

C O N T E N T S

<u>TAB</u>	<u>DESCRIPTION</u>
A	- Revised statement of Explanation and Justification (Consolidation of both submissions to the Bureau of the Budget. Classified portions bracketed.)
B	- Revised Bill with changes suggested by BOB.
C	- Proposed statement for information of senior Agency officials.
D	- Proposed points to be covered by the Director of Central Intelligence in briefing Congressional Committees.
E	- Draft: General policies and administrative concepts in connection with the proposed CIA Intelligence Operations Retirement System

NOTES

1. Tab A has been sent to the Director of Security for review and agreement that the text can be considered unclassified if the bracketed portions are deleted.
2. Tabs A and B have been sent to Colonel Grogan for information.

12 August 1962

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EXPLANATION AND JUSTIFICATION

(Note: Bracketed portions only are classified.)

1. Purpose of Proposed Bill

a. The proposed bill permits the Central Intelligence Agency to improve its retirement program by authorizing the establishment of a retirement system corresponding to that of the Foreign Service. The Agency needs to attract and retain a force of highly qualified careerists in spite of its inability in fact to provide full-term careers for many individual officers. In order to minimize the adverse effects of necessary programs of managed attrition and to preserve its ability to recruit and retain the high caliber personnel it needs, the Agency must make reasonable provision for the future of those individuals who must be separated before completing a full-term career of thirty or so years. Therefore, Section 3 of the proposed bill adds a new paragraph (g) to Section 5 of the Central Intelligence Agency Act of 1949, as amended, authorizing the Director of Central Intelligence to exercise the authority available to the Secretary of State under the Foreign Service Act of 1946, as amended, in order to establish a retirement and disability system corresponding to that available to Foreign Service Officers for limited numbers of Agency employees.

b. Since all provisions pertaining to the retirement of Foreign Service Officers are not contained in Title VIII (which is entitled "The Foreign Service Retirement and Disability System") of the Foreign Service Act and since it is possible that future amendments relating to retirement may occur elsewhere than in such act, it is necessary to make general provision for the Director of Central Intelligence to adopt provisions of law applicable to Foreign Service Officers for Agency employees. Additionally, most of the basic travel allowances and overseas benefits available to Foreign Service personnel are authorized for Agency employees by existing Section 4 of the Central Intelligence Agency Act of 1949, as amended. However, amendments to the Foreign Service Act over the years have of necessity required the Agency to seek legislation periodically in order to keep such authorities up to date and uniform with those available to Foreign Service personnel. Consequently, it is now proposed that the existing Section 4 of the Central Intelligence Agency Act be rescinded by Section 2 of the proposed bill. In lieu of the rescinded authorities, the new Section 4 of the Central Intelligence Agency Act authorizes the Director to adopt and apply to Agency employees provisions of law applicable to Foreign Service personnel and to exercise with respect to Agency employees the authority available to the Secretary of State for the purpose of having Agency employees accorded appropriate benefits, rights, and allowances now authorized for Foreign Service Officers.

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GROUP 1. Excluded from automatic downgrading and declassification.

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## 2. Problem

All regular employees of the Central Intelligence Agency are at present covered by the provisions of the Civil Service Retirement Act. Such coverage is appropriate for those whose conditions, obligations, and terms of service are comparable to those of federal employees generally. However, the Agency has a serious problem in its need to make more adequate provision for certain of its employees who should be retired at an earlier age and with a more equitable annuity than can be provided under the Civil Service Retirement Act. This need stems from the fact that the Agency cannot provide to or expect from many individuals in its service a full-term working career of thirty or so years.

## 3. Background

a. The conditions underlying this situation are complex. For some years, the Agency has recognized that it faces a serious dilemma. On the one hand, the nature of its mission requires the employment of people who are highly motivated and who develop unique and specialized abilities through their continuing training and service over the years. Moreover, the nature of the Agency's mission requires people who, like members of the military services and the Foreign Service, accept the obligation to serve anywhere in the world at the Agency's direction---not at their own will---and to be available for duty on a 24-hour-a-day basis. In sum, the employment of people to serve on a career basis is essential to fulfill the majority of the Agency's requirements for personnel. On the other hand, factors directly related to the nature and conditions of service in the intelligence field and factors affecting the ability and desire of individuals to remain in such work on a long-term basis make it infeasible to provide full-term career employment for all careerists.

b. The nature of the work involved in the Agency's operations requires people who have a high degree of vigor, vitality, endurance, resilience, and adaptability. Such traits are required to cope with the stresses and strains occasioned by uneven and uncertain hours and days of work, duty in unhealthy locations with less than adequate medical facilities, and arduous and, not infrequently, hazardous assignments.

c. TThere is a further requirement that officers serving overseas must normally perform their work under the cover of employment with some other organization, a requirement which limits their long-term utility. The usefulness of an officer is seriously impaired if not destroyed if his true employment affiliation is revealed. However, the longer he serves under cover, and particularly if his cover must be changed in the course of moves from one post to another, the greater becomes the risk that his true affiliation will be inadvertently revealed to or inferred by hostile parties. Finally, since most positions in cover organizations which can be made available for the Agency's use are those which would normally be manned by junior

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personnel of the host organization, it is difficult to find appropriate cover for any substantial number of officers of middle-age or over.

d.] There are other factors pertaining to the individuals themselves which, over the years, limit their ability and desire to continue in overseas service. First, there is "motivational exhaustion." This term is used to describe a gradual lessening of interest and enthusiasm of an officer as a result of impingements on his personal and family life. These stem from the transient nature of his assignments, the complications and restrictions of cover and security requirements, and intrusions on his family life [occasioned by the requirement that he spend his apparent "leisure time" in performing additional Agency duties after completing his cover workday]. Further, while all Agency employees are subject to security restrictions which place severe limitations on their personal freedoms, employees serving abroad are subject to even greater restrictions [and, in addition, must conduct their personal affairs in a manner consistent with their cover employment]. These factors tend to lessen the enthusiasm and willingness of the family to accompany the officer on further assignments overseas. Lastly, our experience has shown that many employees or members of their families will in time incur physical impediments which limit or preclude further assignment overseas.

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e. Lastly, the dynamic nature of intelligence produces sudden and sometimes radical shifts in the types of personnel required. Completion of a mission of a temporary nature or a shift in emphasis or direction of operations may result in an overabundance of officers who are skilled in a relatively narrow field. Such qualifications thus become obsolete or unneeded and they become "occupationally surplus." [For example, the responsibility of the Agency for covert cold war functions and continuance of counter-insurgency activities require the Agency to employ numbers of individuals whose skills are not necessarily adaptable to full-term careers.]

#### 4. Manpower Control /e

a. The Agency finds it increasingly necessary to impose manpower controls to ensure appropriate alignment as to age, qualifications, and other characteristics of its employees [engaged in conducting or supporting foreign intelligence operations]. Insofar as possible, imbalances should and will be corrected by the reassignment of officers who cannot or should not continue in such work to other fields of work in the Agency. It is a certainty, nonetheless, that encouraged and induced attrition will be necessary. A program of managed attrition, however, is feasible only if it is linked with a system of retirement benefits which are sufficient to induce an employee or a prospective employee to take the risk that he may be one of those individuals who cannot serve a full-term career.

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b. The seriousness of this risk to the individual is greatly augmented by the difficulty which he will encounter in effecting a transfer from intelligence operations to other government or commercial fields. The principal reason for this is that the special skills required for intelligence work are not ordinarily required in other fields. Other reasons are the inability of employees for security reasons to describe or confirm to a prospective

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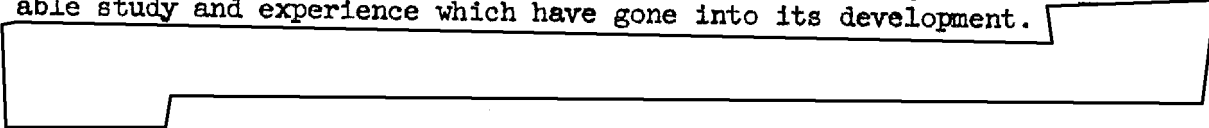
employer the scope and level of his duties and responsibilities. [Further, there is a reluctance on the part of other employers, both government and private, who are engaged in business overseas to hire a former intelligence officer. This reluctance stems from their concern that the attitudes of foreign officials toward their enterprises might be adversely affected if they were known to employ "former spies."]

c. As part of its manpower control program, the Agency has instituted administrative procedures for identifying employees who become surplus to its needs because of the several factors described above and has recently engaged in an exercise which will result in the separation of approximately 150 such individuals. This process was made the more painful because of the relatively inadequate assistance which the Agency could offer those separated in making occupational transfers or in retiring prematurely. The benefits available were limited to those provided under the discontinued service provisions of the Civil Service Retirement Act and to modest separation compensation payments from the Agency which are related to years of service and salary.

#### 5. Proposed Retirement System

a. In order to minimize the adverse effects of such programs on the Agency's ability to recruit and retain the caliber of personnel needed, and particularly to minimize their effects on the dedicated personnel already in the service of the Agency, better provision must be made for the futures of those individuals who are separated before completing a full-term career. An important means for doing so is to establish a retirement system permitting earlier retirement with a more nearly adequate and equitable annuity than is possible under the civil service retirement system. The Foreign Service system is more suitable for those Agency employees whose careers have involved comparable conditions of service. Appendix A compares the pertinent provisions of the Foreign Service and the civil service retirement systems. This chart is based on a similar chart appearing in the Report of the House Committee on Foreign Affairs in the 2nd session of the 86th Congress. It was prepared at that time in connection with proposed amendments to the Foreign Service Act of 1946, as amended, relating to the retirement system which proposals were subsequently enacted into law.

b. Aside from the additional special requirements applicable to Agency employment, employees who serve overseas are subject to essentially the same conditions of service which were the basis for the development of the Foreign Service retirement system. By adopting a system corresponding to the Foreign Service system, the Agency can take advantage of the considerable study and experience which have gone into its development. 25X1C



c. Such a retirement system would not be appropriate for all Agency employees and it is not the Agency's intention in requesting authority to

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establish such a system to apply it to all. The employees who are to be designated for coverage under this system will undergo a rigid selection process. [The essential criteria for coverage under the proposed retirement system would be as follows:]

[(1) Career employees whose duties and responsibilities are predominantly concerned with the conduct and support of intelligence operations in foreign countries or with covert support in the United States of such operations under comparable conditions.]

[(2) Career employees whose duties are so specialized that they are placed at a special disadvantage when required to seek other employment.]

6. Estimated Number of Employees under Proposed System

25X9

a. [The careers of [redacted] employees are directly oriented to intelligence operations abroad. At any moment in time, approximately [redacted] 25X9 are serving abroad while the balance are at headquarters as replacements.] It is estimated that a maximum of [redacted] employees will qualify for coverage under the new system; civil service retirement will remain the retirement system for all other employees.

25X9

b. [Normally, we would anticipate that an average of about 27 of these employees would become eligible for optional retirement under the civil service retirement system during each of the next five years. For the reasons presented in justification of our need for a retirement system comparable to that of the Foreign Service, and to correct imbalances in the age make-up of this group, we would hope, under the new system, to increase the average number of retirements from this group by about 40 in each of these years.] During the past year the average age of Agency personnel who retired under the Civil Service Retirement System was 66. We hope, in time, to lower the average retirement age of those under the new retirement system to about 55 years which is comparable to the average retirement age in the Foreign Service.

7. Cost Estimates

a. There will be certain increased costs for the administration of the retirement system. For reasons of efficiency and security, it is considered essential that full administration of the program excluding maintenance of the fund by the Department of the Treasury (as required by law in the case of the Foreign Service Retirement Fund) be accomplished within the Agency. It is estimated that by the end of the first five years the administration of the proposed program would cost approximately \$80,000 per year with an increase of approximately eight man years. Internal administration of the program would include determinations of eligibility and entitlements, payment of retirement benefits, and all related administrative matters.

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b. Program costs cannot be estimated with comparable precision. Nevertheless, reasonably valid estimates have been made on the basis of actuarial experience of the civil service and Foreign Service systems. Based on the cost differential of the differing benefits of the two programs and applying it to the estimated maximum of 4,500 eligible for the proposed retirement system, we compute that a maximum additional Government contribution of \$4.6 million annually would be required. However, it has not been government practice for many years to fully fund its retirement programs. Further, there have been special charges against the Foreign Service Retirement Fund which go beyond the basic benefits of the proposed CIA system.

[c. A more realistic estimate can be made of the increased payout in basic annuity benefits under the proposed system over the civil service retirement system for the next five fiscal years. The estimate assumes a target rate of 67 retirements per year. Other assumptions, based upon manpower studies and age and grade characteristics of the eligible group, contemplate an average retirement age of 55 years with 25 years of service and an average high-five salary of \$11,000 (about the second step of grade GS-13). Basic annuities computed under the new system would be \$5,500 as against \$4,829 under the civil service system. The difference of \$671 applied to the estimated average of 67 retirements per year would result in the following total increased annuity payments for the years shown:

<u>FY Year</u>	<u>Annuitants</u> (Cumulative Totals)	<u>Increased Annuity Payments</u> (Cumulative Totals)
1963(one-half year)	34	\$ 22,814
1964	101	67,771
1965	168	112,728
1966	235	157,685
1967	302	202,642
	Total	\$ 563,640

The chain of recruitment, reassignment, and promotion actions created by this annual retirement of officers would result in a considerable saving in salaries. Assuming an average lapse of six months in this process, the saving would approximate \$2,300 per retirement and would total approximately \$414,000 over a five-year period. This saving would almost offset the estimated increase in annuity payments for the first five years that the new system was in operation.

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Appendix A is the printed chart "Comparison of Foreign Service Retirement and Disability System with Pertinent Provisions of the Civil Service Retirement System."

TAB

A BILL

To amend the Central Intelligence Agency Act of 1949, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Central Intelligence Agency Act Amendments of 1962."

Sec. 2. Section 4 of the Central Intelligence Agency Act of 1949, as amended, and the heading thereto is amended to read as follows:

"Officer and Employee Allowances and Benefits

"Sec. 4. In the performance of the functions of the Central Intelligence Agency, the Director is authorized:

(a) to adopt or apply to officers and employees of the Agency such provisions regarding officer and employee allowances and benefits, as he may determine to be necessary and appropriate, of the Foreign Service Act of 1946, as heretofore or hereafter amended, and of any other law pertaining specifically, or generally applicable, to Foreign Service officers, Foreign Service reserve officers, and Foreign Service staff officers and employees;

(b) to exercise with respect to officers and employees of the Agency such authorities, as he may determine to be necessary and appropriate, available to the Secretary of State under provisions of any such laws in order to make available to Agency officers and employees similar benefits, rights, privileges, and allowances authorized thereunder;

(c) to prescribe regulations for the granting of officer and employee allowances and benefits and for the exercise of the authorities set forth in this section."

Sec. 3. Section 5 of the Central Intelligence Agency Act of 1949, as amended, is amended by the addition of a new paragraph (g) as follows:

"(g) Under such regulations as the Director may prescribe the Director is authorized to exercise the authority available to the Secretary of State with respect to the establishment of a retirement and disability system under the Foreign Service Act of 1946, as heretofore or hereafter amended, in order to establish a corresponding retirement and disability system for such individuals and classes or groups of Agency officers and employees as he may designate from time to time."

TAB

EARLY RETIREMENT PROPOSAL

The purpose of the proposed legislation (HR ) is to make available to limited numbers of Agency employees a retirement system similar to that of the Foreign Service. The Agency has concluded that this system is urgently needed and basically fits our requirements.

Since Mr. McCone took over, he has conducted a thorough review of Agency management and personnel. While the Director has found that the people in the Agency are of unusual competence and dedication, the nature of the work involved in our operations calls for a young and resilient group of employees. A certain percentage of people will not be able to look forward to a full working career of 30 or more years.

Those Agency employees affected are obligated to serve anywhere in the world as in the Foreign Service and the military and unlike the normal Civil Service employee. The Civil Service Retirement Act is not designed for such people. The Foreign Service retirement system has been developed over the years to meet the needs of a service consisting of people who are required and do spend the major part of their careers abroad. The civil service retirement system was not designed for such people and consequently we believe that adopting a system similar to the Foreign Service will fulfill our needs.

We are just finishing an Agency reduction-in-force program involving about 150 people. These were occupationally surplus, i.e., based on our specialized needs and in accord with our manpower alignments they were excess. This exercise has created considerable restiveness among some of our employees and we feel that a new program such as this will reassure this group that their dedication is being recognized by the provision of a more appropriate retirement system.

TAB

NOTES FOR PRESENTATION BY DCI

1. Appropriate greeting.
2. Note that many members of the Committee already have a statement of explanation and justification.
3. Remark on review of management and personnel of Agency; competence and dedication of personnel.
4. Summarize proposal: For a number of years the Agency has been studying the early retirement question and as has been pointed out in our explanation, so many people STATINTL  
have additional security restrictions imposed on them we feel that the Foreign Service retirement system will basically meet our needs. It has distinct advantages: it is not a new system but has been evolved over the years to meet the situation of many people who have the same needs as we have.
5. Give an example or two.
6. Urgency.
7. Questions.



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GENERAL POLICIES AND ADMINISTRATIVE CONCEPTS IN CONNECTION  
WITH THE PROPOSED CIA INTELLIGENCE OPERATIONS RETIREMENT SYSTEM

1. The civil service retirement system remains as the basic retirement system for the Central Intelligence Agency. Employees will enter on duty as participants of the civil service retirement system and formal administrative action will be required to transfer eligible employees to the Intelligence Operations Retirement System at the appropriate time.
2. Specific criteria of eligibility will be prescribed by regulations issued by the Director of Central Intelligence. These regulations will govern the blanketing into the IORS of employees whose past service has already satisfied the minimum criteria and whose future careers are clearly directed toward continuing service in qualifying areas of work. The regulations will also prescribe a mechanism for the timely and thoughtful consideration of individuals who subsequently satisfy the minimum service requirements. Lastly, the regulations will provide separate criteria and machinery to determine which other individuals, in the event of forced attrition programs, will be eligible for the selection-out benefits of the IORS rather than those benefits provided for in the civil service retirement system. In no event will such an individual be deprived of his civil service system discontinued service benefits by arbitrary transfer to the IORS.
3. Specific administrative provision will be made for the rare instance wherein an individual who has been taken into the IORS will demonstrate his future unwillingness to fulfill his service obligations and who may seek to continue in Agency employ in a nonqualifying area of work. If such individual's period of qualifying service is less than an amount deemed permanently qualifying, it is contemplated that he will be required to apply for reversion to the civil service system as a requisite to reassignment and continuing employment.

The criteria for identifying those employees who would become eligible for coverage under such a retirement system rather than under civil service retirement would be as follows:

Career employees of the Agency would be eligible for annuities computed at the rate of 2% of the average salary of their "high-five" years of service multiplied by the number of their years of Federal service under the following conditions:

(1) Optional Retirement

Career Employees may apply for and normally be granted retirement on such annuities at age 50 if they have completed 20 years of Federal service of which 10 were with CIA and 5 were overseas with CIA.

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GROUP 1. Excluded from  
automatic downgrading

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(2) Discontinued Service (other than for cause)

(a) The DCI may retire eligible Career Employees of supergrade rank on such annuities when he determines this action to be in the interest of the Agency.

(b) The DCI may retire Career Employees in grades GS-14 and GS-15 on such annuities when he determines that their employment must be discontinued and their service in the Agency was of such a nature as to (1) require the acquisition and application of skills for which requirements in other Government or commercial fields of employment are either rare or non-existent, or (2) effectively prevent them from studying, practicing, or otherwise developing or retaining proficiency in an established occupation or profession, or (3) prevent the individual, for reasons of operational cover or security, from describing or confirming to a prospective employer the scope and level of his duties and responsibilities.

(c) Those Career Employees grade GS-13 and below whose employment must be discontinued and whose service meets the criteria in (b) above will receive separation compensation and either a refund of retirement contributions or a deferred retirement annuity at age 60 such as provided in Section 632 of the Foreign Service Act as amended.

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