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STATEMENT OF

JOHN STURDIVANT
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(AFL-CIO)

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

ON

DUAL RETIREMENT CONTRIBUTIONS

SEPTEMBER 20, 1983

The American Federation of Government Employees (AFGE), AFL-CIO, is pleased to have the opportunity to testify before the the Post Office and Civil Service Committee. AFGE represents over 700,000 employees throughout the Executive Branch of government.

We are pleased to see this Committee address the rather absurd situation brought about by the passage of H.R. 1900, the Social Security Reform Bill. On January 1, 1984, new federal employees will be (barring any change in current law) contributing 14% for retirement purposes -- 7% to the Civil Service Retirement System, 5.7% to Social Security and 1.3% to Medicare. (For 1984, .3% of the Social Security contribution would be allowed as a tax credit for income tax purposes.) The new employees will be contributing this 14% of their salary without having any clear idea what their ultimate retirement benefits will be since there currently is no supplemental retirement plan in place for these employees.

Below we illustrate the size of the annual retirement contribution, at current pay, for each of the GS levels, 1 through 12:

GS LEVEL	STEP	ANNUAL PAY	ANNUAL RETIREMENT CONTRIBUTION
1	5	\$ 9,831	\$1,376
2	5	10,703	1,498
3	5	12,065	1,689
4	5	13,541	1,896
5	5	15,153	2,121
6	5	16,889	2,364
7	5	18,767	2,627
8	5	20,783	2,910
9	5	22,956	3,214
10	5	25,283	3,539
11	5	27,776	3,889
12	5	31,332	4,386

Of course, one would have to deduct health insurance, federal, state, and local income taxes before one could estimate the take home pay for these federal workers.

As the General Accounting Office stresses in its report and the above table indicates, the ability of the federal government to recruit and retain quality employees will be severely reduced given this level of retirement contribution. We cannot but add at this point that the pay caps, retirement benefit reductions, increases in the health premiums, deterioration of working conditions, and constant belittlement of the worth of federal employees has also affected the governments' ability to attract top notch workers. These retirement contributions will make

worse the already existing entry level pay gaps between the private sector and the federal sector. (See attachment.)

The members are well aware that this union opposed bringing new federal employees under Social Security. Our opposition was shared by virtually all federal employees. However we were not able to prevail on this issue.

When it became clear that new employees were to be brought under Social Security, we supported and were happy to see the Senate pass the amendment offered by Senator Russell Long (D-LA) to H.R. 1900 which would have delayed coverage of new federal employees until a supplemental retirement system was in place. Unfortunately, the Senate was not able to prevail in Conference with the House on the Long admendment. If the Long admendment had prevailed we would not be facing the current abysmal situation.

Although we recognize the political difficulties in passing a provision similar to the Long admendment, we still believe that removing new employees from Social Security until a supplemental retirement system is in place is the best answer to the current problems.

Without this favored solution, it becomes very difficult to find an appropriate solution to the current situation. This difficulty stems from the fact that we are trying to remedy the contribution aspect of the retirement system for new employees without having any clear idea what the benefit structure will eventually be. The GAO Report states, "... we assumed the new

supplemental retirement system will retroactively cover all periods of service by new employees subsequent to January 1, 1984." New employees, considering the track record of promises made to federal employees, may very well wonder whether this "assumption" is valid.

THE PROPOSALS EXAMINED BY GAO

The criteria offered by GAO for the four proposals it considers is "alternatives which would alleviate adverse impacts on recruiting and retention". We believe that there is another consideration which should be taken into account in attempting to alleviate the dual contribution problem -- namely that equality between current and future employees be maintained. When the supplemental retirement program is under consideration AFGE will be guided by the following principle:

The supplemental system (when combined with Social Security) should provide the same level of benefits as the current system with the same level of contributions from the employee.

In light of this principle, AFGE cannot endorse any of the retirement contribution proposals as currently fashioned by GAO.

The first proposal, to provide new employees with a tax credit for their contribution to the Civil Service Retirement System, would place new hires in a relatively privileged position when compared to current employees. For example consider the hypothetical case of two employees (one current employee and one newly hired 1984 employee) both earning \$40,000

and paying 30% in federal income tax. In this case under this alternative, the current employee would pay \$2,800 to the Civil Service Retirement System, \$495 for Medicare, and \$12,000 in federal income tax for a take home pay of \$24,705. The new employee on the other hand would pay \$2,800 to the Civil Service Retirement System, \$2,172 to Social Security, \$495 for Medicare, and \$9200 in federal income tax (taking into account the tax credit for the Civil Service Retirement System contribution). His take-home pay would be \$25,333 -- a full \$628 more than the current employee. In addition, new employees could also receive a refund of their Civil Service Retirement contribution if they leave government service.

The second option of no Civil Service Retirement coverage, thus no employee or employer contribution to the Civil Service Retirement System, also is flawed. The new employee would have Social Security coverage but would have no defined stake in a supplementary retirement system. The resulting increased insecurity would, again, have adverse impact in the government's recruitment ability. There would also be fairness problems in disability and death situations. It would also have an adverse impact on the finances of the Civil Service Retirement Fund.

The fourth option, of voluntary participation in the Civil Service Retirement System, is merely allowing employees to choose between the current situation which is, as these hearings attest, recognized to be unsatisfactory and the second GAO option which, as we have already argued, is also unsatisfactory. An option to

choose between two unsatisfactory situations is itself obviously --unsatisfactory.

Option three, requiring agency contributions but no employee contributions, also has some problems. By not requiring any contribution from new employees, it fails to show new employees that they have a stake in a supplementary retirement system. If they are guaranteed credit for the years of service in this interim period, it is not equitable to current employees who will be contributing at a higher rate than these new workers or future employees who may be required to contribute to the supplemental retirement plan. It does have the advantage of providing increased coverage to new employees in situations of disability or death. It also aids in the financial status of the Civil Service Retirement Fund, compared to GAO option two, by providing for agency contributions.

AFGE RECOMMENDATIONS:

If it is considered impossible to delay Social Security coverage of new employees until a supplemental retirement system is in place, then AFGE would recommend that GAO option three be modified to provide for a 1.3% employee contribution to the Civil Service Retirement System because:

It would achieve a parity of contribution between new and current employees for retirement purposes.

It would assure new employees that they would have full

credit of their years of service toward a supplemental retirement plan in this interim period.

It would provide the Civil Service Retirement Fund with some additional funding.

It would provide new employees with coverage for disability and death benefits comparable with pre-1984 federal employees.

Provisions should, also, be made for the refund or additional contribution in the case where the supplemental system requires a contribution rate that is different than 1.3%. There already exists a precedent for this approach in the way Congress has chosen to handle the post-1956 military service for Civil Service Retirement. We are not persuaded by the protests made by GAO in regard to the administrative complexity of such an approach. We fully recognize that there are some potential administrative problems in this approach but we strongly believe that such problems are secondary to the principles of equity and fairness to federal employees, both current and potential.

We want to thank the Chairman and the Committee for examining this situation and look forward to working with the Committee and its staff to resolve the problem.

ATTACHMENT

Based on March 31, 1983 data supplied by OPM, the relative differences in entry level pay between similarly matched jobs in the private sector vis the federal sector has become alarming. For example:

ENTRY LEVEL DIFFERENCES IN PAY			
<u>OCCUPATION</u>	<u>PRIVATE SALARY</u>	<u>FEDERAL SALARY</u>	<u>% DIFFERENCE</u>
ACCOUNTANTS	\$19,519	\$14,098	38.45%
ATTORNEYS	28,119	20,591	36.55
CHEMISTS	21,365	13,628	56.77
ENGINEERS	25,556	17,431	46.61