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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

REDUCTIONS IN FORCE

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss reductions-in-force (RIFs) in the federal government.

On October 25, 1983, the Office of Personnel Management (OPM) issued new regulations giving greater weight to performance in deciding which federal employees would lose their jobs in a RIF. Congress twice passed laws delaying implementation of the RIF regulations which then became effective on July 3, 1985.

Because of concerns that the regulations gave inordinate weight to performance in determining retention standing, OPM, on August 30, 1985, published a proposed change to the method for giving extra service credits for performance in a RIF. This change would continue to emphasize performance as a retention factor, but with somewhat less weight than under the October 1983 regulations.

Both the October 1983 regulations and the August 1985 proposed regulations take into consideration the last three annual performance ratings in granting additional service credits for performance. Under the system operating before the new regulations became effective in July, only the most recent performance rating was considered and it was given much less weight than under the new system.

EFFECT OF NEW RIF RULES

We continue to believe, as we said in our October 2, 1984, appearance before the Subcommittee, that until agencies gain experience under the new RIF rules, it is not possible to determine the rules' effect on employees and placement programs. From our past work we have seen many weaknesses in the objectivity and accuracy of performance appraisals, and are concerned that the new RIF regulations may put added stress on these systems. To get some reaction from the personnel community, we recently informally asked a group of 16 agency personnel directors to respond to a series of questions about performance appraisal and RIF at their agencies.

Thirteen of the officials responded that they believed performance appraisals should be used to influence reduction-in-force decisions to some extent. Thirteen also responded that their organizations' performance appraisal systems were at least moderately able to support these decisions. However, eleven of the sixteen stated that if supervisors are aware that employee ratings could determine retention or release status in a RIF, inflated performance ratings will result.

Although we have not studied the use of performance appraisals this year, our discussions with agency personnel indicate that, as we have previously reported, written performance standards often do not contain objective criteria for measuring employee performance, and often are not prepared at the beginning of the rating period. Because of the continuing performance appraisal problems, we believe it is an improvement to use three years of appraisals instead of only one in RIF situations. We also believe the change proposed by OPM in August is an improvement. We will continue to stress to the agencies we visit the importance of improving performance appraisal systems. And in our future work we will be alert to the possible impact that the new rules may be having on employees affected by RIFs.

COSTS AND OTHER CONSEQUENCES OF RIF

In July of this year we issued a report on (1) the savings and costs of eight selected RIFs compared to the cost of attrition and furlough, (2) the extent of downgrading during these RIFs, and (3) the effects of the RIFs on women and minorities in the workforce.[1]

Cost effectiveness

We determined that when all quantifiable costs were considered, both budgetary and indirect, and when salary savings were assessed in relation to what could have been achieved by attrition, six of the eight RIFs were not cost-effective. When only budgetary savings and costs were considered, half the RIFs were not cost-effective compared to attrition.

I should note that, overall, we expect our estimates of RIF costs to be less than actual costs. Whenever we had to estimate costs, rather than collect actual costs, we chose the most conservative assumptions. We also did not include some potentially important cost elements that were not quantifiable, such as the loss in productivity during a RIF.

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[1]Reduction In Force Can Sometimes Be More Costly To Agencies Than Attrition And Furlough, GAO/PEMD 85-6, July 24, 1985.

The range in our results was wide, and no consistent patterns of costs or savings emerged across the agencies. One agency saved about $26 million with a RIF; another lost more than $2 million. One conclusion that can be drawn from these cases is that attrition tends to be a cost-effective strategy when the rate of attrition in the jobs affected by the RIF is high. For example, in the six agencies where the RIFs were not cost-effective, attrition would have accomplished the personnel reduction in 12 months or less, and in one of those cases, only 4 months. In the two agencies where the RIFs were cost-effective, attrition in RIF-affected job categories was lower and would have taken 16 months at one agency and 8 years in the other to bring about the reduction.

Furlough accompanied by attrition can be an alternative to RIF in some cases. In one agency less than a day of furlough could have achieved the same budgetary savings as the RIF.

Our report also examined the financial effects of RIFs on the civil service retirement system. Although retirement system costs and savings do not have an effect on an agency's fiscal situation, they affect the overall cost of government.

RIFs cost the retirement system through refunds to separated employees who elect to withdraw their contributions, and through early retirement benefits for employees who qualify. RIFs save the retirement system through reduced or eliminated future retirement benefits for separated employees. The initial reduction in future benefit liabilities can easily exceed the amount of the two cost elements. However, it would be erroneous to regard this as a permanent savings because the separated employees may later re-enter the federal workforce (and many do) and regain their retirement benefits.

Thus, while the net result of RIFs to the retirement system is very likely to be a long-term savings, the extent of the savings depends on factors that can't be accurately predicted.

Downgrading

Anecdotal accounts of the extremes of the downgrading process are common, and the new RIF regulations address this problem by limiting the number of grades an employee can be reduced. For example, professional employees will no longer be able to displace clerical employees. Because there is little empirical information on the extent of RIF downgrading, one of the objectives of our review was to measure downgrading in each of the eight RIFs. We also wanted to track what happened to the downgraded employees after the RIF.

As with savings and costs, the extent of downgrading varied. In one agency the number of downgraded employees exceeded the total of all those who were separated, reassigned, transferred, and retired because of the RIFs, while in another downgrading made up less than 12 percent of RIF actions.

Although we did find some cases of extreme changes in grade, this was not the norm in any of the agencies. Most of the downgraded employees dropped two grades or less, and many downgraded employees either were promoted in the months following the RIF or left the agency voluntarily.

Effect on women and minorities

Overall, women and minorities were disproportionately affected in the eight RIFs we reviewed. But it is important to note that in some cases the disproportionality was small. In fact, in one agency, men and nonminorities were overrepresented among personnel affected by the RIFs. This may indicate that the framework of the current regulations does not necessarily lead to an adverse effect on women and minorities.

Summary

In summary, our examination showed that RIFs should not be assumed to be an agency's most cost effective way of saving money or reducing personnel levels. Agencies have the information to make cost-effectiveness analyses, and we explain in our report how it can be done. RIFs will be unavoidable in some circumstances, such as in a reorganization, when a function or program is eliminated or when workload is severly reduced. Nonetheless, attrition or furlough may be feasible and more cost-effective in other cases, and we believe a cost-effectiveness analysis of alternatives is then necessary.

We also considered how RIF savings and costs would be affected by the recent changes in the RIF regulations. The changes would not introduce any new cost categories or eliminate old ones, but they could alter the magnitude of some. The exact effect of the changes cannot be predicted but it is likely that a major cost such as salaries of downgraded employees would be lower. This is because the limits placed on downgrading will tend to cause higher graded employees to be separated. Conversely, severance pay, lump-sum annual leave, and unemployment compensation payments could be greater if higher graded employees are separated.

GOVERNMENT PLACEMENT PROGRAM

When we appeared last year we discussed the advantages and disadvantages of a government-wide mandatory hiring program for employees displaced from their jobs. We reported that such a program is technically feasible to establish, but that its costs would probably be significant, though difficult to estimate. Agency officials were not in favor of such a program because they felt it would limit their flexibility in filling vacant positions. Officials of unions and managers' associations were more in favor of such a program, but some nevertheless opposed it because it could limit management's flexibility and deny employees' promotions when qualified program registrants were available. We concluded then, and still believe, that there is no clear cut answer as to whether a governmentwide placement program would be effective.

I will be happy to answer any questions you or members of the Subcommittee may have.