is 1:65. Further, according to these officials, similar reductions in acquisition specialists would not make sense when the agency is trying to improve its control over the contractor workforce.

In targeting the buyouts to supervisors and managers, however, EPA did not get the response it wanted. While EPA's plan was to use up to 80 percent of its total buyouts for managers and supervisors in order to flatten the organization and increase the supervisory span of control, in actuality, only 20 percent of the buyouts went to such individuals. EPA officials believe this occurred because the maximum amount of the buyout was insufficient to attract many applicants in the higher-level management positions, unless they were already contemplating retirement. Moreover, they said that EPA has a relatively young workforce. Nevertheless, agency officials noted that EPA was still able to use the results of its buyout program to flatten the agency in that it reassigned some of the remaining supervisors and managers to nonsupervisory slots vacated by the buyouts in critical line functional areas.

AGENCIES REPORT DIFFERENT IMPACTS FROM THE WORKFORCE REDUCTIONS

Because agencies are continuing to downsize, it is too early to say conclusively how they are compensating for reduced staff or how their productivity has been affected. In our contacts with agencies, some reported maintaining or improving services by initiating reinvention efforts, while others said they were experiencing adverse effects. Some examples of each situation are presented below. In considering these reported successes and shortcomings, it is important to note that our information is preliminary. Moreover, this information was obtained primarily from headquarters officials, and a different picture may emerge as we contact line employees, union officials, and field staff as part of our longer-term effort.

Some Agencies Said They Were Coping Successfully With Staff Reductions

Several agencies we contacted told us they were using a variety of strategies to cope with the workforce reductions. These strategies included restructuring work, using automation more extensively, and redeploying staff. For example, headquarters officials from the Department of the Interior told us that the agency has reduced its personnel staff by about 860 positions, or about one-half. To maintain personnel services, the human resource office has "reinvented" its mission so that the personnelists now act as consultants to agency managers, while the managers are being given the authority to develop position descriptions, advertise positions, rate and rank employees, and make hiring selections. Personnel specialists in this environment serve as advisors. We were also told that agency managers can draw upon a new computer database of position descriptions to help in creating the position descriptions they need.

With regard to other agencies, the Federal Aviation Administration said that it was replacing certain written certification tests with computer-assisted examinations, thus allowing field staff to be redeployed to other, more essential line activities. Likewise, as a result of automation, the Bureau of the Census said it was improving its procurement activities.

Some Agencies Have Reported Adverse Effects of Workforce Reductions

In reviewing the effects of the buyouts, we were told of several instances of how downsizing had adversely affected agencies. Most of these appeared to result from agencies trying to do the same or more work with fewer people.

For example, representatives of a regional office of the U.S. Fish and Wildlife Service (FWS) described a number of adverse effects of downsizing at its various program offices. In the Federal Aid Program office, officials noted that the office is now staffed at 12 FTEs, which is 5 FTEs fewer than they considered optimum for program effectiveness and productivity. As a consequence, they said that the office now has a skeleton workforce that is unable to perform many auditing and monitoring functions. The officials were concerned that the staff reductions could result in misuse of federal funds. At other offices, FWS representatives noted that service to the public has declined significantly, reports and correspondence receive less review and are often delayed, and vendors receive payments more slowly. Less quantifiable impacts reported include loss of expertise, lower morale, and the cascading of work onto other employees.

Another concern that has been raised is the backfilling of positions with contract personnel of positions vacated through buyouts. While it is still too early to tell the extent that this may be occurring, we found such backfilling had already taken place at NASA's Lewis Research Center. The Center reported that 18 of the 199 employees that received buyouts in Fiscal Year 1994 returned to Lewis as employees of service contractors. All but one received the maximum allowable buyout of $25,000, and 5 of the 18 returned within a week of leaving the agency. NASA officials told us that there exists no legal or contractual authority for the Center to interfere with the contractors' decisions to hire the former employees rather than other individuals with the same skills. Nevertheless, to avoid an appearance of impropriety, the Center director has recently stopped the practice of using contractors to fill positions vacated by civil servants.

While our review thus far suggests that the outsourcing of work previously done by civil servants is not a pervasive problem, we are concerned that this practice could become more widespread in the future, especially as agencies downsize in the face of steady or increasing workloads. In such situations, any savings realized from buyouts would be offset by contracting costs.

Another problem we noted is the contracting out of work without adequate cost comparisons. Section 5(g) of the Workforce Restructuring Act prohibits an increase in the procurement of service contracts as a result of buyouts, unless a cost comparison shows that such contracts are to the financial advantage of the government. The absence of cost comparisons makes it impossible to determine whether such outsourcing is beneficial. To date, we have found isolated instances of contracting activities that occurred without the benefit of cost comparisons. In the case cited above, for example, officials from NASA's Lewis Research Center told us that cost comparisons were not necessary because the former employees were hired under task orders of an existing contract, and thus section 5(g) of the Workforce Restructuring Act did not apply.

THE DEPARTMENT OF STATE'S USE OF BUYOUTS

State Department officials reported to us that 736 buyouts have been granted during Fiscal Years 1994 and 1995. About 72 percent of these have gone to civil service employees, with the remaining 28 percent going to Foreign Service employees. Department officials told us that 212 of the 736 represent delayed buyouts, with separations scheduled to occur through March of Fiscal Year 1997.

According to Department officials, the use of the buyout authority has been very successful and will enable the Department to reduce the number of supervisors and managers by about 130 by the end of Fiscal Year 1995, a reduction of about 5 percent from the Fiscal Year 1993 total. In addition, we were told that buyouts have been useful in reducing the number of personnelists at State by about 4 percent over the same period.

Congress is considering legislation that would consolidate the State Department with the United States Arms Control and Disarmament Agency, the United States Information Agency, and the Agency for International Development. According to the Secretary of State, the proposed consolidation would eliminate duplicate international operations among these agencies and reduce staffing levels by an additional 500 FTEs. A provision of the proposed legislation authorizes these agencies to provide buyouts to employees eligible for retirement, with separation dates for buyout takers generally running through January 30, 1997, or until the particular agency is abolished.

Department officials told us they have not yet developed firm projections on possible reductions to State's workforce or the number of buyouts that may be required to implement any consolidation plan.

OBSERVATIONS

The buyout program authorized by the Workforce Restructuring Act has helped agencies meet their workforce reduction goals while reducing the need for costly and disruptive RIFs. While agency officials described both positive and negative impacts from the buyouts, their full effect will not be apparent for some time. Since further cuts in the federal workforce are anticipated, adequate strategic and workforce planning will be essential if agencies with fewer employees are to maintain—and even increase—their productivity and performance levels.

This concludes my prepared statement. I would be pleased to answer any questions you or members of the Subcommittee may have.

FOLLOWUP QUESTIONS FROM HON. JOHN L. MICA AND ANSWERS FROM MR. BOWLING

COST OF BUYOUTS V. RIFS

1. The Office of Personnel Management has been reported as estimating the typical costs of separating one employee through a reduction-in-force as $36,300.

Personnel Processing $4,100; Appeals $2,400; Unemployment $1,700; Annual Leave Payment $4,000; Grade and Pay Retention (for others) $16,800; Severance Pay $7,300.

Are you aware of any legislative changes that might reduce those costs?

Would you recommend any regulatory changes that might reduce those costs?

The various costs listed above could be reduced through legislative or regulatory changes (e.g., changing how unemployment compensation is computed, limiting the amount of annual leave payment, revising grade and pay retention provisions). However, these are all policy issues, and they would have to be weighed against the impact such changes would have on employee morale, labor-management agreements, and the like. Our work in this area has been limited, and we do not currently have the data to analyze these tradeoffs and make specific recommendations.

2. Would you please provide a comparable breakdown of the costs and benefits associated with buyouts? The Subcommittee would like to be able to compare the five-year financial impact of both RIFs and buyouts.

While such an analysis will be essential in helping to formulate future downsizing policy, a valid study would require a more comprehensive analysis than we could provide here. Moreover, we would first want to meet with Subcommittee staff, Office of Personnel Management (OPM) officials, and possibly others, in order to obtain agreement on a set of assumptions and cost/savings categories necessary to do a precise study.

While we cannot provide specific numbers at this time, Table 1 compares the relative cost elements of RIFs versus buyouts.

TABLE 1.—A Comparison of the Cost Elements of RIFs and Buyouts

Cost Element	Observation
Personnel processing	Because of the staff time needed to create retention registers, RIFs probably have higher personnel costs.
Appeals	Since the results of RIFs are imposed on rather than chosen by individual employees, a larger number of appeals are likely, hence greater costs.
Unemployment	This cost applies only to RIFs.
Annual leave payment	This cost would be the same for both RIFs and buyouts for a given employee; however, since RIFs are more likely to affect lower-graded workers with less tenure, overall annual leave payments would probably be less for a RIF. Complicating matters is that an assumption would have to be made as to when employees would have otherwise separated were it not for a RIF or buyout.
Grade and pay retention (for others)	This cost applies only to RIFs.
Severance pay	This cost applies only to RIFs and can be as much as a full year's salary.
Separation incentive payment	This cost applies only to buyouts. However, because it is the lesser of an employee's severance pay or $25,000, this cost would be the same of less than the severance pay employees would receive in a RIF.
Payment to the retirement fund	This cost applies only to buyouts.
Lost productivity	Because of the final outcome of RIFs is generally unpredictable, whereas buyouts can provide agencies with greater control over separations, the cost of lost productivity due to skill imbalances, employee uncertainty, etc., would like by higher with a RIF.

3. Your testimony concluded that buyouts are less costly than RIFs both financially and nonfinancially. RIFs are seen to be unmanageable and disruptive to agency operations. However, RIF results are only as good as the regulations allow them to be. You testified that RIFs limit agencies' control over who is ultimately separated because of the regulations. Could reductions-in-force be managed differently if the guidelines were tailored to enable agencies to target their RIFs more consistently with management needs? That is, couldn't agencies resolve this problem through revised regulations?

The factors to be used in determining which employees are separated during a RIF are set forth in law. Under 5 U.S.C. 3502, it is OPM's responsibility to prescribe regulations governing RIFs which give due effect to the following four factors: (1) tenure of employment, (2) military preference, (3) length of service, and (4) efficiency or performance ratings. With the exception of certain specific requirements regarding the retention rights of certain veterans, the statute provides OPM some discretion in promulgating RIF regulations to determine how much weight should be accorded to each factor. However, while OPM does have authority to revise its RIF regulations to modify the relative importance of the stated factors, individual agencies generally do not have independent authority under current law to promulgate their own RIF regulations that could be tailored to meet the specific management needs of each agency.

4. RIFs are typically described as extremely disruptive to agency operations. How do buyouts affect agency operations? Are declines in retirement rates a necessary evil accompanying buyout programs? When employees resist separation to receive a cash payment, how does this hamper the program which aims to accelerate the retirement rate?

Buyouts give agencies much more potential control over their resultant workforce composition than do RIFs. As stated in our September 22, 1994, testimony, Federal Employment: The Results to Date of the Fiscal Year 1994 Buyouts at Non-Defense Agencies (GAO/T-GGD-94-214) buyouts should be accompanied by adequate strategic and workforce planning to meet NPR's reinvention goals. This is important as a means of avoiding the disruption of agency operations. Under the NPR, agency plans should include steps to reduce bureaucratic layers, flatten hierarchy, reduce headquarters staff, and pare down management control. Without adequate planning, buyouts may result in loss of institutional memory, reduced morale and productivity, increased workloads, and difficulty meeting the agency's mission.

OPM data on the use of buyouts indicates that little more than half the employees who received buyouts were eligible for regular optional retirement. Reports and rumors of impending buyouts may lead to delayed separations by retirement-eligible employees.

Once a buyout program is authorized, employees could be provided a limited period of time in which to accept the buyout offer, in order to reduce the tendency of retire-eligible employees to further defer their retirement decisions.

OPM data indicates that buyouts can increase retirements. According to OPM, about 5 percent of those eligible for early retirement would actually retire under an early out authority; adding the financial incentive of a buyout increases this percentage to about 25 percent.

5. Does the decrease in personnel officer-to-staff levels necessarily represent redesigned administrative processes? What exactly do these new supervisor-to-staff ratios mean? Have we merely renamed titles and kept staff performing the same function? Do the numbers truly relate to the NPR goals of eliminating layers of managerial and supervisory roles, or have we merely reshuffled them instead?

The decrease in personnel officer-to-staff levels does not necessarily represent redesigned administrative processes. As noted in our testimony, the Environmental Protection Agency (EPA) indicated that reducing personnelists, budget, and acquisition experts did not make sense given the workload and expertise needed to redesign administrative processes and streamline the organization. According to EPA, the agency's present personnel officer-to-staff ratio is 1:100, while the goal recommended by OPM is 1:65.

However, in our limited work to date, we have noted that agencies are generally accompanying these reductions with some types of reinvention efforts. In our May 17 testimony, we noted that the Department of the Interior accompanied its personnel staff reductions with "reinvention" efforts aimed at empowering managers with more decision-making authority in the personnel process and increased reliance on reengineering and automation of personnel processes. Related work we are doing has shown that the Department of the Army and the Internal Revenue Service are streamlining their personnel functions by consolidating personnel activities in regional centers. In addition, the Department of Health and Human Services has developed an automated system that allows employees to update their personnel files. The Department of Housing and Urban Development plans to achieve a 50 percent reduction of personnel specialists through automation and standardization. As part of our ongoing effort, we will continue to evaluate how agencies are meeting these NPR goals.

The NPR recommended increasing the average federal government supervisor-to-staff ratio from 1:7 to 1:15, the latter being the average at those private sector organizations analyzed by the NPR. The NPR sought to increase the federal ratio to make better use of employee talents, improve productivity, and remove a layer of oversight that was considered as not adding any value to customers.

While most of the agency streamlining plans we reviewed addressed the NPR objectives, some agencies have increased their supervisory span of control by converting some supervisors and managers to non-supervisory roles.

6. How susceptible are agencies to use the buyout authority to target employees beyond the NPR goals, such as targeting staff outside the higher-level management positions? Have streamlining plans branched out beyond those areas targeted by the NPR? If so, what criteria have governed the extensions?

The use of buyout authority to target employees beyond NPR goals varies by agency. There is no rule limiting buyouts to NPR-targeted employees; each agency determines what positions will be covered. In determining eligibility for buyouts, agencies are required to use objective, equitable criteria, such as geographical location, occupational groupings, or agency components.

In practice, the streamlining plans have gone beyond offering buyouts to NPR-targeted areas. For example, the Department of Housing and Urban Development and the General Services Administration (GSA) offered buyouts to almost all employees. The National Aeronautics and Space Administration targeted buyouts to headquarters and those field installations most affected by the space station redesign.

7. Because agencies are continuing to downsize, you state it is too early to say conclusively how they are compensating for reduced staff levels or how productivity has been affected. Yet you testified that the buyout program was successful in helping agencies meet their workforce reduction goals while reducing the need for RIFs. In light of this, what are your comments on authorizing buyouts for possible department consolidation in the future? What are the conditions under which future buyout programs could be successfully implemented?

Properly targeted buyouts should be based on strategic and workforce planning to determine organizational needs. The following are some factors that should be considered as significant to a successful buyout program:

—Buyouts should be authorized on an agency-by-agency basis rather than across the board.

—Strategic planning should precede the buyout program. For example, to help determine which programs/functions are essential to the agency's mission and which may be eliminated

—Agency heads should have discretion to approve or turn down buyout requests based on critical skill needs. While buyouts may be a humane method of downsizing, agencies have a responsibility to ensure that the essential staff members remain.

—Agencies should establish and maintain effective communications with employees regarding how the buyout program works.

—Agencies should assure that remaining staff obtain necessary retraining to assure effective and efficient operations in a downsized environment.

It would be reasonable to use buyouts as an alternative to RIFs in future department consolidations, assuming the above conditions are met.

Consistency With National Performance Review

1. The National Performance Review advocated a reduction in the supervisor-to-staff ratio from 1:7 to 1:15 by the end of Fiscal year 1999. In the agencies you examined what type of supervisor-to-staff ratio changes has occurred?

To ensure that agencies' downsizing efforts consisted of management reforms consistent with the NPR's reinvention goals, the President directed each federal agency to submit a streamlining plan to OMB. These plans were to include the steps being taken to reduce supervisor-to-staff ratios. Table 2 shows the ratio changes reported by agencies we examined.

TABLE 2.—Supervisor-to-Staff Ratio Changes at Selected Agencies

Agency	FY 1993*	FY 1996
Agriculture	1:8	1:10
Commerce	1:6.6	1:8.4
Justice	1:5.8	1:6.8
Interior	1:6	1:9
NASA	1:5.4	1:8
Archives	1:6.5	1:9.9
GSA	1:5.8	1:7.1
Internal Revenue Service	1:6	1:8

* Most agencies calculated their ratios using the 1993 enacted base as their starting point. According to OMB, this is the full-time equivalent (FTE) employment level estimated by the previous administration in its final budget, and would have been downsizing initiatives. The exceptions are the National Archives and GSA, which used actual 1993 employment levels. The Department of the Interior did not report whether it used the enacted base or actual employment levels.

Source: Agency streamlining plans.

2. Is focusing on reducing the supervisor-to-staff ratio an effective and efficient means to downsizing? Please include in your answer any specific experiences you might be aware of in private sector.

While we generally support increasing the supervisory span of control where appropriate, it should be done with consideration of the continuing need for oversight and accountability of employees.

Generally, reducing the supervisor-to-staff ratio in the process of downsizing enables agencies to flatten their hierarchies and reduce their payrolls. As stated in our answer to question 5, some agencies have increased their supervisory span of control by reclassifying supervisors and managers to non-supervisory duties. Such actions by themselves do not contribute to reduced FTE levels or better management.

During our review of downsizing strategies at 25 non-federal organizations, 1 company told us that its restructuring efforts focused on reducing supervisor-to-staff ratios. (See "Workforce Reductions: Downsizing Strategies Used in Selected Organizations" (GAO/GGS-95-54, Mar. 13, 1995).) However, while the company's efforts resulted in about 100 persons being demoted or reassigned, only about 17 managers were involuntarily separated.

3. In your testimony, you mention that each agency must provide OMB with a streamlining plan that made sense programmatically, met FTE guidance, and was based on sound analysis. Did you find that OMB established an effective, results oriented review of the agency submissions?

We did not examine the effectiveness of OMB's review of agency streamlining plans. However, OMB's criteria for reviewing agency streamlining plans appear to provide a framework for an effective review. Criteria addressed how the plan affected agency performance; the composition, skill-mix, and location of the workforce; span of control; organizational layers; NPR-targeted positions; the number of senior level employees; and streamlining actions. OMB officials said that while many of the streamlining plans did not initially meet these criteria, the quality of the plans improved following OMB's direction to revise them.

4. In your testimony, you examined how four agencies actually increased in size despite using buyouts as a restructuring tool in downsizing. Did you find that the policy objective and the program expansions in these agencies justified their inability to reduce their workforce despite extensive use of buyouts?

Four large agencies—the Departments of Education, Energy, and Justice, and EPA—are expected to receive staffing increases through Fiscal Year 1996. While staffing levels increased at these agencies largely as a result of new programs mandated by the administration or Congress, we did not analyze whether these programs justified the agencies' decision not to reduce their workforces.

5. In your testimony, you mention that the U.S. Fish and Wildlife Service (FWS) experienced a number of adverse effects due to downsizing. Did you determine how the FWS could have more effectively handled downsizing? Was the original restructuring plan they submitted to OMB rejected, or did it at least raise concerns that their plan might not be successful?

As noted in our testimony, these adverse effects occurred at a FWS regional office. We did not determine how FWS could have more effectively handled downsizing, nor do we know whether similar problems were experienced by other FWS offices.

The FWS streamlining plan was not submitted directly to OMB, but instead was submitted to the Department of the Interior (DOI) and incorporated into the Department's plan. According to FWS and DOI, OMB did not raise concerns that the FWS plan might cause problems.

6. Can you draw any conclusions that can be applied across-the-board as to why some agencies were successful in coping with downsizing and some experienced adverse effects?

Since our review of agency downsizing is in progress, it is too early to draw any broad conclusions about why some agencies have been more successful than others in coping with the effects of downsizing. However, as we have stated in the past, strategic and workforce planning are essential to reduce the likelihood of future goals and the work it will do. Workforce planning establishes the skills organizations will need in order to do that work and those skills that are no longer required. While agency streamlining plans typically included the steps being taken to flatten hierarchies, reduce headquarters staff, and pare management control structures, they were often less clear as to the kinds of skills agencies would need and how agencies would be able to carry out their missions with fewer employees.

Monitoring Continuing Growth

1. In certain agencies, we are continuing to see plans for growth even in the face of substantial staff reductions at other agencies. Is anyone, to your knowledge, reviewing the skills and qualifications of Federal employees who are being separated to compare their skills with these growing agencies? Would such a program be useful?

We are not aware of anyone who is specifically matching the skills of separated employees with the skills needed by growing agencies. However, OPM recently prepared a report which examined more effective means of transitioning RIFed workers to new jobs. The report found that the types of jobs being reduced in the federal government differ significantly from the new vacancies being filled. Of the top 15 occupations in which RIFs occurred, only 2—secretary and miscellaneous clerk/assistant—were among the top 15 occupations with the most new hires in fiscal year 1994. The report noted that many of the occupations common to agencies are also prime targets for future reductions (administrative, budget, personnel, and procurement, for example). This would likely make potential matchups even more unlikely in the future.

Whether such a program would be useful is problematic. OPM's automated Interagency Placement Program (IPP) essentially performs this function electronically for RIFed employees.

Introduced in December 1993, the program requires agencies to consider IPP registrants whenever they fill vacancies by competitive examination from outside the federal workforce. Despite wide publicity and registration information given to each RIFed employee, fewer than 25 percent of displaced employees register for the program. Although the system has received high marks for quick and efficient referral of candidates and the number of referrals and job offers is high, the program places relatively few workers. Registered candidates frequently decline job offers or do not respond to agency inquiries.

2. Is GAO aware of any agencies that have developed, monitored, or approved training programs to address the needs of the post-buyout organizations? Because our private sector witnesses both will testify that they believe such future oriented training is vital to the success of buyout programs, would GAO support systematic approaches to such training?

We have not examined agency post-buyout training; however, some agencies' streamlining plans state that they offer such training. For example, the Department of Energy reports that it has training over 150 employees to serve as customer advocates and change agents to improve processes and customer service across the agency. Likewise, the Internal Revenue Service's streamlining plan makes retraining a priority during reinvention because its workers will need a much broader knowledge base in their future jobs. Employees currently performing processing will be retrained for enforcement activities.

We agree with the views of the private sector witnesses (presented at the May 17 hearing) that future-oriented training is vital to the success of buyout programs. Staff redeployed from headquarters to field locations, reassigned to new jobs within their current location, or remaining where they are, will all likely need to enhance their skills to assure efficient and effective agency performance in a downsized environment.

3. We note from the Congressional Budget Office's testimony that retirement rates were unusually low immediately prior to the buyout authority. Are you monitoring the retirement rate systematically, to see if the expiration of the buyout authority on March 31 of this year results in a decline in the retirement rate? What trend would you expect in the near future, in the absence of buyout authority?

OPM is responsible for monitoring retirement subsequent to the expiration of the buyout authority, but data are not yet available. The retirement trend for the near future is difficult to forecast. Generally, if employees are convinced that there will be no future buyouts, over time the retirement trend can be expected to approach the historical rate. Proposed change to the retirement system that could lower potential retirees' benefits might also influence employees' decisions to retire sooner rather than later. Offsetting this, perhaps, is the fact that many employees who were nearing, or eligible for, retirement left during the buyout window, thus depleting the pool of potential retirees.

4. Have you identified any instances, to date, where employees who benefitted from buyouts have repaid the money in order to accept new positions in federal service? If so, how many? Does this appear likely to happen, given the penalty involved?

The Workforce Restructuring Act requires that those returning to federal employment or as employees under a personal services contract within 5 years after the date of separation repay the buyout to the government. According to an OPM representative, while the exact number is not known, a small number of non-Defense employees may have repaid their separation incentives and returned to Federal service. We believe that such occurrences will continue to be rare in the future, because employees have to repay the full amount of the buyout, including any taxes that may have been withheld, and federal jobs have become relatively scarce as a result of downsizing.

5. Has GAO surveyed any post-employment activities of persons who have taken the buyouts, and inquired how many have new jobs, are merely retired, or are working as consultants supporting the agencies that they left? Would that be a useful survey?

We have not surveyed employees to determine their post-buyout activities. While this information might be interesting, most post-employment activities have few, if any, policy implications for Congress.

The exception to this involves those employees who took buyouts and then went to work for federal contractors. Though not prohibited by the Federal Workforce Restructuring Act of 1994 (P.O. 103-226), the workforce reductions mandated by the Act would be negated to some extent if FTEs are merely being converted to private sector contract positions. Instead of surveying employees who accepted buyouts, we plan to contact individual agencies to determine whether such employees are now performing similar work for federal contractors.

A related issue is the number of new contracts awarded by agencies. Section (5g) of the Workforce Restructuring Act prohibits an increase in service contracts as a result of implementation of the buyout provisions of the Act, unless a cost comparison shows such contracts to be to the financial advantage of the government. We will examine agencies' compliance with this provision as part of our current assignment for the Subcommittee.

Future Buyout Authority

1. Legislation to consolidate the Department of State and several other agencies has been adopted by committees in both houses, with each bill containing buyout authority. Would your agency support such an extension of buyout authority?

If the Congress decides to enact buyout legislation, are there any qualifying factors that your organization believes should be included in such legislation? For example, would the Administration want a payback provision? How would the Administration want to treat the impact on the retirement systems of affected employees?

We would support the extension of buyout authority so long as:

—buyouts were extended to individual agencies on an as-needed—as opposed to governmentwide basis (unless a new administration or legislative proposal similar to the Federal Workforce Restructuring Act requires large, governmentwide reductions, in which case a governmentwide buyout program would probably be more efficient);

—employees would be involuntarily RIFed if buyouts were not offered to and accepted by a sufficient number of employees;

—buyouts were used as early as possible in the fiscal year to maximize payroll savings;

—the enactment of legislation authorizing buyouts and the buyout window itself occurred as close to one another as possible to prevent sharp declines in turnover rates as employees wait for a sweetener to leave;

—buyouts are adequately planned (e.g., targeted when necessary to specific occupations, grade levels, localities, etc.) To ensure that agencies have the proper skill mix necessary to carry out their missions after the buyouts were over; and

—the policies, procedures, and goals of any buyout programs have been adequately communicated to employees (i.e., to minimize the likelihood of complaints, appeals, and reduced morale).

If Congress decides to enact buyout legislation, we believe it should consider incorporating or adapting some of the language used in the Federal Workforce Restructuring Act to help ensure that future buyouts are financially advantageous (or at least budget neutral) to the government.

For example, Congress should consider language such as that contained in section 4 of the Act that helps pay for retirements resulting from the buyouts. Further, Congress should consider including language similar to sections 5(f) and 5(g) of the Workforce Restructuring Act. Section 5(f) ensures that positions are eliminated for each buyout that is accepted, while 5(g) prohibits any increase in the procurement of service contracts, as a result of workforce reductions under the Act, unless a cost comparison shows these to be beneficial to the government. Other provisions of the Act that should be considered include the requirement to repay the buyout if a person returns to federal service (even under a personal services contract) within 5 years of separating from the government, and the provision that calls for the tracking and reporting of relevant data on employees who take buyouts.

Quality of the Workforce

1. Our discussion during the hearing raised numerous questions about the quality of the workforce that would remain after restructuring. Please describe any methods and measures used by your agency to evaluate workforce quality. Have you assessed the impact of the Federal Workforce Restructuring Act in these terms?

We have not assessed the impact of the Federal Workforce Restructuring Act in terms of the quality of the workforce that remained after downsizing. However, in 1988, we issued a report that described how a study of workforce quality could be done. (See "Federal Workforce: A Framework for Studying Its Quality Over Time" (GAO/PEMD-88-27, Aug. 4, 1988). While workforce quality is important, consideration should also be given to measuring agency performance. If agencies are meeting or exceeding benchmark performance measures (such as those required by the Government Performance and Results Act), there may be a correlation between the two, we believe that agency performance—not employees' knowledge, skills, and abilities per se—is what matters most to taxpayers.

Mr. MICA. We thank you and will now ask Mr. Jim Blum, Congressional Budget Office, for his response.

Mr. BLUM. Thank you, Mr. Chairman and members of the subcommittee. I'm pleased to participate in your review today of the government's experience with voluntary separation incentives authorized by the Federal Workforce Restructuring Act of 1994.

With your permission, Mr. Chairman, I will briefly summarize the remarks in my prepared statement and ask that that be submitted for the record.

Mr. MICA. Without objection.

Mr. BLUM. In accord with your letter of invitation, Mr. Chairman, the prepared statement addresses three specific questions.

First, are separation incentives an effective way to reduce Federal employment? Second, what are the costs and savings of other methods by which government may reduce staff? And third, how will the separation incentives affect the financing of the retirement system?

Unlike Mr. Bowling and Mr. King before me, I really come without any new information. Essentially the answers to these questions would be based on a study that we did almost 2 years ago titled "Reducing the Size of the Federal Civilian Work Force." This study examined the costs, savings, and other consequences of separation incentives as well as the standard methods for reducing the size of employment, whether it be layoffs, early retirement, or hiring freezes. So our answers necessarily come from that study. And since I have testified previously before this subcommittee, or its predecessor, on the study, I won't go through that again.

Turning quickly to the questions, are separation incentives an effective way to reduce Federal employment? Our study suggested that they could be. Although costs could be higher in the first year than with some of the other methods, over time the savings of reduced employment on a permanent basis more than outweighs any possible near-term costs. Specifically, we estimated that the government saves anywhere from 2 to 5 times the near-term costs in the 5th year and 12 to 33 times by the 30th year, all on the assumption, however, that the workers who leave are not replaced later on.

The benefits of voluntary separation incentives have been attested to or described by Mr. King and Mr. Bowling. It is clear that the primary reason to use them is to avoid layoffs, which were considered to be very costly and very disruptive. All the experience seems to point in the direction that voluntary separation incentives are an effective way of avoiding the disruptive costs of layoffs and reducing the number of layoffs that are necessary when you are in a downsizing environment.

What are the costs and savings of other methods by which the government may reduce staff? The 1993 CBO study went into some detail on the issue, and essentially the bottom line was that the long-term savings from reducing employment are really quite enormous regardless of what the short-term costs may be. The short-term costs may vary from one method of separation to another.

This finding suggested to us that the costs of various approaches to cutting staff may not be of paramount concern to the Congress, that important weight really should be given to the non-cost-related consequences of the different strategies of reducing employment.

Last, we were asked to consider how the voluntary separation agreements that have been made affect the financing of the Federal retirement system? We have heard about the numbers of employees who have taken or will take incentives, something in excess of 100,000, including those from the Department of Defense. A fuller understanding of any long-term consequences of these separations, as Mr. Bowling suggested, will have to await the final reports on retirements under the incentive program. However, we do not anticipate any major consequences on retirement financing, for three reasons. First, using separation incentives will not change the total number of employees who retire; it just changes when they retire.

And those differences in timing are not likely to have a major effect on the long-term financing of the retirement system.

Second, for the 5,500 employees who took early retirement in fiscal year 1994, that is—about 5,500 employees who took early retirement, the agencies were required to deposit with the retirement fund an amount equal to 9 percent of their final salary. That payment covers the long-run costs to government of early retirement as estimated by the Office of Personnel Management. Finally, the Federal Workforce Restructuring Act required agencies to make four annual payments of $80 per employee covered under the two principal retirement programs for civilian employees. Those payments were made to the Retirement Trust Fund to offset the increased retirement costs in the short run, and it was this—these payments that actually made the cost over a 5-year period that was recorded on the pay-as-you-go scorecard essentially deficit neutral over that longer period of time.

We will be happy to work with the subcommittee on any future legislation that you may be considering along these lines. We can help you to work out exactly what the budgetary consequences would be in both the short term and the long term and avoid any difficult scoring outcomes on the pay-as-you-go system.

Thank you, Mr. Chairman. That concludes my remarks.

[The prepared statement of Mr. Blum follows:]

PREPARED STATEMENT OF JIM BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman and Members of the Subcommittee, I am pleased to participate in your review of the government's experience with the voluntary separation incentives authorized by the Federal Workforce Restructuring Act of 1994. Since the authority of civilian agencies to offer incentives under that act expired in March, pressure may mount to reinstate that authority as agencies face the prospect of further employment cuts.

In accord with the Chairman's letter of invitation, my testimony today will focus on three concerns:

- Are separation incentives an effective way to reduce federal employment?
- What are the costs and savings of the other methods by which the government may reduce staff?
- How will the separation incentives affect the financing of the retirement system?

My answers to these questions will be drawn largely from the 1993 Congressional Budget Office (CBO) study Reducing the Size of the Federal Civilian Work Force. The report examined the costs, savings, and other consequences of separation incentives and the various other methods the government can use to separate employees and reduce federal employment.

ARE SEPARATION INCENTIVES AN EFFECTIVE WAY TO REDUCE FEDERAL EMPLOYMENT?

Before enactment of the National Defense Authorization Act of Fiscal Year 1993 and the Federal Workforce Restructuring Act of 1994, the government relied on layoffs, hiring freezes, and early retirements to reduce employment In granting authority to use voluntary separation incentives, the Congress gave federal agencies a tool for reducing the workforce that state and local governments and many private firms have used. Under both acts, agencies have been able to pay a lump sum to encourage eligible employees to retire or resign. The amount of separation pay is the lesser of $25,000 per employee or the amount of severance pay for which the employee would qualify under involuntary separation.

Our 1993 analysis suggested that separation incentives can be an effective way to cut employment, but much depends on the objectives of the planned employment reductions and the way the incentives are implemented. In the short run, using separation incentives can be more expensive than the other approaches to cutting staff. In fact, costs can exceed savings in the first year. In the long run, however, reductions in pay and benefits will amount to many times the near-term costs as long as cuts in employment are permanent. Specifically, CBO estimates that the government saves two to five times the near-term cost by the fifth year and 12 to 33 times by the 30th year, provided that workers who leave are not replaced later on.

Separation incentives also offer certain advantages over other methods of reducing staff that may be worth the higher near-term costs.

Before discussing those advantages, however, let me tell you a little more about the near-term costs. In our 1993 analysis, CBO observed that separation incentives can be expensive in the short term because an organization may end up making many more payments than it has jobs to abolish. Organizations may choose to offer incentives broadly to ensure equity. The Postal Service, for example, offered incentives to all employees who were eligible for early or regular retirement. Based on that experience, the Federal Workforce Restructuring Act directed that total agency staff positions be reduced by the number of people who were given voluntary separation payments.

Even in agencies that try to target incentives, some payments may go to employees who were planning to leave voluntarily but delayed plans to separate in order to receive a cash payment. That phenomenon may help to explain both the drop in the retirement rates for civilian agencies in 1992 and 1993, when separation incentives were being considered, and the rise in retirements in 1994 after the Congress granted those agencies authority to offer cash separation incentives (see Table 1). A similar pattern occurred at the Department of Defense and the U.S. Postal Service just before and just after incentives were offered.

TABLE 1.—RECENT RETIREMENTS FROM FEDERAL CIVILIAN AGENCIES

[By calendar year]

	Average Annual Retirements Before Debate on Incentives*	Retirements			Average Annual Retirements, 1992-1994
		1992	1993	1994**	
Number (Thousands)	19.1	13.9	15.8	31.2	20.3
Rate (Percent)***	2.2	1.5	1.7	3.4	2.2

* Based on data for 1989 through 1991.
** Includes 5,500 early retirements.
*** Number of retirements per 100 employees.
SOURCE: Congressional Budget Office.

Data for the 1992-1994 period suggest that the government did not retire many more employees than it would have in the absence of an incentive program: many employees who retired might have left federal service anyway but delayed their retirement plans to qualify for a separation incentive. Of course, those data are preliminary and do not reflect experience in 1995. In addition, they cover many early retirements. The decision of some employees to delay their plans may have had more to do with the long period over which the government considered offering incentives than with any limitation inherent in incentive programs.

The benefits of voluntary separation incentives may justify near-term costs in several ways. Separation incentive programs, for example, help to avoid layoffs, especially if planned reductions are concentrated by occupation or area, as was the case with base closings at the Department of Defense. Separation incentives can also help with efforts to restructure a workforce. The National Performance Review has called for streamlining government and reducing administrative overhead. Consistent with those objectives, about 70 percent of the payments made in 1994 to General Schedule employees in civilian agencies went to those in the highest five grades, 11 through 15. In addition, the largest occupational group affected was general administration and support, alone accounting for almost 25 percent of all separation incentives paid. Finally, separation incentives are thought to bolster employee morale, which can be shaken by employment cuts.

THE COSTS, SAVINGS, AND OTHER CONSEQUENCES OF LAYOFFS, HIRING FREEZES, AND EARLY RETIREMENTS

We were asked to describe the costs and savings of the other methods the government uses to cut employment. Those methods—laying off employees, imposing a freeze on hiring, and increasing the number of employees who can retire early—do not involve the near-term net costs that separation incentives do and in fact offer first-year savings. Like separation incentives, those methods generate substantial savings over the long run, assuming the employment reductions are permanent. Each method also has advantages and disadvantages.

Laying Off Employees

Layoffs have low initial costs compared with other methods and offer the advantages of speed and directness. Most of the costs of layoffs cover payments to separated workers, the largest being for severance pay. Firing employees, however, is the approach most damaging to morale. Agencies also cite the disruption associated with layoffs that occurs because employees in jobs abolished during layoffs can replace one another, causing a ripple effect through the workforce.

Imposing a Hiring Freeze

Instead of laying off workers, an agency may choose to impose a freeze on hiring—that is, forgo replacing some or all of the employees who leave for retirement or for other reasons. The Department of Defense has relied primarily on that method in the substantial downsizing of its civilian workforce. Since the department has had the authority to provide separation incentives, about a third of the workers who have left have done so as a result of a separation incentive.

A hiring freeze avoids many of the negative consequences of layoffs. Among the major disadvantages of the approach, however, is that it is slow—agencies must wait for the desired number of people to leave voluntarily. In fact, the major cost associated with a freeze on hiring is the salary and benefits the government continues to pay as it waits for employees to leave federal service. Agencies may also have difficulty reaching their goal for employment reductions if turnover drops. Finally, agencies may have to transfer workers if those who leave are not in the jobs that are being abolished.

Offering Early Retirement

Another approach to cutting employment is to encourage early retirement. Like hiring freezes, this approach avoids the negative effects of layoffs and can have low near-term costs. The government's practice has been to allow employees faced with layoffs to retire with pensions at an earlier age and with fewer years of service than are normally required. Employees who have at least 20 years of service and are at least age 50 may take early retirement under the federal program, as may employees of any age who have at least 25 years of service. Under normal circumstances, in contrast, an employee covered by the Civil Service Retirement System cannot retire until at least age 55. Early-retirement pensions are reduced by 2 percent for each year an employee retires before the age of 55. Generally, the Office of Personnel Management has responsibility for granting agencies authority to use the early retirement option.

The government has rarely used the early-retirement option. But when it has, as many as one of every five employees who have been offered early retirement has taken the option. More recently, however, agencies have had some difficulty encouraging large numbers of employees to do so.

SEPARATION INCENTIVES AND THE RETIREMENT SYSTEM

We were also asked to consider the impacts of the Federal Workforce Restructuring Act on the financing of the federal retirement system. Based on preliminary data from the Office of Personnel Management, about 13,000 separation incentives offered in 1994 went to employees taking normal or early retirement.

A fuller understanding of any long-term consequences of those separations will have to await final reports on retirements under the incentive program. However, we do not anticipate any major consequences on retirement financing, for three reasons. First, using separation incentives will not change the total number of employees who retire, and the differences in the timing of retirements that do occur are likely to be small. Second, for the 5,500 employees who took early retirement, agencies were required to deposit with the retirement fund an amount equal to 9 percent of final salary. That payment covers the long-run cost to government of early retirement as estimated by the Office of Personnel Management. Finally, the Federal Workforce Restructuring Act required agencies to make four annual payments of $80 per employee to the retirement trust fund to offset increased retirement costs in the short run.

CONCLUSION

Our analysis suggests that separation incentives may be an effective way to reduce employment and limit layoffs. In addition, separation incentives can be targeted to specific kinds of jobs for purposes of restructuring a workforce. In the near term, such efforts will have costs that may exceed those of other methods of reducing federal employment since some payments will go to employees who would have left anyway. We do not know how often that occurred because the data are still being collected. Over the long term, however, savings from reduced employment levels should more than offset any short-term costs of separating workers.

FOLLOWUP QUESTIONS FROM HON. JOHN L. MICA AND ANSWERS FROM MR. BLUM

The Costs of Buyouts

Question 1: Can you estimate the savings resulting from the buyout program?

Answer: According to our estimates, savings from the buyout programs at the Department of Defense (DoD) and at civilian agencies could accumulate to $18.6 billion for the 1993-1997 period (see Table 1). That estimate assumes, based on data from DoD and testimony by the Office of Personnel Management (OPM), that 157,300 employees will leave the government with an incentive payment—114,300 from DoD and 43,000 from civilian agencies (see Table 2).

The Congressional Budget Office (CBO) derived its estimate of savings in the following manner. First, it used the projected number of buyouts described above to calculate the savings in pay and benefits the government achieves as a result of reductions in employment under the buyout program. Those savings will accumulate to $23.2 billion through 1997. That estimate assumes that without buyouts, agencies would not have reduced employment levels. It also assumes that the reductions the government makes in employment are permanent and that the jobs abolished are at the same level as those vacated by employees who take buyouts. Based on data from OPM, CBO assumed that the average 1994 salary of employees taking buyouts is $40,000 for employees at DoD and $50,000 for employees at civilian agencies.

Next, CBO deducted from the savings in pay and benefits the costs that arise under the buyout program. The cost of the incentive payments themselves, which CBO estimates as averaging about $24,000 per employee, will total $3.8 billion through 1997.

Most of the remaining cost covers the impact of the buyout program on pension payments over the next five years. A buyout program changes pension payments by prompting some employees to retire earlier than they would have otherwise. Those employees take a smaller pension but begin to collect it sooner. CBO's estimate of retirement costs is the difference, over a five-year period, between the pension payments the government makes under a buyout program and the payments it would have made without such a program. The estimate assumes that the initial pension for employees who retire with a buyout averages about $ 17,000.

TABLE 1.—SAVINGS AND COSTS UNDER THE BUYOUT PROGRAM, 1993-1997

[In billions of dollars]

	1993	1994	1995	1996	1997	Cumulative Five-Year Total
Savings in Pay and Benefits	0.8	2.4	4.7	6.8	8.4	23.2
Costs:						
Incentives Paid	0.7	0.9	1.1	0.6	0.5	3.8
Retirement	0.1	0.2	0.2	0.2	0.1	0.8
Net Savings	*	1.4	3.3	6.0	7.9	18.6

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management and the Department of Defense.
* Less than $50 million.

TABLE 2.—EMPLOYEE SEPARATIONS UNDER BUYOUT PROGRAMS, 1993-1997

[In thousands]

	1993	1994	1995	1996	1997	Total
Department of Defense	30.0	21.0	25.8	21.5	16.0	114.3
Civilian Agencies	n.a.	16.0	20.8	3 1	3.1	43.0
Total	30.0	37.0	46.6	24 6	19.1	157.3

SOURCE: Congressional Budget Office using data provided by the Department of Defense and the Office of Personnel Management.
NOTE: n.a. = not applicable.

Question 2a: The Office of Personnel Management has estimated that the typical costs of separating one employee through a reduction in force is $36,000. What is the $16,000 included in that total for grade and pay retention?

Answer: Agencies that have to lay off workers must follow a complex set of Procedures to determine who will actually leave government service. Those procedures represent the government's effort to give favorable consideration in layoff decisions to employees with career appointments, military service, long federal experience, and good job performance. As a result, employees in the positions that an agency decides to abolish under a reduction in force (RIF) may not always be the employees who leave government. That occurs because federal procedures allow employees who rank high according to the above criteria to replace others of lower rank and lower grade.

Employees taking a job at a lower grade may keep the grade and pay of their former position for two years. After that time, employees receive half of their annual pay adjustments until the pay of the new job catches up to their pay. The extra salary the government pays under rules that allow employees to retain their grade and pay is considered one of the costs of firing employees.

In our 1993 analysis Reducing the Size of the Federal Civilian Work Force, CBO estimated that the average cost of grade and pay retention is $6,500—much less than the $16,000 OPM suggested. CBO has little information about the assumptions on which OPM based its estimate. Such estimates are, however, very sensitive to assumptions about the number and grade of the employees affected and the number of grades an employee drops in order to replace another employee.

CBO's estimate assumes that an agency abolishes an average position and that the employees in that position drops two grade to replace another employee. CBO reduced its estimate to reflect the fact that many employees leave those lower-graded jobs and the grade and pay retention status associated with them.

Some employees quit government altogether, and agencies promote others to jobs more appropriate to their skills. Analysis by the General Accounting Office suggests that most employees in grade and pay retention status leave that status before two year's time. If an agency closes and no jobs remain for employees to bump each other out of, grade and pay retention rules do not apply.

Question 2b: Could RIF regulations be revised to reduce those costs, and would you recommend any statutory changes to reduce costs?

Answer: CBO does not take positions on changes in statutes. As I stated in my testimony, however, RIF regulations could be changed. On the one hand, those regulations, as described above, are costly and disruptive. On the other hand, they offer an agency the opportunity to ensure that layoffs mostly affect employees with less experience and poor performance records, among other considerations. In general, the complexity of the layoff procedures that the government chooses ought to reflect the priority it gives to protecting good performers and other groups of employees.

Question 3: Do you have a breakdown of the costs and savings of a buyout?

Answer: The previously mentioned 1993 CBO study contains detailed estimates of the costs and savings of different methods of separating federal employees. Those estimates show that offering separation incentives can be expensive compared with laying off employees (see Table 3). As we stated in our testimony, that occurs because agencies may need to offer more incentives than they have jobs to abolish through a layoff. Agencies may, for example, offer incentives broadly to ensure equity.

CBO's estimates represent full-year impacts that assume the government abolishes an average position. The estimates were generated using a DoD computer model developed before the implementation of a buyout program in civilian agencies. We have not updated those figures but believe that they still give a fair approximation of the relative cost-effectiveness of the two different approaches to separating employees.

Oversight

Question 1. We note from your testimony that retirement rates were low just prior to the enactment of buyout authority. Are you monitoring retirement rates, and what trend do you expect for the near future in the absence of buyout authority?

Answer. The pattern that we observed is that retirements dropped in the two years before enactment of buyout authority and then rose. That pattern suggests that at least some employees simply delayed retirement in order to obtain a separation incentive payment.

We receive regular reports on retirements and other employee separations from the Office of Personnel Management and will be examining those reports to see what pattern emerges for the period after March of this year, when buyout authority expired for civilian agencies. We have no way of anticipating what that data will show at this point.

TABLE 3.—FIVE-YEAR COSTS AND SAVINGS FOR SEPARATING FEDERAL EMPLOYEES BY DIFFERENT METHODS

[In thousands of dollars per employee]

	Layoff	Incentive to		
		Retire Early	Retire	Resign
Savings	202.6	202.6	202.6	202.6
Costs	19.6	120.0	91.5	43.0
Net Savings	183.0	82.6	111.2	159.6

SOURCE: Congressional Budget Office, Reducing the Size of the Federal Civilian Work Force (December 1993), pp. 19 and 24.

Future Buyout Authority

Question 1a. Legislation to consolidate the Department of State and several other agencies has been adopted by committees in both houses, with each bill containing buyout authority. Would your organization support such buyout authority?

Answer. Our analysis suggests that buyouts can help avoid layoffs, especially in cases where agencies or functions are consolidated, as is the case at the State Department. They can also help target reductions in employment toward the top levels of an organization. The government gains those benefits, however, at some cost. Our cost estimate for legislation consolidating functions at the Department of State, for example, shows that the retirement costs associated with the proposed buyout program would accumulate to $18 million over five years (estimate attached).

Question 1b. If the Congress decides to enact buyout legislation, are there any qualifying factors that your organization would like to see in this legislation? For example, should the Congress retain a payback provision? How should we treat the impact on the retirement systems of affected employees?

Answer. We have no specific recommendations for improving recent practice with regard to buyouts. In general, however, we believe that quickly enacting buyout authority helps limit the problem of employees delaying their plans to leave government in order to receive a separation incentive payment. We also believe that charging agencies for part of the cost of the buyout program helps ensure that buyouts are used judiciously.

The payback provisions you asked about require an employee to return an incentive payment to the government if that employee reenters federal service within five years of leaving. OPM may waive repayment for a person who is uniquely qualified for a position. Those provisions protect the government from making excessive payments and from lack of access to uniquely qualified individuals. As such, they appear to be sound policy.

With regard to your concern about the retirement system, we do not expect that the buyout program will have much impact on retirement financing for a number of reasons. First, such programs do not cause more retirements; they merely change the timing of those retirements. Second, for employees who retired early under the program, agencies were required to deposit with the retirement fund an amount equal to 9 percent of final salary. That payment covers the long-run cost to government of early retirement as estimated by the Office of Personnel Management. Finally, the buyout program required agencies to make four annual payments of $80 per employee to the retirement trust fund to offset increased retirement costs in the short run.

Quality of the Workforce

Question 1. Our discussion during the hearing raised numerous questions about the quality of the workforce that would remain after restructuring. Please describe any methods and measures used by your agency to evaluate workforce quality. Have you assessed the impact of the Federal Workforce Restructuring Act in these terms?

Answer. CBO relies on other agencies to collect the workforce data used in its analysis, and we know of no agency that routinely monitors the quality of the workforce. We do not expect the buyout program to have too much impact on quality overall, however, because most of the employees who leave would have done so eventually anyway.

Nonetheless, by providing agency managers with an additional downsizing tool, buyouts should help them to reach goals such as improving the quality of employees and making reductions at top levels better than if no such tool was available.

May 31, 1995

Honorable Jesse Helms
Chairman
Committee on Foreign Relations
United States Senate
Washington, DC 20510

DEAR MR. CHAIRMAN:

The Congressional Budget Office has prepared the enclosed cost estimate of the Foreign Relations Revitalization Act of 1995, as ordered reported by the Senate Committee on Foreign Relations on May 18, 1995.

The bill would affect direct spending and thus would be subject to pay-as-you-go procedures under section 252 of the Balanced Budget and Emergency Deficit Control Act.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

JUNE E. O'NEILL

Enclosure
cc: Honorable Claiborne Pell, Ranking Minority Member

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 31, 1995

1. BILL NUMBER: Unassigned
2. BILL TITLE: Foreign Relations Revitalization Act of 1995
3. BILL STATUS: As ordered reported by the Senate Committee on Foreign Relations on May 18, 1995.
4. BILL PURPOSE: The bill would consolidate U.S. foreign affairs agencies by abolishing the Arms Control and Disarmament Agency, the United States Information Agency, and the U.S. Agency for International Development and transferring their functions to the Department of State. The bill would authorize appropriations in fiscal years 1996, 1997, 1998, and 1999 for State Department operations, contributions to international organizations, broadcasting and cultural exchange activities, and various other activities and agencies.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

[By fiscal year, in billions of dollars]

	1995	1996	1997	1998	1999	2000
DIRECT SPENDING						
Estimated Budget Authority	0	*	*	*	*	*
Estimated Outlays	0	6	9	3	*	*
SPENDING SUBJECT TO APPROPRIATIONS ACTION						
Spending Under Current Law						
Budget Authority/Authorizations*+	6,979	249	259	268	277	284
Estimated Outlays	7,315	1,759	759	493	297	284
Proposed Changes						
Estimated Authorization Level#	—	6,337	5,971	5,554	5,400	0
Estimated Direct Loan Obligations	—	1	1	1	1	0
Estimated Outlays	—	5,080	5,630	5,497	5,360	1,007
Spending Under the Bill						
Estimated Authorization Level+#	6,979	6,586	6,230	5,822	5,678	284
Estimated Direct Loan Obligations	—	1	1	1	1	0
Estimated Outlays@	7,315	6,839	6,390	5,990	5,657	1,290

* Less than $500,000.
+Amounts for fiscal years 1996 through 2000 are permanent authorizations subject to appropriations action.
#The 1995 figure is the amount already appropriated.
@Does not include increased obligational authority or outlays associated with the change in the scoring of lease-purchases required by section 121.

The costs of the bill fall in budget functions 150 (international affairs), 300 (natural resources and environment), and 800 (general government).

6. BASIS OF ESTIMATE

The estimate assumes enactment of the bill and appropriation of the authorized amounts for each fiscal year. CBO used historical spending rates for estimating outlays.

Direct Spending and Receipts

In addition to authorizing appropriations, the bill contains several provisions affecting direct spending and receipts.

Voluntary Separation Incentives. Section 1710 would allow the Secretary of State, the Director of the United States Information Agency, the Administrator of the Agency for International Development, and the Director of the United States Arms Control and Disarmament Agency to offer separation incentive payments to employees before the end of fiscal year 1996. This provision would result in direct spending costs because some employees who retire with the incentive would receive their annuities earlier than under current law. CBO estimates that the costs of section 1710 would be 56 million in 1996, 59 million in 1997, and $3 million in 1998. In 1999 and 2000, however, CBO estimates direct spending savings of less than $1 million because people who retire early would receive reduced annuities in those years.

Based on preliminary results from the voluntary separation incentive program that expired March 31, 1995, these agencies made about 1,000 incentive payments in 1994 and 1995. The results suggest that most of the employees took the incentive and retired. Although many eligible employees took an incentive payment and retired in 1994 and 1995, CBO assumes that the employment cuts required in this bill are great enough—about 9,000 full-time equivalents by 1997—that a comparable number of separation payments will be needed. The estimate assumes that about 60 percent of the retirees would have retired without the incentive. The estimate also assumes that the remaining 40 percent who accept the incentive would retire one or two years earlier than they would have otherwise.

Other Provisions. Section 601 would repeal several permanent appropriations for interparliamentary groups. The repeal would lower budget authority and outlays by $150,000 per year. Section 413 would require the Director of the United States Information Agency to carry out a pilot program of selling advertisements on the agency's television and radio broadcasts and to spend the collections on operations. The net budgetary effect of this pilot program would be negligible.

Spending Subject to Appropriations Action

The bill would authorize the appropriation of $23.3 billion for international affairs and other programs over the next four years. The bill would reorganize various offices and functions within the Department of State and transfer the authorities and functions of the United States Information Agency, the Arms Control and Disarmament Agency, the International Development Cooperation Agency, and the Agency for International Development to the State Department.

The bill would provide specific authorizations for the payment to the foreign service retirement and disability fund, the emergency migration and refugee account, and the buying power maintenance account. These programs now have permanent, indefinite authorizations, which would not be repealed by this bill. This estimate, therefore, reflects no change in the projected spending for these accounts.

In addition, the bill contains various other indefinite authorizations. Section 137 would limit the authority provided in the following sections to the extent or in the amounts provided in appropriations acts.

Fees for Machine Readable Visas. Section 163 would authorize the Secretary of State to charge fees for machine readable visas in years 1996 through 1999. The authority would be limited to $150 million per year, but collections are likely to be much less than that threshold. The bill specifies that income from the fees be recorded as offsetting collections and be available for spending on consular activities. Based on information from the Office of Management and Budget (OMB), CBO estimates that the department will collect and spend $80 million each year from these fees.

Immigrant Visa Fees. Section 161 would authorize the Secretary of State to charge a fee for certain immigrant visas and to use the proceeds. CBO estimates that the fees would generate $2.8 million per year based on information from OMB.

Buying Power Maintenance. Section 111(b) would authorize such sums as may be necessary to cover the increased costs caused by the depreciation of the dollar. CBO estimates that an additional $42.7 million in 1996 would be needed to restore the value lost by the sharp drop in the dollar since the budget was prepared.

International Center Reserve Funds. Section 133 would authorize the special fund for the International Center to earn interest. The interest, approximately $500,000 per year, may be appropriated for maintenance, security, and additional surveys and plans associated with developing areas within Washington, D.C. for chancery and diplomatic purposes.

Funds for Environmental Scientific. Cultural and Related Areas. The bill would authorize recipients of grants for environmental, scientific, and cultural activities to deposit grant funds in interest-bearing accounts and to use the interest for the same purpose for which the grant was made. Under current law, the grantees refund their interest earnings to the government. CBO estimates that under this provision the Treasury would forgo collections of $500,000 per year.

Authority to Provide Services on a Reimbursable Basis. The bill contains several sections that would allow the Department of State to accept reimbursements for services and to credit the funds to the performing account. Section 151 authorizes the department to provide training services to corporate employees, their families, and Congressional employees on a reimbursable basis. CBO estimates that collections would total less than $100,000 per year. Section 148 authorizes the State Department to collect from insurance companies the reasonable costs of health care services provided by the department beginning in 1997 and to use the collections on health care services or other expenses. CBO estimates collections of $11.5 million a year starting in 1997.

Directed Scorekeeping. Section 121 would direct a change in the scoring of budget authority for lease-purchase agreements involving property in foreign countries. The change would allow the State Department to incur obligations in excess of appropriated amounts. In most cases, acquiring property through a lease-purchase agreement is more costly than buying the same property, but under section 121, such agreements would require much less upfront budget authority than under current law. Enacting the provision would thus encourage acquisition of property through lease-purchases, thereby increasing the government's long-term costs.

When measured using current scoring procedures, the use of additional lease-purchase arrangements would add to the budget authority, obligations, and outlays associated with the State Department's acquisition of property in foreign countries over the next several years. While CBO currently has no clear basis for estimating those budgetary impacts, they could be substantial.

7. PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. The bill would have the following pay-as-you-go impact:

[By fiscal years, in millions of dollars]

	1995	1996	1997	1998
Change in Outlays	0	6	9	3
Change in Receipts	Not Applicable	Not Applicable	Not Applicable	Not Applicable

8. ESTIMATED COST TO STATE AND LOCAL GOVERNMENTS: None.
9. ESTIMATE COMPARISON: None.
10. PREVIOUS CBO ESTIMATE: None
11. ESTIMATE PREPARED BY: Joseph C. Whitehill (202) 226-2840; Christopher Duncan (202) 226-2840; and Wayne Boyington (202) 226-2820.
12. ESTIMATE APPROVED BY: Paul N. Van de Water, Assistant Director for Budget Analysis.

Mr. MICA. I thank you, Mr. Blum, and Mr. Bowling.

I have a couple of questions. First of all, gentlemen, I think you heard Mr. King give some testimony as to the cost savings and his estimates. Do you have any reason to dispute any of the figures or the basis on which he calculated the potential savings?

Mr. BOWLING. We haven't done as thorough a job at looking at this type of costing as CBO has, but I would say that in our looking through those numbers, we did not see any information or assumptions that we would quarrel with.

Mr. MICA. Mr. Blum.

Mr. BLUM. There may be some differences I think from the numbers Mr. King was citing this morning and the numbers that were contained in our December 1993 report, but I think in the main those differences are relatively minor in terms of the assumptions that might have been made about the costs of the incentives programs or the costs of layoffs and so forth.

In looking at the larger picture, however, the permanent long-run savings of reduced employment clearly are far greater than any of those near-term costs.

Mr. MICA. And, Mr. Bowling, I think in your testimony you basically concluded that the buy-outs are less costly than the RIF's, financially and nonfinancially. Is that correct?

Mr. BOWLING. That is correct. If you look at both the financial and nonfinancial costs, the cost to the Government is clearly less for doing a buy-out. The disruption caused through the RIF and the various factors that Jim King cited this morning involved in having people at a higher salary fill a job that is lower graded for a period of time because of the bumping retreating provisions of the regulations, all of those costs get in the way of productivity and can have long-term consequences for the morale and the efficiency of the organization. So I think if you take all those costs together, it is clearly better to go with an alternative other than a RIF.

Mr. MICA. With your agency, GAO, you had mentioned that you are reviewing the instances where Government employees who participate in buy-outs then work for a contractor. You found this is limited, but you did cite one instance. Are you continuing to monitor this?

Mr. BOWLING. Yes, we are.

Mr. MICA. And is there any reason to believe it extends beyond? Did you quote NASA as one?

Mr. BOWLING. Yes, NASA was the one example where we had found what appeared to be something that was not within the spirit of the law.

Mr. MICA. You had 18 out of?

Mr. BOWLING. 199.

Mr. MICA. 199.

Mr. BOWLING. Yes, so it is not a large number, and it is not illegal. Other than it is not clear that that is what was envisioned when the Workforce Restructuring Act was passed. I mean the concept was let's not replace the people who will take buy-outs with contractors or other Federal employees, let's reorganize so we don't need that position filled in any sense.

Mr. MICA. Well, I thank you. We do have a vote on.

Mr. Moran, did you want to take 5 minutes and question?

Mr. MORAN. I wanted to see whether GAO and/or CBO wanted to offer some recommendations with regard to legislative changes. It is obvious that buy-outs are better than RIF's, but it is also obvious that the Federal Government is unique vis-a-vis the private sector in making RIF's a punitive experience for a manager. It would seem that the logical conclusion is to come up with some reform of the Civil Service Code so that we can retain the highest quality Federal employees and reward them for their efforts, which would probably include more functions than they are currently having to perform given the downsizing. That is the obvious conclusion, and it is certainly as obvious as it is that it is less money—that $25,000 is less money than $36,000 for a RIF. So I would like to know, what are your recommendations to rectify what is really an untenable situation with regard to any downsizing effort in the Federal Government? You may not have time to answer that.

Mr. BOWLING. Well, I'll offer a couple just quickly.

In general, I would agree with the point that has been made by Chairman Mica and yourself that planning is absolutely essential to any sort of downsizing effort and that the first thing that should be done is, before deciding to cut a specific number in a specific agency, there should be some specific planning as to what the work in that agency is going to look like, how it is going to be organized, and how we can target those buy-outs or whatever method is accepted to get rid of the people that are performing jobs that we don't need to have performed any more. It would be a mistake, I think, just to cut a blanket number without having a very clear sense of what impact that would be on the productivity and the customer service offered by that agency. So that clearly is true.

You are suggesting, I believe, that the RIF rules should be revisited in some ways to prevent them having the very negative effect they now have on agency operations, and I would say that we do not have specific suggestions on that. We have taken the position that RIF's are not the preferred method of downsizing and should be avoided. Presumably you could structure RIF's so that they would have less of an impact on agency operations such as limiting the amount of bumping and retreating that could take place. But when you do that you are also limiting the protections offered to certain classes of employees, and that is really a policy issue that we don't have a position on right now.

Mr. MORAN. How about your sister agency?

Mr. BLUM. Mr. Moran, the Congressional Budget Office does not make policy recommendations to the Congress, so I am not in a position to make any specific recommendations. But taking another look at the RIF rules seems to me eminently sensible given the costs that are attributed to it, the disruption effects, and so forth. That seems to be an obvious area to examine.

Mr. MORAN. Well, thank you.

OK, Mr. Chairman. I think that is the conclusion of much of our hearing really, that we need some civil service reform. We probably should have gotten at civil service reform before we even started the downsizing effort. It would have made a lot more sense. We could have saved money and ultimately could have served the American taxpayers better. But given the fact that we didn't, we don't even have the legislation at this point.

Mr. MICA. We don't have a proposal at this point, and I think you are correct. We will be occupying a good part of the steamy summer looking at that, hopefully.

Gentlemen, we do have a vote right now. If you wouldn't mind, we will take about a 20-minute recess, which will give Members time to go over and come back. Mrs. Morella has some questions, and then we will finish this panel and go on to the last.

We will recess the hearing for about 20 minutes.

Thank you.

[Recess.]

Mr. MICA. If we could call the witnesses back to order and reconvene our meeting.

Mr. Bowling and Mr. Blum, I would like to yield for the purpose of questions at this time to Mrs. Morella.

Mrs. MORELLA. Thank you.

I thank you both for your testimony. You gave it in a very succinct manner, and trying to go through all your pages, Mr. Bowling, while you were speaking, was not easy to do. But you had all of the facts and figures there, and I appreciate the testimony of both of you, Mr. Blum too.

You know, NIH is in my district, and I have chatted with some of the people there. I have always thought a program they had for high school students, who work at NIH and become motivated or excited by medical science and ultimately choose to go into that field, is an excellant cooperative work program, and I heard from some of the people at NIH that those students who had been doing that on that cooperative work program are now factored in as FTE's. Therefore, I think NIH has closed out that program on the basis of this concept of the downsizing. Have you heard of anything like that?

Mr. BOWLING. I haven't looked at that particular situation. It is true that FTE's are supposed to measure everyone who is on the payroll including temporaries and term employees and so forth in a reduction, and that in a reduction such as we have had here, a downsizing, the temporaries are the ones that tend to go first and so forth, but I guess it would depend on how that program is structured. If it is a paid position, then it would be counted.

Mrs. MORELLA. Even if minimum wage?

Mr. BOWLING. Yes, it would still probably count as part of an FTE if it was compensated by the Government.

Mrs. MORELLA. What do you think about that?

Mr. BOWLING. Well, we have a program in GAO, opportunities to bring in students to do something similar, to work with us for a few months and learn a little bit about us and so on, but it is always on a voluntary basis, and that seems to work very well. It seems that if you are getting a benefit out of it, I think doing it that way would get around any FTE issue that you might have. Other than that, I guess cutting a minimum wage employee is not probably the most cost-effective way to go about downsizing Government.

Mrs. MORELLA. Yes, I think you lose some opportunities where you would be giving somebody just a very minimum amount. I was just very surprised to see that as kind of—I won't say circumventing but addressing the FTE situation.

Let's see. I guess I would like to ask you a little bit about the contracting out that you mentioned, the NASA situation that you mentioned in your testimony. Do you feel that we need to do something to tighten the law or to come up with a piece of legislation that would have this cost comparison be required under all circumstances?

Mr. BOWLING. That is an interesting question, and I guess I would say it would depend on whether this type of situation was very widespread. I guess I would have to answer that our view is with the controls in the current Workforce Restructuring Act, the provision that offsets each buyout with a reduction of one FTE Government-wide, the cost comparison for service contracts, and the fact that personal service contracts could not be entered into without returning a buy-out, I think those controls are probably enough to control the extent of it Government-wide if they are applied appropriately, and that is one of the issues that we would like to look at and will over the next several months. Our agency is in fact complying with the law, and to the extent they are, my guess is that that is probably sufficient, but we would need more data to really whether there is a widespread problem or not.

Mrs. MORELLA. I hope that you will share it with us.

Mr. BOWLING. Yes, we will be happy to.

Mrs. MORELLA. At Interior you mentioned 860 positions in the personnel area. Were they FTE reductions, or were they people who were redeployed to other areas?

Mr. BOWLING. Those were FTE reductions, as we understand it, the responsibilities, if you will, for those people who were redeployed to line managers who then became responsible for performing many of the tasks that the personnelists had previously performed.

Mrs. MORELLA. And let me ask you, Mr. Blum, do you feel that the buy-out time should be extended? Except for the DOD, there are no more buy-outs in terms of signing up for them. Do you feel that the program is such that it should be extended maybe in some agencies? Do you have any comments on that?

Mr. BLUM. I do not have a specific view on that. Our experience has been that buyouts can be an effective tool in restructuring and in downsizing if they are properly used and if safeguards are in place along the lines that Mr. Bowling and Mr. King have talked about.

The one observation I would make is that if the question of extending the buyout period comes up as it did in the Federal Workforce Restructuring Act, and it is debated for some length of time, I think that does contribute to slowing down the rate of retirements and the rate of turnover in government. People think, "Oh, well, there is a chance, and therefore I should hang on a bit longer." So I think that goes to Mr. King's point: If you do it, it has to be done quickly and it has to be for a short period of time. We are also dealing with a situation in which agencies will be restructuring or downsizing—it sounds like, given the kinds of assumptions that are being made in the budget resolutions, for example, that this is going to go on for a period of time. You may, as a committee, have to deal with this issue almost on an agency-by-agency basis as those agencies come up for their major reorganization or downsizing.

Mrs. MORELLA. So you see it as a possibility that we might have to allow ourselves, legislatively or whatever implement we need, to alter the limit in terms of the buy-outs? You see, I was referring also—was it Mr. Koskinen who testified before this committee last year, and he said that he thought we could arrive at the 272,000 with no difficulty by that deadline, and I just wondered, given the current situation, whether that still seemed to be the feeling that OMB had and even GAO had.

Mr. BOWLING. Our view, in answer to that question, is that yes, the 272,900 figure is attainable on schedule through the buy-outs and attrition.

However, with Reinventing Government II on the horizon and the budget resolutions now being discussed, it seems that further downsizing in the Government may be contemplated, and under those circumstances it may be appropriate to target particular agencies that are going to be downsized dramatically or out of existence and provide buy-out authority on a selected basis where it is needed.

We in GAO don't believe that, at the moment at least, there is any evidence that we need a Government-wide extension of the buy-outs. But targeting it to the particular agencies that are likely to be coming down dramatically I think would make a certain amount of sense.

Mrs. MORELLA. Something we should bear in mind as a possibility if needed.

A final question: A number of agencies began offering buy-outs before their streamlining plans were approved by OMB. What assistance did OMB offer to these agencies to ensure that their buy-out strategies would ultimately support their streamlining goals?

Mr. Blum.

Mr. BLUM. I will have to defer to Mr. Bowling on that one. I think he has been following the process much more closely than we have.

Mrs. MORELLA. OK. Do you want to handle that one?

Mr. BOWLING. We know that the agencies did in fact submit their downsizing planning, their streamlining plans to OMB. OMB was initially dissatisfied with them. At the end of the summer they were—the first ones they saw were not up to the standard that OMB was looking for in terms of justifying what agencies were trying to do and giving a logical explanation for it, and that they sent them back for rework, and over the next few months that process of back and forth and sort of working through what a streamlining plan should look like and in achieving that standard through the other agencies continued, and that, as we understand it now, those streamlining plans are much better than they originally were. The ones that we have looked at—and we have looked at a number of them—they run the whole spectrum of very good to probably less good, but they are certainly much better than they were originally.

Mrs. MORELLA. What criteria was established for them?

Mr. BOWLING. I can't give you the specific criteria now, but the idea was that if you are going to make cuts, downsize, in a certain area, it should be based on a programmatic rationale, there should be a good reason for downsizing, there should be a reinvention initiative built into that. In other words, you are reinventing the business process and thereby being able to reduce our workforce as opposed to simply just cutting a gross number without any real sense of where it is going to come from or what impact that would have on the agency. That is the type of criteria that was in place.

Mrs. MORELLA. Can I assume that OMB helped, you know, when they sent them back, they said this is the kind of assistance that might help you to restructure, or rewrite?

Mr. BOWLING. Yes, it appears that they worked with the agency in terms of giving them information and guidance at several points to ensure that they at least knew what was expected, and, as I say, the progress—there seems to have been considerable progress in those plans.

Now the other issue is the one you had raised earlier about RIGO II, and given the possibility of considerably larger downsizings, the last round of streamlining plans are rapidly becoming obsolete, and so I think that process of planning for the downsizings, if in fact they are to take place, would need to concern you.

Mrs. MORELLA. Thank you.

Thank you, Mr. Chairman. I thank both of you for testifying. I thank you for your generosity of time.

Mr. MICA. I thank the gentlelady.

Just a couple of quick questions, gentlemen, before we conclude this panel. First of all, does GAO monitor any of the normal attrition rate with the Federal employees in non-Defense? Is there any estimate of what this has been over the years?

Mr. BOWLING. We largely get that sort of data from OPM, and we understand that OPM is now showing an attrition and retirement rate that dipped for the 2 years prior to the buy-out legislation, and increased as a result of the buy-outs.

Mr. MICA. And we directly attribute the dip in the attrition rate to people waiting to take advantage of the buy-outs?

Mr. BOWLING. Well, I would not really have any evidence to support that, but that is one logical way to look at it. I mean certainly that could be true.

Mr. MICA. It appears to me if you look at the attrition rate—say for example, a 6 to 8 percent normal attrition rate, and then you have a sudden drop when you announce buy-outs—it seems that people are waiting, then they take advantage of it. I'm wondering if these folks would have gone anyways? Look at the numbers, it looks as though it may have skewed the normal curve and we pick some of those folks up when buy-outs are authorized. Again, when 52 percent of those taking buyouts are eligible for retirement, I wonder if we should set some limits in the parameters on eligibility?

Mr. BOWLING. Well, one thing you could do is to make sure that you do your buy-outs quickly rather than having a long period of discussion followed by passage of a bill, so that if in fact there were some sort of effect such as you suggest of people waiting around, not retiring, to get that, you would minimize that.

It is also true that people are retiring somewhat earlier now under the buy-out authority, a year on average younger than the average had been 60 versus 61. If that is true, then that would seem to suggest that the buy-outs are having an effect in getting people to leave somewhat earlier than they might have otherwise.

Again, it is—that is one possible explanation. We haven't done an analysis that could show a clear cause and effect relationship.

Mr. MICA. In your testimony you examined how four agencies actually increased in size despite using buy-outs as a restructuring tool in downsizing. I asked Jim King to give us the agency-by-agency breakdown of utilization. Have you done any study of this beyond that or just these four agencies? Whether we are buying out people and they are then increasing the size of the agency or replacing the position, is a concern.

Mr. BOWLING. We have just looked at these four agencies thus far. We will be looking into it more as part of our ongoing study. In the four agencies we have looked at, there seems to be a rationale at least for the increases, and the decreases appear to be targeted largely at the NPR goals.

Mr. MICA. Do you know if the positions have been eliminated, or are we retraining people at additional cost and the positions are still continuing?

Mr. BOWLING. We don't know that for sure. We have been told that they are eliminating supervisory positions altogether in many cases.

Mr. MICA. I think this would be a good area to look at. If you can supply the subcommittee with any of your findings we would appreciate it.

Mr. BOWLING. We will do that.

Mr. MICA. Also in your testimony you mentioned that U.S. Fish and Wildlife Service experienced a number of adverse effects in downsizing. Is this just a sampling, or is there additional evidence that this has occurred in other areas, or don't we know? Is it preliminary?

Mr. BOWLING. It is very preliminary. I wouldn't be able to go much beyond this. This is what some of the groups have told us. Now as I mentioned earlier, it is quite possible that when we get out into the field offices and start talking to them, we will get a different view or different perspective on what the effects would be as opposed to talking to headquarters people. Often these things are viewed somewhat differently. So there may be more of those as we get into it, but this is about as much as we have done thus far.

Mr. MICA. Did you have any response, Mr. Blum?

Mrs. Morella, did you have additional questions at this time?

Mrs. MORELLA. No, Mr. Chairman, I don't. Thank you.

Mr. MICA. We have additional questions we would like to submit to both of you. Our time doesn't permit us to go into all of the questions now, but we would appreciate your response. Also as you pursue some of these areas in your review of the agencies we would appreciate your providing the subcommittee with that information.

At this time we will excuse the panel. Thank you both for your cooperation.

Mrs. MORELLA. Mr. Chairman, could I just also add to what you said, I am curious about whether or not with the downsizing we are reaching that 15:1 ratio in terms of managerial to employee. This was the concept of Reinventing Government.

Mr. BOWLING. Yes. Yes we have been told—again, this is anecdotal and verbal evidence, but we have been told by many of the agencies we have talked with that they are in fact moving in that direction. They are separating supervisors in larger percentages than staff, and therefore the supervisory ratio is improving. However, we haven't gone in to verify that, and we are not sure what the final numbers on that will show.

Mrs. MORELLA. Thank you.

Mr. MICA. Thank you.

Thank you, gentlemen.

Mr. BOWLING. Thank you very much.

Mr. MICA. If I may, I would like to call our third and last panel. We appreciate your patience in waiting. And if you gentlemen would let me introduce you, Dr. Peter Scott-Morgan, director of management consulting for the Arthur D. Little Corp.; and Mr.

Robert Ellis, vice president of corporate marketing of the Wyatt Co., two distinguished private sector firms. As is customary in our subcommittee in oversight and investigations, if you would stand and raise your right hand to be sworn in.

[Witnesses sworn.]

Mr. MICA. Thank you. Let the record reflect that the witnesses answered in the affirmative, and, again, welcome, gentlemen. We are thankful for your patience and also for your contributions. You both represent distinguished firms in the private sector that are knowledgeable in these areas, and we welcome your testimony.

First, I would like to call on Dr. Peter Scott-Morgan of Arthur D. Little Co.

STATEMENT OF PETER SCOTT-MORGAN, DIRECTOR OF MANAGEMENT CONSULTING, ARTHUR D. LITTLE, INC.; AND ROBERT ELLIS, VICE PRESIDENT OF CORPORATE MARKETING, THE WYATT CO.

Dr. SCOTT-MORGAN. Mr. Chairman, members of the subcommittee, thank you for the opportunity to appear today to discuss the implementation of the Federal Workforce Restructuring Act of 1994.

There are many relevant lessons for the Federal restructuring to be drawn from the experiences of the so-called re-engineering of corporate America. In general, although most companies that have implemented downsizing and/or restructuring have achieved significant short-term productivity improvements, many of the really fundamental changes sought for sustained growth, things like genuine teamwork, creativity, innovation, customer orientation, those sorts of things have not been sufficiently forthcoming. In addition, many companies are now suffering from what, if you like, is a change fatigue—at the one time they need to be able to continue to change ever faster and remain ever more responsive. The approach taken to restructuring turns out to be critical in removing the risks from these problems, and I would like to start by just looking at some of the unacceptably high failure rates which we are starting to see in corporate America.

My colleagues and I published a survey a year ago on managing organizational change using a weighted national sample of 350 U.S. executives across 14 major industries to just see how leading organizations were actually coping. I have subsequently held individual discussions with over 100 CEO's and top managers to flesh out the findings of that survey, and the pattern that emerged I would like to run through now.

Practically every company these days is trying to implement major change, and, what is more, nearly all of them expect to go through another major corporate change within the next few years. They are all expecting wave upon wave upon wave of change for the foreseeable future. And yet in the survey less than one-sixth of the executives were really happy with the results that they had achieved. Almost 40 percent were actually very unhappy, claiming that everything was far too slow, far too patchy. Almost 70 percent experienced unanticipated problems and side effects. And the most striking common denominator of all of those failures is lack of realism, a lack of pragmatism in dealing with the human aspects of the change. This has been most apparent in the recent spate of corporate reengineerings, and if I can run through what now turn out to be some of the misguided management approaches there, because I think there are strong lessons for the Federal Government.

The goal of business process re-engineering as far as it goes is as valid today as it was at the beginning of the decade. Indeed, in a survey that we conducted only a few weeks ago almost two-thirds of the respondents said that re-engineering they believed was necessary to experience growth again. The problem has been that the goal of the re-engineering has often been too limited and the management approach taken to that re-engineering has been wrong.

Take the goals first. Too many companies have in practice cast their goals for re-engineering in terms of reductions in the workforce. However, there is no evidence that simply cutting back on numbers of employees is sustainable. You also need to change the way that the work is done. Short-term productivity improvements can be temporarily realized by the surviving employees working harder and longer, but over time the productivity improvements prove impossible to maintain. A recent survey by the University of Michigan studied 150 companies that had downsized to improve their performance. Three-quarters ended worse off.

There is a real caution here for the Federal Government because many of the discussions that I have been hearing in the last 2½ hours this morning have all been about numbers, and I would propose that that is not actually the overriding goal for the restructuring. The overriding goal is the appropriate number of people with the appropriate skills profile doing work in the appropriate way that will then make the restructuring sustainable. So I think there is an important lesson to be fed into discussions such as the one this morning.

But in the private sector, more damaging even than that fixation on head count reduction has been the hard line, the sometimes almost brutal, approach to re-engineering that too many companies have adopted, and that also has important implications for the Federal buy-out program. Some of the most change fatigued organizations turn out to be those where a tough management believed that they could force through major change in flagrant contravention with what felt important to people, yet, once again there is no actual evidence that you can change what is important to people even under duress. On the contrary, when management have tried to force through change that was in conflict with, if you like, the unwritten rules of an organization, the conflict has not tended to go away, instead, it has just been forced underground. The harder that management pushed, the more it got forced underground, until the damage caused was so great that it was recognized for what it was, often too late.

The real cost of the failed reengineerings that all too often have resulted from an insensitive management is not just the financial cost, although we have been hearing a lot about that this morning. It is that that sort of callousness actually damages the resilience of the workplace to change. Yet these days continuous change is the only route to sustainable competitive advantage, and so that anything that damages the resilience of the workplace to change has actually poisoned the very lifeblood of the organization—its ability to compete in the future. That is the true cost of not taking account of the human face of change. So in that light, let me just address the effectiveness of buy-out programs.

There is—and I think we have been hearing it a lot this morning—there is now strong evidence that the survivors of a downsizing can actually suffer almost as much trauma as those that are let go. If the downsizing is handled in a cold, an antiseptic manner, those that remain in the company are left with the abiding memory of their friends, their colleagues, being apparently unfairly, maybe almost cruelly, handled. Particularly in those organizations that previously have offered a career for life or the perception of a career for life, that could feel like a severe betrayal and a flagrant breach of the psychological contract of loyalty in return for job security. Many of the survivors then end up thinking: "If top management can handle my friends like that, then I can never trust management again; one day it is going to be my turn."

Carefully handled buy-out programs can therefore be very advantageous. Although many companies, in all honesty, originally considered the buy-outs as a way of getting legal release from any possible discrimination suits, particularly on the grounds of age, in practice the greatest benefits may have come from the higher morale of those remaining in the company afterwards. Early retirement, temporarily enhanced severance payments, job counseling, retraining courses, and outplacement, have all proved effective, although most schemes are now far less generous in the private sector than they were a few years ago.

The greatest problem with the various buy-out programs has been in creating programs that did not result in the most marketable people—frequently the best people—jumping ship early, leaving a band of mediocrity to then carry the organization through change. I think that was very similar to the scenario that Congressman Moran was postulating earlier. Even attempts to select people who should be encouraged to take the buy-out package have proved highly susceptible to camouflage, highly susceptible to subversion, so that too is a caution, even when recognized.

So what is the learning for the future? One of the most critical lessons of the last few years is that management restructuring only by focusing on the formal, official, tangible, numerical aspects of the business is insufficient. Successful companies also put tremendous effort into reflecting the human face of change in pragmatic ways. There are four main areas. I'll quickly run through those.

First, the vision of the future has to be one that people will want to build. Mission statements, strategies, goals have to be recast in a way that embed "emotional magnets," if you like, to pull the organization onward, upward through change even when the company is not in crisis, which often isn't sustainable anyway. Simply communicating the old style, maybe insipid, uninspiring, strategies of the past simply doesn't work well enough any more. The corporate goals and the people need to be aligned with each other. The same is just as true in the Federal Government.

Second, managers must take account of the unwritten rules of the game that are within every organization. When a group of people resist change, what they do makes sense at least to them. People outside the group may not understand the rationale behind why the group is acting the way that it does, but people within the group do.

We were hearing earlier about some of the unwritten rules of the rating system, the temptation to put "outstanding" on a rating, the unwritten rule "Give 'outstanding' to those who will complain the most if you don't give it to them." I suspect that is not the only unwritten rule that potentially can, if you like, warp the restructuring in the Federal Government. They need to be taken account of.

But the key lesson is that if the behavioral barriers to change are caused by unwritten rules that are logical, then we need to understand that logic so that then we have got a chance to do something logical, to remove the barrier, for example, reforming the civil service rules themselves. And I think the discussion held on that is an important one given what we have been seeing in the private sector.

Third, successful restructurings need to involve people in a more pragmatic way than just telling them that they are empowered. The best approaches encourage people-driven results so that the organization pulls the change through rather than top management just aggressively pushing the change like aggressively pushing string.

And, finally, the best restructurings have the goals of being "learning organizations" where the ability to change and to learn is encoded into the very fabric of the company so that the organization becomes more and more responsive to fluctuations in the industry, signals from its clients and suppliers. That is being seen has highly attractive because it allows the organization to jump out of the tightening spiral of constantly fire fighting from one major change initiative to another. I think, again, we were hearing some of that major problem earlier this morning.

One of the goals of such restructurings is to provide systems that help the people to get better and better at change so that the organization can then change faster and faster without burning out, and, in other words, not just get performance improvement but get accelerating performance improvement. That is the greatest defense against an increasingly unknowable future.

Finally, let me just say a couple of words. You asked specifically, Mr. Chairman, about how to measure success in the public sector as opposed to private. The leading companies in the private sector now no longer do measure successful change only in terms of profit. At best, the profit measure lags behind what brings it about, so it is of little use during the change process itself. There are important implications for public sector performance measurement because sustained high performance seems strongest correlated with the balanced satisfaction of the needs of all of the stakeholders of a business. In other words, focusing only on satisfying the owners of the business by pursuing profit to the exclusion of all else is not sustainable. At the very least, a company must also satisfy the needs of its customers and, before long, its employees.

Balancing the satisfaction of all three major stakeholders is the key to sustained success. For some companies, suppliers and the community at large also have to be put into that balancing act, and the implication for the public sector is that performance should be measured through a variety of metrics corresponding to the satisfaction of each of the major stakeholders of the organization. So yes, of course, employees, but also external and internal "customers," the general public as overall "owners," if you like, and so on.

The goal should be to continuously increase the satisfaction of all of the key stakeholders rather than one at the expense of another. In the same way that such a balanced measure leads to sustained profitable growth in the private sector, so they will similarly lead to sustained achievement of organizational goals in the public sector.

Mr. Chairman, this concludes my prepared testimony. I would be very pleased to answer any questions.

[The prepared statement of Dr. Scott-Morgan follows:]

PREPARED STATEMENT OF PETER SCOTT-MORGAN, DIRECTOR OF MANAGEMENT CONSULTING, ARTHUR D. LITTLE, INC.

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to appear today to discuss the implementation of the Federal Workforce Restructuring Act of 1994.

There are many relevant lessons for the Federal restructuring to be drawn from the experiences of "reengineering" across corporate America. In general, although most companies that have implemented downsizing and/or restructuring have achieved significant short-term productivity improvements, many of the fundamental changes sought for sustained growth (such as genuine teamwork, innovation, creativity, customer orientation) have not been sufficiently forthcoming. In addition, many companies are now suffering from a form of "change fatigue" at the one time when they need to be able to continue to change ever faster and become ever more responsive. The approach taken to restructuring turns out to be critical in reducing the risks from these problems.

An unacceptably high failure rate

My colleagues and I published a survey last year on "Managing Organizational Change," using a weighted national sample of 350 US executives across 14 major industries to see how leading organizations were coping. I have subsequently held individual discussions with over a hundred CEOs and top managers to flesh out the findings of the survey. The pattern that emerged is as follows.

Practically every company these days is trying to implement major change. What is more, nearly all of them expect to go through another major corporate change within the next few years—we all anticipate wave upon wave of change into the foreseeable future. Yet in the survey, less than one sixth of the executives were really happy with the results that they had achieved. Almost 40% were really unhappy with the results, claiming that everything was far too slow and results too patchy. Almost 70% had experienced unanticipated problems and side effects. The most striking common denominator of all the failures is a lack of realism and pragmatism in dealing with the human aspects of the change. This has been most apparent in the recent spate of corporate "reengineerings".

Misguided management approaches

The goal of business process reengineering, as far as it goes, is as valid today as it was at the beginning of the decade. Indeed, in a more recent survey we conducted, almost two thirds of respondents said that reengineering was necessary to experience growth again. The problem has been that too often the goal of the reengineering has been too limited, and the management approach taken to reengineering has been wrong.

Too many companies have in practice cast their goals for reengineering in terms of reductions in the workforce. However, there is no evidence that simply cutting back on numbers of employees is sustainable. Short-term productivity improvements can be temporarily realized by the surviving employees working harder and longer. But, over time, the productivity improvements prove impossible to maintain. A recent survey by the University of Michigan studied 150 companies that had downsized to improve their performance. Three quarters ended up worse off.

More damaging even than the fixation on head count reduction has been the hardline, sometimes almost brutal approach to reengineering that too many companies have adopted. This has important implications for the Federal buyout program.

Some of the most "change fatigued" organizations turn out to be those where tough management believed they could force through a change in flagrant contravention with what felt important to people. However, once again, there is no evidence that you can change what is important to people even under duress. On the contrary, when management have tried to force through change in conflict with the "unwritten rules" of an organization, the conflict has not tended to go away. Instead, it has just been forced underground. And the harder management pushed, the more the conflict was forced underground until the damage caused was so great that it was recognized for what it was—often too late.

The real cost of the failed reengineerings that all too often result from an insensitive management approach is not just the financial cost; it is that such callousness damages the resilience of the workplace to change. Yet, these days continuous change is the only route to sustainable competitive advantage. So anything that damages the resilience of the workforce to ongoing change is poisoning the very lifeblood of the organization—its ability to compete in the future. That is the true cost of not taking account of the human face of change.

The effectiveness of "buyout" programs

There is now strong evidence that the survivors of a downsizing can suffer almost as much trauma as those that are let go. If the downsizing is handled in a cold and antiseptic manner, those that remain in the company are left with the abiding memory of their friends and colleagues being apparently unfairly, even cruelly handled. Particularly in organizations that previously offered a career for life, this can feel like severe betrayal and a flagrant breach of the psychological contract of "loyalty in return for job security." Many survivors end up thinking: "If top management can handle my friends like that, then I can never trust management again. One day it will be my turn."

Carefully handled buyout programs can therefore be very advantageous. Although many companies originally considered buyouts as a way of getting legal release from any possible discrimination suits (especially on grounds of age), in practice the greatest benefits may have come from the higher morale of those remaining in the company. Early retirement, temporarily enhanced severance payments, job counseling, retraining courses, and outplacement have all proved effective, although most schemes are now far less generous that a few years ago.

The greatest problem in the various buyout programs has been in creating programs that did not result in the most marketable (often the "best") people jumping ship early, leaving a band of mediocrity to carry the company through major change. Even attempts to select the people who should be encouraged to take the buyout package have proved highly susceptible to camouflage and subversion.

Learning for the future

One of the most critical lessons from the last few years is that managing restructurings only by focussing on the formal, official, tangible, numerical, aspects of the business is insufficient. Successful companies also put tremendous effort into reflecting the human face of change in pragmatic ways. Four main areas have become crucial.

Firstly, the vision of the future has to be one that people will want to build. Mission statements, strategies and goals have to be recast so as to embed "emotional magnets" that will pull the organization onward and upward through change, even when the company is not in crisis (which anyway is not sustainable). Simply communicating the old style, insipid, uninspiring strategies of the past is insufficient. Corporate goals and people need to be aligned with each other.

Secondly, managers must take account of the "unwritten rules of the game" that are within every organization. When a group of people resists change, what they do makes sense—at least to them. People outside the group may not understand why the behavior is logical and rational, but the people in the group do. The key lesson of this is that if the behavioral barriers to change are caused by unwritten rules that are logical, then if managers uncover that logic it gives them a chance to do something logical to remove the barriers. Intuition (based on experience of the past) has proved inadequate during the rapid and major changes that occur when restructuring.

Thirdly, successful restructurings involve people in more pragmatic ways that just telling employees that they are "empowered". The best approaches encourage people-driven results, so that the organization pulls the change through, rather than top management aggressively pushing the change—rather like aggressively pushing string...

Finally, the best restructurings have as one of their goals to become "learning organizations" where the ability to change and learn is encoded into the very fabric of the company so that the organization becomes more and more responsive to fluctuations in the industry, and signals from its clients and suppliers. This is seen as highly attractive because it allows organizations to jump out of the tightening spiral of constantly fire fighting from one major change program to another.

One of the goals of such restructurings is to provide systems that help people get better and better at change, so that the organization can change faster and faster without burning out—in other word, not just get performance improvement, but get accelerating performance improvement. And that is the greatest defense against an increasingly unknowable future.

Measuring success

The leading companies in the private sector no longer measure successful change only in terms of profit. At best, such a measure lags far behind what brings it about, so is of little use during the change process itself. There are important implications for public sector performance measurement.

Sustained high performance seems strongest correlated with the balanced satisfaction of the needs of all the stakeholders of a business. In other words, focusing only on satisfying the owners of the business by pursuing profit to the exclusion of all else is not sustainable. At the very least, a company must also satisfy the needs of its customers and, before long, its employees. Balancing the satisfaction of all three major stakeholders is the key to sustained success. For some companies, suppliers and the community at large also have to figure in this balancing act.

The implication for the public sector is that performance should be measured through a variety of metrics corresponding to the satisfaction of each of the major stakeholders of the organization employees, external and internal "customers" of services, the general public as overall "owners," and so on. The goal should be continuously increasing satisfaction of all the key stakeholders rather than one at the expense of the others. In the same way that such balanced measures lead to sustained profitable growth in the private sector, so they will similarly lead to the sustained achievement of organizational goals in the public sector.

Mr. Chairman, this concludes my prepared testimony. I would be pleased to answer any questions you may have.

Mr. MICA. Thank you. I appreciate your comprehensive response to our questions and your commentary, and I'll call now on Mr. Robert Ellis.

Mr. ELLIS. Thank you, Mr. Chairman, for inviting us to participate in the committee meeting today.

My statement is a brief overview of the written testimony that I submitted.

In 1993, I supervised a study we called "Best Practices of Corporate Restructuring." The study was a follow-up to our 1991 study that examined corporate restructuring in the 1980's. In our 1991 study, we found that the corporate restructuring in the eighties was driven primarily by financial imperatives, the need to reduce expenses to increase profits to increase shareholder value. Our study also showed that in the 1980's, less than 50 percent of the restructuring organizations, by their own assessment, achieved any of these goals.

By 1993 the reasons behind restructuring had changed. Seventy-five percent of the organizations identified competitive pressure as a primary reason, and 57 percent said the economic recession was the reason.

The objectives of restructuring also changed from the eighties to the nineties. In the eighties the objectives were overwhelmingly financial. By the 1990's the financial objectives were still prevalent, but the new restructuring was looking beyond financial to broader issues. Along with financial objectives, respondents also cited some other objectives: Increased competitive advantage, increased productivity, increased customer service, improved decisionmaking, and reduced waste and inefficiency. The most common restructuring activities were reorganization and downsizing.

As for the downsizing tactics, most organizations proceeded through a series of steps to attain their desired results. Ninety-one percent used natural attrition of the workforce, 44 percent offered early retirement windows, 43 percent offered monetary severance packages. Often these downsizing tactics did not work, and, indeed, 72 percent of the organizations were also required to use the tactic of involuntary severance.

It is interesting to note that the early retirement windows were most successful in achieving downsizing goals when the programs offered supplemental income benefits until early retirement age and some form of guaranteed health coverage, coupled with features designed to help individuals transition to their new situations.

As noted earlier, voluntary severance programs were used by 43 percent of the companies. The success of these programs, as was true with the early retirement windows, depends in large part on the demographics of the workforce and the length of service of the employees. If an organization has a high percentage of older workers with long service, the voluntary severance package can and has proven attractive to many workers who feel they have the skills that make them employable elsewhere. However, voluntary severance programs that do not offer paid or supplemental health care coverage for a period of at least 6 months after severance, are not as successful in achieving downsizing objectives in the private sector.

Beyond voluntary and involuntary severances, other compensation tactics are used frequently to support restructuring. Perhaps among the most interesting findings of the study were the differences between the compensation tactics used and those that turned out to be most effective. For example, 51 percent of the organizations froze pay or reduced pay increases, but only 21 percent found this action to be very effective; 24 percent pushed ownership down—the levels—down to different levels in the organization, but 44 percent of the those who did found this tactic very effective.

In summary, when it came to using compensation tactics, restructuring organizations tended to take the easiest course of action, but the easiest course of action usually proved consistently the least effective.

What are the key ingredients of successful restructuring? The findings were consistent among the participants: Restructuring was based on a clear imperative; any downsizing was handled in a humane manner; senior management was highly visible; the objectives were clearly articulated; there was effective employee communications; and employees were involved in the change process.

Mr. Chairman, we were asked our opinion on whether the experience and tactics of restructuring used in the private sector can be applied to the public sector. For the most part we believe they can be applied.

Perhaps one of the most important lessons from the private sector is the need to have a clear picture of what the end organization is going to look like, and it is equally important that the vision of the end organization be clearly communicated to everyone affected by the program. Failure to take this first essential step leads to many problems, not the least of which is asking people to set out on a journey without an understanding of the final destination.

Another lesson involves humane treatment of people. This is reflected in part by the high number of companies that provided career counseling services and financial planning services.

As for the buy-out tactics, they work in the private sector to the extent that they are perceived as generous, that they provide health care coverage for a reasonable period of time, and that the individuals perceive that he or she has skills that are wanted in the marketplace. In this sense, the public sector faces the challenges—these challenges plus one other one, the perception, unfair though it may be, that Government workers do not work as hard as their counterparts in the private sector. Any Government worker considering accepting a buy-out may well be asking: "Because of the fact that I have worked for Government for a long time, will I be entering the job market with one strike already against me?" The answer to that question should be no, as long as long-service Government workers receive advice and counseling on how to reenter the private sector market.

As for measuring restructuring success, it is true that public entities cannot apply the same bottom-line measurements. However, just achieving desired bottom line results can be misleading. There have been many private firms that used restructuring to get the numbers right, but in the process they destroyed the spirit of their organizations. And, in the long run, no organization can be successful if the spirit of the workforce and the values which they feel the company stands for are destroyed. Ultimately, the primary determinant of restructuring's success has to be customer satisfaction, and logically this would be as true of a Government agency as it would be of a private company.

We encourage any Government entity that is restructuring to have a good handle on the bench strength it needs to fulfill its mission; and, if jobs are eliminated in the Government reform process, it does not mean productivity and customer satisfaction must suffer. In fact, in most of the private sector customer satisfaction improved and so did productivity.

I'll close by sharing one final observation about restructuring. All indications are that it will be part of the economic environment for many years to come. Based on our experience with restructuring, we believe it is imperative that the definition of restructuring move beyond downsizing and become defined as a process that is used to rebuild and renew rather than reduce. The future will not be won by economies that are best at shrinking but by those that are best at growing. Restructuring, when it is done well, is about growth.

That concludes my formal statement.

Thank you.

[The prepared statement of Mr. Ellis follows:]

PREPARED STATEMENT OF ROBERT ELLIS, VICE PRESIDENT OF CORPORATE MARKETING, THE WYATT CO.

Mr. Chairman, I am Robert J. Ellis, Vice President of Marketing at The Wyatt Company. Wyatt operates as Watson Wyatt Worldwide, an international consulting firm specializing in human resources and risk management. Thank you for inviting me to testify before the committee.

In 1993—prior to my acceptance of my position as head of marketing for our firm—I consulted on the employee relations aspects of change management. In that role, I supervised our study of "Best Practices in Corporate Restructuring." This study was a follow up to a 1991 study we conducted that examined corporate restructuring in the 1980's. Executives from 531 companies in the U.S. participated in the 1993 study. 26% were CEOs; 51% senior human resource executives; and 23% were executives from other areas of the participating organizations. We had representation from all industries, the largest being manufacturing (29%), banking/finance (11%), retail (8%), health care (8%) and high-tech (6%). 57% of the companies employed 5,000 or more people; 41% employed 2,000 - 5,000 people. The study had a sampling error of ± 4%.

The purpose of the study was to define:

- the forces driving the need for restructuring;
- the objectives of corporate restructuring in the 1980's and into the 1990's;
- the tactics used to achieve the objectives of restructuring;
- the barriers to achieving restructuring objectives;
- the result of restructuring efforts; and
- the key elements that are consistent in successful restructuring—the "best practices".

I will summarize first what we found to be the forces driving corporate restructuring. Our 1991 study showed that corporate restructurings in the 1980's were driven primarily by financial imperatives—the need to reduce expenses, to increase profits and to increase shareholder value. Our study showed that in the 1980's less than 50% of restructuring organizations—by their own assessment—achieved any of these goals. By 1993 the reasons behind restructuring had changed somewhat: 75% of organizations identified competitive pressure as a primary reason and 57% said the economic recession was also a major driving force.

The objectives of restructuring also changed from the 1980's to the 1990's. In the 1980's the objectives of restructuring were overwhelmingly financial. By the 1990's the financial objectives were still prevalent, but the new restructuring was looking beyond financial to broader change objectives. Along with the financial objectives, respondents also cited other key objectives—increase competitive advantage (64%), increase productivity (58%), increase customer service (61%), improve decision-making (57%) and reduce waste/inefficiency (53%).

The most common restructuring activities were reorganization and downsizing. Very often these tactics were used together to achieve what many companies termed their "right size." As for downsizing tactics, many organizations proceeded through a series of steps to attain their desired employee population size. Ninety-one percent used natural attrition of the workforce. Forty-four percent offered early retirement windows and 43% offered a monetary severance package. Often these downsizing tactics did not achieve the desired goals. Indeed, 72% of the organizations were also required to use the tactic of involuntary severance.

It is interesting to note that early retirement windows were most successful in achieving downsizing goals when the programs offered supplemental income benefits until early retirement age and some form of guaranteed heath care coverage coupled with features designed to help individuals transition to their new situations. For example organizations that offered financial planning, lifestyle workshops and one-on-one counseling had an early acceptance rate of 20% or more, while those that did not tended to have a 10% or less acceptance rate.

As noted earlier, voluntary severance programs were used by 43% of the organizations. The success of these programs—as is true with early retirement incentive—depends in large part on the demographics of the workforce and the length of service among employees. If an organization has a high percentage of older workers with long service, the voluntary severance package (often one year's pay for x number of years of service) can and has proven attractive to many workers who feel they have skills that make them employable elsewhere. However, voluntary severance programs that do not offer paid or supplemental health care coverage for a period of a least six months after severance are not as successful in achieving downsizing objectives.

There are two other issues that frequently drive acceptance of voluntary severance packages. The first is a working spouse. If the eligible employee's spouse is employed, he or she is more likely to accept a voluntary severance or buyout. The second factor is what we call the "writing on the wall" factor. The employee looks around—the company is in serious financial trouble, or the skills needed to do the work are changing rapidly, or technology seems to be taking over more and more of the jobs—and concludes that he (or she) better take the offer while he can. It is impossible to accurately measure the impact of the "writing on the wall" factor, but just as it is true that organizations act faster to accept change when there is a strategic imperative to do so, it is equally true of people in a downsizing environment.

Beyond voluntary and involuntary severances, other compensation tactics are used frequently to support restructuring. Perhaps among the most interesting findings were the differences between the compensation tactics used and those that turned out to be most effective. For example, 51% of the organizations froze pay or reduced pay increases—but only 21% found this action to be "very effective." Only 24% pushed ownership levels down in the organization but 44% of those who did found this tactic very effective. 42% re-evaluated jobs—but only 29% found it very effective. Only 31% increased pay at risk, but 46% of those that did found it very effective. In summary, when it came to using compensation tactics, restructuring organizations tended to take the easiest course of action—i.e., free or reduce pay—but the easiest course proved consistently less effective. The tactics that were the most difficult to execute and communicate—such as putting more pay at risk—were the least used, but they proved the most effective when they were used.

Several work processes tactics were also used in support of restructuring. 68% launched total quality management efforts, 58% eliminated low value work, 52% increased outsourcing of work, and 45% increased automation. Generally, study participants found these tactics to be effective in helping to achieve restructuring goals.

A variety of employee involvement tactics were also used by organizations. Restructuring project teams and task forces were the most used and the most effective. Essentially employers were giving employees a say in the restructuring process; and the employee involvement tactics were rated the most effective of all tactics in achieving restructuring objectives.

What were the common barriers to restructuring success? 58% of study participants cited employee resistance to change. 43% said a dysfunctional corporate culture. 37% blamed inadequate management skills. It is interesting to note that we asked the same questions about barriers to corporate restructuring success in our ongoing survey of worker attitudes, Wyatt WorkUSA. Rank and file employees found manager resistance to change to be a major barrier to success. In fact, resistance to change is fairly strong at all levels of an organization.

How successful has restructuring been in achieving stated goals? The results are mixed at best. 90% said reducing cost was a goal—only 61% feel they achieved the goal. 85% said increased profitability was a goal—only 46% met the goal. 64% said restructuring would increase their competitive advantage—only 32% found this to be true. 58% said they wanted to increase productivity—only 34% saw it happen. 58% said that improved customer satisfaction was a goal—only 27% saw improvement.

Does this mean that most restructuring fails? Certainly restructuring that is completely short-termed in focus has not proven successful. However, restructuring that is recognized from the beginning as part of a longer-term change process—a change process that includes actions such as developing new and more efficient work processes—is succeeding. Indeed, we are learning that restructuring is most successful when it is part of a comprehensive change process.

What are the key ingredients in successful restructuring? The findings were fairly consistent among participants . . .

- the restructuring was based on a clear imperative (72%)
- any downsizing was handled in a humane manner (65%)
- senior management was highly visible (61%)
- the objectives were clearly articulated (52%)
- there was effective employee communications (41%)
- employees were involved in the change (34%).

Executives in the study were also asked what changes they would make if they were to do it all over again. They said they would . . .

- improve communications to employees
- increase the speed of the restructuring process
- increase manager and employee involvement
- improve the planning process
- increase senior management visibility
- ensure the changes made were fundamental and not cosmetic.

Mr. Chairman, you asked our opinion on whether the experience and tactics of restructuring tactics used in the private sector can be applied to the public sector. For the most part, we believe they can be applied.

Perhaps one of the most important lessons from the private sector's experience is the need to have a clear picture of what the "end organization" will look like before the restructuring process begins. And, it is equally important the vision of the "end organization" be clearly communicated to everyone effected by the program. Failure to take this first, essential step leads to many problems—not the least of which is asking people to set out on a journey without any understanding of the destination.

Another lesson involves the humane treatment of people. This is reflected in part by providing career counseling services and financial planning services. For example, there are often people who would take the opportunity offered by an early retirement window but fear their own ability to manage their finances well enough to have a secure retirement. Case in point was a client of mine who offered an early out program—and the average eligible employee would receive a lump sum payment from the retirement program of $280,000. The response to the early out was underwhelming to say the least, so we asked the eligible employees to anonymously phone in their concerns. The major concern was lack of financial and investment education. The company responded by providing that service as part of the early out—and participation skyrocketed.

As for buyout tactics, they work in the private sector to the extent that they are perceived as generous; that they provide health care coverage for a reasonable period of time; and that the individual perceives that he or she has skills that are wanted in the marketplace. In this sense, the public sector faces these challenges plus one other—the perception (unfair though it may be) that government workers do not work as hard as their counterparts in the private sector. Any government worker considering accepting a buyout may well be asking: "Because of the fact that I've worked in government for a long time, will I be entering the job market with already one strike against me?"

The answer to that question should be "no"—as long as long service government workers receive advise and counseling on how to re-enter the private sector marketplace.

As for measuring restructuring success, it is true that public entities cannot apply typical bottom line measurements. However, just achieving the desired financial results can be misleading. There have been many private firms that used restructuring to get the numbers right, but in the process they destroyed the spirit of their organizations. And, in the long run, no organization can be successful if the spirit of the workforce and the values which they feel the company stands for are destroyed. Ultimately, the primary determinant of restructuring success has to be customer satisfaction. Logically, this would be as true for a government agency as for private business.

We would encourage any government entity that is restructuring to have a good handle on the bench strength it needs to fulfill its mission. If jobs are eliminated as part of the government reform process, it does not mean productivity and customer satisfaction must suffer. Indeed, 77% of the businesses in our study found restructuring had a positive impact on productivity, and 67% found it had a positive impact on customer satisfaction. These results occurred because in these organizations restructuring process wasn't just about downsizing, it also included improvement in work processes. Our recommendation, therefore, is that the reengineering of work processes be an integral part of any government agency's restructuring.

I will close by sharing with you one final observation about restructuring—all indications are that it will be part of the economic environment for many years to come. Earlier this year Watson Wyatt completed a study of business and human resources issues in Canada, France, Germany, Japan, the United Kingdom and the USA. In all of these economies, senior executives made it clear that they plan to continue to use restructuring as a key method for keeping their organizations competitive. Based on our collective experience with restructuring, we believe that it is imperative that the definition of restructuring move beyond downsizing—and become defined as a process that is used to rebuild and renew rather than reduce. The future will not be won by the economies that are the best at shrinking but, rather, by those that are the best at growing. Restructuring—when done well—is about growth.

Mr. MICA. I thank you for your comprehensive testimony in addressing some of the issues and questions that we asked.

I guess part of the problem that we have in the Federal Government is developing the vision of where we want to be. Right now I guess we are involved in sort of an identity crisis in trying to figure out what the role of the Federal Government is in some of the traditional areas for which the Federal Government was established. Is that our true role, or does it go beyond and include all the sundry agencies and activities that we have assumed and we sort that out backwards here?

We are going to do the budget. In fact, we start on it in this afternoon before the House and Senate, and then we do the appropriations, and sometimes the authorization gets sort of tucked in between, and it all comes together in a disorganized fashion. In the meantime, it is difficult for government, particularly the Federal Government, to proceed in the orderly fashion and the standard you have described that can sometimes be achieved in the private sector. It sounds like even they have had problems with achieving those goals.

I just wondered if you had any recommendations for the record of any good private sector models or examples you have seen at any other level of government, State or local buy-out programs that you think are exemplary.

Mr. ELLIS. Well, the ones that I have seen that have worked the best obviously have been perceived as fair by the employees. There is a fairness issue.

Mr. MICA. Is there a company or someone or another level of Government?

Mr. ELLIS. Well, I think Ameritech was a company that has done this very well; Amoco is another company, both of whom I have worked with, who have done this very well. In both companies there was a real sense of trying to be very fair to people. Dr. Scott-Morgan dealt with that issue of the survivors; and I think it is a very important point that you have to look at what happens after and what we have lost.

One of the issues we see now emerging is that in a lot of organizations where you are beginning to see a talent gap; and many companies are now recruiting back some of these people and using them as consultants. So defining the talent you need to keep is a tough issue. But where I have seen it work best is in companies who have been very thoughtful in their process.

Mr. MICA. Did you have any response, Dr. Scott-Morgan?

Dr. SCOTT-MORGAN. Yes, I would utterly agree with that, but I would like to add that I think from the discussions we were hearing this morning the one area that I would like to see built in stronger than it appears to be is a reflection, first of all, of what the appropriate skills profile is that you want for the future, given the difficulty, first of all, of coming up with a vision, as you say. But even given that, what is the appropriate profile to fulfill it, and then using that as part of the vision to work backwards and say, therefore, who are the people that are most appropriate for it.

We were hearing the discussion earlier about the potential problem that the more senior people would take the buy-out option and those might be the ones that were "best"—that you were losing valuable skills. There is also, of course, the counter that the sort of people who have a willingness to think out of the box may actually not have the same skills as the past, and there is a clear tradeoff that needs to be managed there. I think you can only do that by first of all knowing what are the appropriate skills that you are looking for and then seeking them out quite explicitly as people either are leaving or as you are offering the new buy-out for the future.

Mr. MICA. You set this out so logically. Obviously you haven't dealt with the Federal Government or Congress.

But in a general vein, I wanted to ask if from what you have heard and observed in the Federal process and what we are going through, do you have any recommendations? I think you are both experts in the private sector field. Are there any things that you have heard or observed? Any bits of wisdoms that you want to transmit to the subcommittee or the record here?

Mr. ELLIS. Last summer we had the opportunity to hold a conference that we sponsored along with another group for Government agencies. There were several deputies from various government agencies on restructuring, and we reported these results. One of the interesting topics of discussion that came out were the similarities between the private sector and the public sector on the people issues. I think the thing that was most important from the Government point of view was, at least from these deputies who attended the seminar, was the need to precisely define the mission of a given agency and work backwards from that mission. Most of them had felt that they hadn't done that because they first received a number, a body count.

But I must also point out that although we have laid out a fairly logical approach to restructuring—it often doesn't happen that way in private business. It would be nice if it did.

I think it improves the second time around—and we are seeing now companies that are using restructuring as an ongoing process. They have learned a lot the first time out, and they have learned through mistakes like most of us learn the things that stick with us. A lot of them made some mistakes in the eighties, and they seem to be doing it better in terms of the humane aspects in the nineties.

The thing that is still true, and I have to agree with Dr. Scott-Morgan here, the findings are very clear in our study and others, that the desired results are still not being achieved. They are not being achieved because too many companies looked at the numbers rather than defining what business is about and where it is going.

Mr. MICA. Dr. Scott-Morgan.

Dr. SCOTT-MORGAN. If I could expand on that, I guess having had some contact with the Federal Government, the one area above all others that really needs to be taken account of formally and explicitly is the logic behind why people resist the change, behind the enlightened self-interest of all the different groups that are part of the restructuring. There has been a tendency in the private sector to try to manage these sorts of major changes only by, if you like, looking above the water level, the formal official aspects of how things are supposed to work on paper. Yet in reality I think we both experience this very much: Those aspects that you see above the water level are just the tip of an iceberg, and, my goodness, within the Federal Government, all of those things that feel like the sensible ways to behave, the tradeoffs that people make of one way to act rather than another, all of those "unwritten rules of the game" are certainly as strong as in the private sector—if not even more institutionalized than in the private sector. I think that as part of the overall restructuring, the Federal Government needs to hold the mirror up, recognize when people resist change, what they do does make sense, it is logical, that therefore if we are to try to impart some logic into the proceedings we shouldn't be doing an academic exercise, we should be injecting a bit more realism and a bit more pragmatism into the design, understanding what that rationale is, and therefore as far as possible aligning what makes sense for the individual with the goals of the restructuring over all and with the vision of the future.

Mr. MICA. Well, I thank you for your comments.

One final question. It seems that some trends and personnel practices or approaches to management sort of come and go. Do you think that the buy-outs have peaked and this is something that was part of a particular blip on the personnel, management, and restructuring screen, or is this something that will continue?

Mr. ELLIS. I know that in our situation where we have looked at the early retirement windows. They have pretty much peaked because you have probably got that generation out of the workforce if you are going to get them out in a legal way.

We continue to see buy-outs, it still is an attractive approach, though I have to agree that we are seeing a little bit harder-nosed approach in terms of companies who have been through a buy-outs and saying, "Let's just cut." I would say we are still going to see buy-outs because it is a humane way, but basically I think it is probably going to come to an end at some point. You see organizations who have been through it a few times. It stops after about the third time.

Mr. MICA. Dr. Scott-Morgan.

Dr. SCOTT-MORGAN. We have to ask ourselves why we are seeing it peak. I mentioned in my testimony that indeed, now the sorts of buy-outs that companies are offering do tend to be less generous than they were in the past. But the reason is because the private sector in general has already gone through the process of taking those who were near retirement out of the system, so the fact that we are seeing them peak and diminish in the private sector does not mean that in the Federal Government, where so much does depend on tenure, that therefore it is not a very attractive route for the moment. Maybe in a few years time we will be looking within the Federal Government and saying yes, now it is less of an issue than it was.

But the fact that we are seeing it diminish in the private sector I don't think is because it was a human resources fad that people were going through. I think it was because it was appropriate for the situation that the private sector was in. I suspect that for the same reason it is now appropriate for the Federal Government at the stage it is, and maybe in a few years time we will see that diminish but for the same reasons.

Mr. MICA. I want to take this opportunity to thank both of you gentlemen for providing your perspectives and for sharing with us your experience in this area.

We have additional questions that we would like to submit to you from the subcommittee and would appreciate your cooperation in responding to them. It has been a little bit longer hearing than we anticipated, so we also appreciate your indulgence and your patience.

Coming from the private sector, I like to have the private sector offer their suggestions and comments and viewpoint and also make that part of the record, and this probably will be one of the most comprehensive records relating to the buy-out program. Again, I thank both of you for your participation.

There being no further business before the subcommittee, this subcommittee stands adjourned.

Thank you.

[Whereupon, at 1:25 p.m., the subcommittee was adjourned.]