



American Postal Workers Union, AFL-CIO

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MOE BILLER
President

TESTIMONY OF

MOE BILLER
PRESIDENT

AMERICAN POSTAL WORKERS UNION
AFL-CIO

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 1, 1984

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TESTIMONY OF
MOE BILLER, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO

MR CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO TESTIFY TODAY CONCERNING THE DEVELOPMENT OF A RETIREMENT PLAN FOR NEW POSTAL AND FEDERAL EMPLOYEES WHO ARE SUBJECT TO SOCIAL SECURITY. THE AMERICAN POSTAL WORKERS UNION IS COMMITTED TO PROTECTING THE FINANCIAL WELL-BEING OF PAST AND FUTURE POSTAL WORKERS AS WELL AS OUR CURRENT POSTAL WORKFORCE. IT WAS TO THAT END THAT WE WORKED WITH THE COMMITTEE LAST FALL TO REDUCE THE PAYROLL TAX OF NEW EMPLOYEES FROM 14 PERCENT TO A MORE EQUITABLE 8.3 PERCENT. I WANT TO COMMEND YOU, MR. CHAIRMAN, FOR YOUR DILIGENCE AND LEADERSHIP IN THAT EFFORT.

CREATION OF A RETIREMENT SYSTEM FOR NEW EMPLOYEES IS NOT A SIMPLE TASK. THERE ARE MANY COMPLEX ISSUES WHICH MUST BE ADDRESSED IN ORDER TO DESIGN AN EQUITABLE PLAN. I KNOW THIS COMMITTEE HAS COMMISSIONED SEVERAL MAJOR STUDIES TO ASSIST IN DEVELOPING THE PLAN DESIGN AND SOLVING THE MANY DIFFICULT TECHNICAL ISSUES. WE IN THE AMERICAN POSTAL WORKERS UNION LOOK FORWARD TO THE RESULTS OF THESE STUDIES AS WE CARRY OUT OUR OWN ANALYSIS OF THE ISSUES.

MR. CHAIRMAN, THE STUDY UNDERTAKEN BY THE COMMITTEE AND OUR OWN STUDIES ARE NOT YET COMPLETE. THEREFORE, MY REMARKS TODAY DO NOT REPRESENT A FINAL POSITION ON THE NEW RETIREMENT PLAN. WHAT

I PRESENT TO THE COMMITTEE TODAY IN MY ORAL AND WRITTEN TESTIMONY IS THE GENERAL FRAMEWORK I BELIEVE THE COMMITTEE SHOULD FOLLOW IN REGARD TO THE ISSUES AT HAND.

THE CIVIL SERVICE RETIREMENT SYSTEM IS A HEALTHY, WELL-FUNDED SYSTEM. THE TRUST FUND CONTAINS \$110 BILLION WHICH WILL PROVIDE MORE THAN FIVE YEARS OF BENEFITS. THIS LARGE RESERVE IS MORE THAN ADEQUATE IN A PAY-AS-YOU-GO SYSTEM LIKE CIVIL SERVICE RETIREMENT. THE RETIREMENT SYSTEM FOR CURRENT WORKERS IS A GOOD SYSTEM WHICH SHOULD NOT BE CHANGED. MY FIRST RECOMMENDATION TO THE COMMITTEE IS THAT NO CHANGES BE MADE IN THE RETIREMENT SYSTEM FOR CURRENT WORKERS. THE LEGISLATION WHICH THE COMMITTEE WILL CONSIDER NEXT YEAR SHOULD PERTAIN TO NEW WORKERS ONLY, AND NO AMENDMENTS SHOULD BE MADE TO CHANGE THE BASIC CIVIL SERVICE RETIREMENT SYSTEM. THIS RECOMMENDATION IS CONSISTENT WITH THE POSITION WHICH YOU TOOK, MR. CHAIRMAN, ALONG WITH THE HOUSE LEADERSHIP, AT THE TIME THAT SOCIAL SECURITY WAS EXTENDED TO FUTURE FEDERAL AND POSTAL WORKERS.

THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM HAS SEVERAL DIFFERENT PENSION PLANS THAT ARE OPERATED THROUGH THE CSRS TRUST FUND. THESE INCLUDE SPECIAL PLANS FOR MEMBERS OF CONGRESS AND STAFF AMONG OTHERS, AS WELL AS THE RETIREMENT PLAN THAT COVERS THE VAST MAJORITY OF FEDERAL AND POSTAL EMPLOYEES, WHICH MOST OF US THINK OF WHEN WE REFER TO THE CIVIL SERVICE RETIREMENT SYSTEM. THE RETIREMENT PLAN TO BE DEVELOPED BY THIS COMMITTEE FOR NEW FEDERAL AND POSTAL EMPLOYEES SHOULD BE PLACED IN THE CSRS TRUST FUND LIKE OTHER FEDERAL EMPLOYEE RETIREMENT PLANS. THERE IS NO RATIONALE THAT JUSTIFIES THE PROBLEMS WHICH WOULD BE

CREATED IN THE CURRENT PENSION PLANS IF ALL NEW WORKERS WERE REMOVED FROM THE SYSTEM. THEREFORE, MY SECOND RECOMMENDATION TO THE COMMITTEE IS THAT THE PENSION PLAN FOR NEW HIRES SHOULD BE FUNDED THROUGH THE CIVIL SERVICE RETIREMENT SYSTEM TRUST FUND.

WHILE THE AMERICAN POSTAL WORKERS UNION AWAITS THE RESULTS OF THE VARIOUS STUDIES UNDERWAY BEFORE ADVOCATING ANY PARTICULAR RETIREMENT PLAN DESIGN, THERE ARE SEVERAL PRINCIPLES AND DESIGN OBJECTIVES ON WHICH THE NEW PLAN SHOULD BE BASED.

THE VARIOUS RETIREMENT PLANS WHICH MAKE UP THE CIVIL SERVICE RETIREMENT SYSTEM ARE DEFINED BENEFIT PLANS. THIS TYPE OF PLAN IS ALSO FAVORED IN THE PRIVATE SECTOR, WHERE MOST LARGE EMPLOYERS HAVE ESTABLISHED DEFINED BENEFIT PLANS. THIS TYPE OF PLAN ALLOWS AN EMPLOYEE TO ESTIMATE HIS OR HER RETIREMENT BENEFITS SO THE EMPLOYEE CAN PLAN FOR THE RETIREMENT YEARS. A DEFINED CONTRIBUTION PLAN, ON THE OTHER HAND, IS DEPENDENT ON THE EARNINGS OF SPECIFIC INVESTMENTS WHICH MAY OR MAY NOT PERFORM SATISFACTORILY.

THE RETIREMENT PLAN FOR NEW FEDERAL AND POSTAL EMPLOYEES SHOULD BE A DEFINED BENEFIT PLAN. POSTAL AND FEDERAL WORKERS SHOULD BE ACCORDED THE SECURITY AND KNOWLEDGE THAT THEIR RETIREMENT BENEFITS WILL BE AVAILABLE REGARDLESS OF FLUCTUATIONS IN THE STOCK OR BOND MARKETS OR THE PERFORMANCE OF ANY PARTICULAR STOCKS OR BONDS.

THE INTEGRATION OF THE PENSION PLAN FOR NEW HIRES WITH SOCIAL SECURITY IS A COMPLEX ISSUE. SOCIAL SECURITY IS A PROGRESSIVE SYSTEM WHICH PAYS A HIGHER PERCENT OF PAYROLL TO LOW-WAGE WORKERS THAN TO HIGH-WAGE WORKERS. THE AMERICAN POSTAL WORKERS UNION, AND INDEED THE LABOR MOVEMENT IN GENERAL, HAS TRADITIONALLY SUPPORTED THIS PROGRESSIVE SYSTEM. WE ALSO SUPPORT

THE PROVISIONS IN THE TAX CODE WHICH PROHIBIT PRIVATE SECTOR PENSION PLANS FROM FULLY OFF-SETTING ALL SOCIAL SECURITY BENEFITS, THEREBY WIPING OUT THE PROGRESSIVITY OF SOCIAL SECURITY.

THE AMERICAN POSTAL WORKERS UNION BELIEVES THAT LOWER TO MIDDLE WAGE WORKERS SHOULD RECEIVE A HIGHER PERCENTAGE REPLACEMENT RATE THAN THE HIGHEST WAGE WORKERS. THEREFORE, WE RECOMMEND THAT AT A MINIMUM, THE PENSION PLAN FOR NEW HIRES MUST MEET THE IRS REGULATIONS IN FORMULATING ANY OFFSET APPROACH IN BENEFIT CALCULATIONS. MR. CHAIRMAN, WE AWAIT THE RESULTS OF THE VARIOUS STUDIES BEFORE WE MAKE A SPECIFIC RECOMMENDATION ON THE DEGREE OF PROGRESSIVITY TO BE RETAINED IN THE INTEGRATION OF THE NEW PENSION SYSTEM WITH SOCIAL SECURITY.

MANY PRIVATE SECTOR PENSION PLANS, IN FACT MORE THAN HALF OF THE PLANS OFFERED BY LARGE COMPANIES, OFFER A THRIFT PLAN IN ADDITION TO A DEFINED BENEFIT PLAN TO ENCOURAGE ADDITIONAL EMPLOYEE SAVINGS FOR RETIREMENT. THESE PLANS GENERALLY HAVE PROVISIONS WHICH REQUIRE THE EMPLOYER TO MATCH EMPLOYEE CONTRIBUTIONS. THE APWU IS NOT PREPARED AT THIS TIME TO ADVOCATE THAT A THRIFT PLAN BE AVAILABLE IN ADDITION TO THE BASIC DEFINED BENEFIT PLAN ESTABLISHED FOR NEW EMPLOYEES. HOWEVER, WE DO RECOMMEND THAT ESTABLISHING A THRIFT PLAN BE THOROUGHLY EXPLORED BY THE COMMITTEE.

IN OTHER AREAS OF PLAN DESIGN, THE PENSION PLAN FOR NEW EMPLOYEES SHOULD BE AS SIMILAR AS POSSIBLE TO THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM. RETIREMENT AT AGE 55 SHOULD BE AN OPTION IN THE NEW PLAN, AND BENEFITS IN THE NEW SYSTEM SHOULD BE

PROTECTED FROM THE RAVAGES OF INFLATION THROUGH ANNUAL COST-OF-LIVING INCREASES TIED TO THE CONSUMER PRICE INDEX. YEARS OF SERVICE AND OTHER SERVICE REQUIREMENTS, AND FIVE-YEAR VESTING SHOULD ALSO BE CONTINUED IN THE NEW SYSTEM.

THE MANDATED EMPLOYEE CONTRIBUTION RATE SHOULD BE THE SAME OR SIMILAR FOR OLD AND NEW EMPLOYEES. CURRENTLY, BOTH ARE PAYING 8.3 PERCENT OF PAYROLL TOWARD RETIREMENT. THAT IS A FAIR AND ADEQUATE PAYMENT AND SHOULD BE CONTINUED.

IN ADDITION TO THE NEED FOR COMPARABILITY BETWEEN THE RETIREMENT PLAN FOR CURRENT WORKERS AND THE PLAN DESIGNED FOR NEW HIRES, MANY IN THE CONGRESS HAVE SUGGESTED THAT THE CIVIL SERVICE RETIREMENT SYSTEM SHOULD BE COMPARABLE TO PENSION PLANS OFFERED BY LARGE PRIVATE SECTOR EMPLOYERS.

MR. CHAIRMAN, AS PART OF OUR ANALYSIS OF THE ISSUES, THE AMERICAN POSTAL WORKERS UNION SUPPORTED A STUDY WHICH COMPARED CIVIL SERVICE RETIREMENT TO THREE LARGE PRIVATE SECTOR PENSION PLANS. IN OUR ANALYSIS, WHICH I HAVE PREVIOUSLY PROVIDED TO THE COMMITTEE AND WHICH I NOW SUBMIT FOR THE RECORD, THE CIVIL SERVICE SYSTEM WAS COMPARABLE IN TOTAL RETIREMENT BENEFITS TO THE THREE PLANS STUDIED, WHICH INCLUDED GENERAL MOTORS, AT&T, AND IBM. THE RETIREMENT BENEFITS OF FEDERAL AND POSTAL WORKERS SHOULD BE COMPARABLE TO THE RETIREMENT BENEFITS PROVIDED BY THE NATION'S LARGE EMPLOYERS, WITH WHOM THE FEDERAL GOVERNMENT COMPETES FOR EMPLOYEES. OUR ANALYSIS INDICATES THAT WHEN ALL RETIREMENT BENEFITS INCLUDING THRIFT PLANS ARE CALCULATED, THE RETIREMENT PLANS OFFERED BY THE LARGEST EMPLOYERS ARE QUITE SIMILAR TO THE BENEFITS PROVIDED BY CSRS.

IN CLOSING, I WOULD LIKE TO REITERATE THE RECOMMENDATIONS WHICH WE FEEL ARE CRITICAL TO THE DESIGN OF ACCEPTABLE LEGISLATION:

1. THE LEGISLATION SHOULD PERTAIN TO THE PENSIONS OF NEW HIRES ONLY, AND NO CHANGES SHOULD BE MADE IN THE BASIC CIVIL SERVICE RETIREMENT SYSTEM.
2. THE PENSION PLAN FOR NEW HIRES SHOULD BE FUNDED THROUGH THE EXISTING CIVIL SERVICE RETIREMENT SYSTEM.
3. THE PENSION PLAN FOR NEW HIRES SHOULD BE MODELED AFTER THE CURRENT SYSTEM IN REGARD TO THE TYPE OF PLAN, WHICH SHOULD BE A DEFINED BENEFIT PLAN, AND IN REGARD TO OTHER FACTORS SUCH AS AGE OF RETIREMENT, COST-OF-LIVING ADJUSTMENTS FOR INFLATION, SERVICE REQUIREMENTS, AND VESTING.
4. INTEGRATION WITH SOCIAL SECURITY SHOULD RETAIN THE PROGRESSIVITY OF THE SOCIAL SECURITY SYSTEM TO SOME DEGREE.

MR. CHAIRMAN, I LOOK FORWARD TO WORKING WITH YOU OVER THE COURSE OF THE NEXT TWO YEARS AS LEGISLATION IS DEVELOPED TO CREATE A PENSION PLAN FOR FEDERAL AND POSTAL WORKERS HIRED AFTER JANUARY 1, 1984.