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STATEMENT OF
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BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
S. 2197, OPTIONAL EARLY RETIREMENT
PROGRAM FOR FEDERAL EMPLOYEES

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss S. 2197, a bill that proposes to establish a temporary governmentwide early retirement opportunity for federal employees. The bill would allow employees who meet specified age and years of service criteria (any age with 25 years of service, age 50 with 20 years of service, age 55 with 15 years, or age 57 with 5 years) to retire on immediate annuities. Their benefit amounts would be reduced by 2 percent for each year they are under age 55. The early retirement option would be available for a six-month period ending December 31, 1986, and apply to all federal retirement systems. Certain employees in hard to fill positions and those already covered by special early retirement provisions would be excluded. Moreover, unless exceptions are granted, agencies could not replace early retiring employees until October 1991 but they could promote internally to fill vacant positions.

Most of the employees who would be eligible to retire under the bill are covered by the civil service retirement system. It is the government's largest retirement system for civilian employees. The system generally requires employees to be age 55 with 30 years of service, age 60 with 20 years, or age 62 with 5 years, before they can retire. Thus, the bill is proposing a considerable liberalization of the retirement eligibility criteria.

Early retirements can be authorized under current law. However, they are generally limited to situations where agencies are undergoing major employment reductions. No such requirement would be imposed by the bill. Also, early retirement is now available only to employees who are at least age 50 with 20 years of service or any age with 25 years.

According to the latest data available from the Office of Personnel Management, about 250,000 federal employees, or about 10 percent of the workforce, are eligible for regular retirement. Under the bill, an additional 470,000 employees would be eligible for early retirement. Thus, over 700,000 employees, or 25 percent of the workforce, could elect immediate retirement if the bill were enacted.

Normally, about one-third of all employees eligible for regular retirement retire each year. It is difficult, in today's climate, to estimate how many employees would elect early retirement. Estimates range from 15 to 30 percent of those eligible. Also, the proposal being considered by the Congress to change the way in which federal pensions are taxed could be an additional incentive for employees to take advantage of an early retirement opportunity.

The early retirement of some federal employees under the bill could minimize or substitute for reductions-in-force that agencies may face as a result of budget reductions associated with the Balanced Budget Act of 1985. This would help to save jobs for recently hired employees, many of whom are women and minorities with little seniority. Also, promotion opportunities would be increased for younger employees. Furthermore, the proposal could save billions of dollars if the retiring employees are not replaced.

On the other hand, agencies' programs could be seriously disrupted if large numbers of federal employees retired and could not be replaced. Considering the time required to seek and obtain waivers from the hiring freeze in addition to the normal recruiting and appointment process, it could take a year or longer to replace key employees. Furthermore, since the government would be losing its most experienced workers, agencies' training costs could be expected to increase. It must

also be recognized that little if any savings would result from the early retirements if large numbers of waivers from the hiring freeze are granted.

We are particularly concerned that the bill is not targeted to grant early retirements only where necessary or desirable. For example, the Postal Service would experience small budget cuts under the Balanced Budget Act, yet as many as 100,000 of its workers could take early retirement. Most of these would have to be immediately replaced in order not to seriously disrupt mail service. Also, when combined with the incentive to leave before the possible tax reform measure becomes effective, the proposal could result in mass retirements in the Senior Executive Service where over 50 percent of its members would be eligible for retirement.

If the Committee is convinced that an early retirement bill is appropriate, we suggest that a more focused early retirement option would better serve the purpose. Congress may wish to consider waiving for a limited period the current requirement that a substantial reduction-in-force is required before early retirements can be authorized. Agencies could then seek approval from the Office of Personnel Management to offer early retirement to selected groups of employees along with restricted hiring. Agencies should be required to show that such early retirements would not seriously disrupt their programs and would result in net overall savings to the government. The early retirements could permit agencies to reduce or realign their workforces in an orderly manner and could result in substantial savings.

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