

FY I

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27 February 1985

*1. House Hearing file
2. OLL correspondence file*

MEMORANDUM FOR: See Distribution

VIA: Acting Chief, Liaison Division, OLL

FROM:
Liaison Division, OLL

SUBJECT: House "Hearing" on Administration's Proposed
FY 86 Budget Cuts to Federal Employee
Benefits

1. On 26 February 1985, Congresswoman Mary Rose Oakar (D., OH), chaired a "hearing" on the Administration's proposed FY 1986 Budget cuts to Federal employee benefits. Oakar is Chairwoman of the Subcommittee on Compensation and Employee Benefits of the House Post Office and Civil Service Committee. The other Committee Members who attended are Mervyn M. Dymally (D., CA), John T. Myers (R., IN), Dan Young (R., AL), and William D. Ford (D., MI), Committee Chairman. (This "hearing" was referred to as a briefing for Members because the Committee has not yet met to ratify its rules and subcommittee assignments).

2. The purpose for this "hearing" was to collect information that will support the Committee's recommendations to the Budget Committee vis-a-vis the Administration's proposals. The Committee will most likely reject all of the proposals, much to the approval of the standing-room only crowd of Federal union groups.

3. Attached hereto is the list of witnesses and the formal comments of several who testified. Copies of the full proceedings will be distributed when available. There were no surprises during the hearing. The Administration's position, defended by Dr. Donald J. Devine, Director, Office of Personnel Management, remains firm on all cuts proposed and there are now no signs of compromise.

4. In her opening comments (attached hereto), Oakar cited drug enforcement agents, foreign service officers, letter carriers, meat & poultry inspectors, NIH employees,

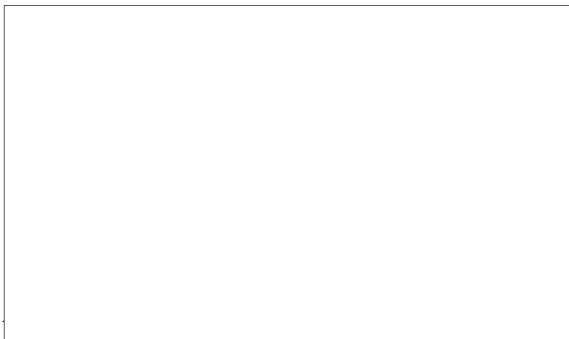
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social security administrators, and Federal retirees as loyal and hard workers who were being abused by the Administration.

5. John Myers, speaking for the minority, stated that he shared the concern of the majority, was interested in cooperation, and cited "quick fixes" and the unwieldy budget process as the causes behind the roller coaster treatment of Federal benefits. Traditionally, this Committee has maintained a bi-partisan pro-Federal employee orientation and this statement signals that this will continue during the 99th Congress. In fact, the majority staff expressed surprise that the Republicans on the Committee have been so vocal in their opposition to the Administration's proposals.

6. In response to questions about retirement, Dr. Devine alluded to a supplement plan that OPM is drafting. He did not give any details, but suggested that the plan would involve portable benefits, such as Social Security plus some form of employee savings; it would not include the employer-provided pension.

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Attachment:
as stated

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House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

TELEPHONE (202) 225-4054

BRIEFING OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON THE FISCAL YEAR 1986 BUDGET PROPOSALS
TUESDAY, FEBRUARY 26, 1985

LIST OF WITNESSES

1. The Honorable Michael D. Barnes (D-MD)
Member of Congress
2. The Honorable Vic Fazio (D-CA)
Member of Congress
3. The Honorable Stan Parris (R-VA)
Member of Congress
4. Dr. Donald J. Devine, Director
Office of Personnel Management
5. Mr. Martin L. Duggan, Chair
Advisory Committee on Federal Pay

accompanied by

Ms. Lucretia Tanner, Executive Director
Advisory Committee on Federal Pay

5. Mr. George Stelluto, Associate Commissioner
Office of Wages & Industrial Relations
Bureau of Labor Statistics
Department of Labor

accompanied by

Mr. Charles O'Connor, Division Chief
Division of Occupational Pay and Employee Benefit
Levels
Bureau of Labor Statistics
Department of Labor

7. Mr. Kenneth Blaylock, President
American Federation of Government Employees, AFL-CIO

8. Mr. L.J. Andolsek, President
National Association of Retired Federal Employees

accompanied by

Ms. Judy Park, Legislative Director
National Association of Retired Federal Employees and

Mr. Tom Trabucco, Associate Legislative Director
National Association of Retired Federal Employees

9. Panel: Mr. Moe Biller, President
American Postal Workers Union, AFL-CIO

accompanied by

Mr. Patrick J. Nilan, Legislative Director
American Postal Workers Union, AFL-CIO and

Mr. Roy Braunstein, Legislative Aide
American Postal Workers Union, AFL-CIO

Mr. Vincent Sombrotto, President
National Association of Letter Carriers, AFL-CIO

accompanied by

Mr. George Gould, Legislative Director
National Association of Letter Carriers,
AFL-CIO

10. Panel: Mr. Thomas P. Costin, President
National Association of Postmasters
of the United States

Mr. R. Fain Hambright, President
National League of Postmasters

accompanied by

Mr. Ed Bowley, Legislative Consultant
National League of Postmasters

Mr. Reuben Handelman, Executive Vice
President
National Association of Postal Supervisors

accompanied by

Mr. Andrew Ruddick
(Retired) Consultant

Mr. Robert L. White, President
National Alliance of Postal and Federal
Employees

11. Panel: Mr. Bun B. Bray, Executive Director
Federal Managers Association

accompanied by

Mr. Red Evans, Assistant Executive Director
Federal Managers Association

Mr. David Gusky, Legislative Director
National Federation of Federal Employees

Mr. Ed Murphy, Legislative Counsel
National Association of Government Employees
AFL-CIO

Mr. Lary D. Silver, President
National Association of Agricultural Stabilization
and Conservation Service, United States
Department of Agriculture, County Office
Employees

12. Panel: The Honorable John N. Erlenborn (R-IL)
Former Member of Congress

Mr. Robert Mueller
National Taxpayers Union

Mr. G. Jerry Shaw, President
Senior Executives Association

Mr. Paul Newton, Legislative Director
National Treasury Employees Union



Congress of the United States
House of Representatives
Washington, D.C. 20515

HEARING ON THE ADMINISTRATION'S BUDGET PROPOSALS
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

FEBRUARY 26, 1985, 1:00 P.M.

STATEMENT OF THE HONORABLE MERVYN M. DYMALLY

Let me start, Chairwoman Oakar, by commending you for moving so quickly to hold hearings on these issues of vital concern to Postal and Federal employees. Your leadership in this area is much appreciated by your Committee colleagues and the people whose interests we represent.

As Chairman of the Subcommittee on Postal Personnel and Modernization, I am deeply concerned about the Administration's latest proposals for cutting Civil Service Retirement benefits. Once again, Postal and Federal employees are being threatened with losing the retirement benefits they have worked for and deserve, under the guise of reducing the Federal budget deficit. Federal employees also are being asked to accept a five percent

reduction in pay, when an independent study commissioned by this committee shows that Federal employee pay already lags behind the private sector by an average of ten percent. Health benefits are threatened, as well. While it is certainly necessary to reduce the huge deficit that has loomed up in the past four years under the current Administration, this task cannot be accomplished on the backs of the Federal workforce.

For too long, the Administration has projected an image of its own workforce which suggests to the American people that Postal and Federal employees receive too many benefits and are unproductive -- in effect, little more than a drain on the Federal budget. As you well know, Madam Chair, these workers perform many services vital to the well-being of large segments of our society. The Administration attempts to lay the blame for deficit problems on Federal and Postal employees because it is expedient to do so, conveniently ignoring the vast majority of productive, dedicated workers who have made a career of public service.

I join you and my other colleagues here today to emphasize my continuing support of Postal and Federal employees in their fight to retain hard-won and well-deserved benefits. I am also strongly behind their efforts to counter the false image created by their own employer, and to regain a sense of self esteem for their work in the Federal government. Public employees must no longer shoulder undue financial and psychological burdens to

compensate for the current Administration's deficit woes.

Once again, I commend you, Madam Chair, for taking the initiative on this issue, and for sending the Administration a clear signal of Congressional intent on this matter.

Statement by
George L. Stelluto, Associate Commissioner
Wages and Industrial Relations
Bureau of Labor Statistics
before the
Compensation and Employee Benefits Subcommittee
Post Office and Civil Service Committee
UNITED STATES HOUSE OF REPRESENTATIVES

February 26, 1985

Madam Chairperson and Members of the Subcommittee:

I welcome the opportunity to appear before this Subcommittee to explain the role of the Bureau of Labor Statistics (BLS) in the pay comparability process for Federal white-collar employees. I will focus first on the BLS role under existing legislation, then briefly describe the scope of the Bureau's 1985 national survey of Professional, Administrative, Technical, and Clerical Pay--the PATC survey. I will conclude with a few comments on possible future expansions to the PATC survey, as proposed by the President's Agent for pay comparability.

THE BLS ROLE

BLS has served as statistical agent in the Federal white-collar pay comparability process since its inception in 1962. This role, which requires the development each year of data on white-collar salaries in private industry for use by the Federal Government to set pay for its employees, was restated in the Federal Pay Comparability Act of 1970. The 1970 Act has been the legislative foundation for the Federal pay comparability process over the past 15 years.

While the 1970 Act calls for "appropriate annual surveys conducted by the Bureau of Labor Statistics," it places the responsibility for survey coverage with the President's Pay Agent (currently the Secretary of Labor, the Director of the Office of Personnel Management, and the Director of the Office of Management and Budget). The Agent sets up comparability procedures, specifies coverage of the PATC survey, and makes recommendations to the President on annual pay adjustments for Federal white-collar employees. In other words, it is the Agent--not BLS--that specifies which private industries, size of firms, and occupations the PATC survey will cover.

The BLS role in the pay comparability process is to conduct the survey and ensure that it is objective, reliable, and statistically sound and, at the same time, meets the Pay Agent's specifications. BLS is responsible for: (1) Developing lists of firms within the prescribed PATC survey coverage, (2) selecting a probability based sample of these firms, (3) collecting, primarily by personal visit, pay data for specific white-collar occupations in the sample firms, (4) reviewing and validating the survey results; and (5) delivering survey tabulations to the President's Agent. BLS also provides technical advice to the Agent on matters affecting the survey, such as on the manner in which the occupational work levels should be defined so they are readily understood in the private industry setting.

The relationship between BLS and the President's Pay Agent has existed for over two decades. Our respective roles are firmly established. The President's Pay Agent provides policy direction for the Federal pay comparability process; the BLS, on the other hand, is responsible for statistical matters related to the survey.

THE PATC SURVEY

Although new and revised occupational definitions have become regular occurrences in the PATC survey, the sizes and types of private industry firms have not changed since 1979. This same coverage defines the 1985 survey, which is now underway. A nationwide sample (excluding Alaska and Hawaii) of 3,500 establishments was drawn for the following industry and employment size groups for 1985:

<u>Industry</u>	<u>Establishment minimum employment sizes</u>
Mining -----	250 workers
Construction -----	250 workers
Manufacturing -----	100-250 workers
Transportation and public utilities -----	100-250 workers
Wholesale trade -----	100 workers
Retail trade -----	250 worker
Finance, insurance, and real estate -----	100 workers
Selected services -----	50-100 workers

The PATC survey produces estimates of average salaries for about 100 work levels within 25 white-collar occupations in private industry. Work levels are described in terms of pay-determining duties and responsibilities based on descriptions that the Pay

Agent can relate to Grades 1 through 15 in the Federal government's General Schedule. Overall the survey covers jobs ranging from routine file clerks and messengers to high level engineers, attorneys, and accountants.

BLS uses a uniform set of job descriptions, developed jointly with the Office of Personnel Management, to classify employees in sample establishments according to their actual duties and responsibilities. This job-matching process involves personal visits to sample establishments, dialogue with establishment officials, extensive use of company position descriptions, organizational charts, and personnel and payroll records. Salaries collected for the survey occupations are those paid to full-time employees for standard work schedules.

Results of the 1985 PATC survey will be delivered to the President's Pay Agent this coming July. BLS will also issue a news release on the survey in July and publish a comprehensive bulletin in October.

THE FUTURE

The Federal pay comparability process is large, complex, and has major impact on the Federal budget. Because of this, the process has been evaluated and reviewed by a number of groups including the General Accounting Office, the Rockefeller Panel, and the Grace Commission. These groups have consistently claimed two short-comings in the comparability process:

- The limited scope of the PATC survey because it excludes small establishments, major private industries (particularly such services as hospitals), and State and local governments.
- The inadequate representation of the occupations surveyed.

The latest proposals under consideration to change the PATC survey are described in the 1984 Pay Agent's Report. The proposals include expanding the PATC survey to smaller establishments, to additional private industries, and to State and local governments. (Including State and local governments in the comparability process would require, of course, a change in the 1970 Act.)

Finally, BLS has reduced its regular PATC job maintenance activities and is working with the Office of Personnel Management staff in: Analyzing occupations in current and expansion industries, developing and testing job descriptions for new industries to be surveyed; and exploring methods for selecting PATC occupations to address criticisms of the lack of representativeness in current PATC jobs.

I have described briefly the BLS role in the pay comparability process. BLS has a service oriented role limited to providing data required for decision making. Many factors must, of course, be considered by the President, his advisors, and the Congress in final decisions made. The Bureau of Labor Statistics stands ready to provide as much help as possible in developing data required to carry out Federal pay policy.

Madam Chairperson, that concludes my remarks. I would be pleased to answer any questions you or the members of the subcommittee may have.

TESTIMONY
of
REPRESENTATIVE STAN PARRIS
before the
POST OFFICE AND CIVIL SERVICE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

Hearing on
FISCAL YEAR 1986 BUDGET PROPOSALS
February 23, 1985

MADAME CHAIR, I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE THE HOUSE POST OFFICE CIVIL SERVICE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS REGARDING THE ADMINISTRATION'S PROPOSED FY 86 BUDGET CHANGES FOR FEDERAL WORKERS AND RETIREES. DURING THE PAST FEW YEARS, THE CIVIL SERVICE HAS BEEN FACED WITH A LARGE NUMBER OF NEW PROPOSALS. HOWEVER, THIS YEAR'S BUDGET RECOMMENDATIONS FOR THE FISCAL YEAR BEGINNING THIS OCTOBER ARE PARTICULARLY DRACONIAN.

I RECOGNIZE THE NEED FOR BUDGET RESTRAINT AND I STRONGLY SUPPORT DEFICIT-REDUCTION MEASURES, BUT AS I HAVE SAID ON A NUMBER OF OCCASIONS BEFORE THIS SUBCOMMITTEE, ACTIVE AND RETIRED GOVERNMENT WORKERS HAVE ALREADY MADE THEIR FAIR SHARE OF SACRIFICES. THIS YEAR'S PROPOSED BUDGET FURTHER PUNISHES AN ALREADY EMBATTLED FEDERAL WORKFORCE - NOT TO MENTION THAT MOST OF THE PROPOSALS WOULD HAVE LITTLE OR NO IMPACT ON REDUCING THE FISCAL 1986 BUDGET DEFICIT. IT WOULD TAKE A NUMBER OF YEARS BEFORE THE IMPACT OF SUCH CHANGES WOULD MAKE THEMSELVES FELT.

MORE IMPORTANTLY, THE CUMULATIVE EFFECT OF THESE PROPOSALS WOULD BE DEVASTATING TO AN EMPLOYEE, SAY IN MY DISTRICT, WHO HAS A FAMILY TO FEED AND CHILDREN TO SEND TO COLLEGE IN AN AREA WITH ONE OF THE HIGHEST STANDARDS OF LIVING IN THE COUNTRY. FOR SEVERAL YEARS NOW, GOVERNMENT WORKERS HAVE RECEIVED LIMITED AND DELAYED PAY INCREASES, HAVE HAD SUBSTANTIAL REDUCTIONS IN HEALTH BENEFITS WHILE THEIR PREMIUMS HAVE INCREASED, AND HAVE HAD TO PAY A MEDICARE TAX, JUST TO MENTION A FEW EXAMPLES. NOW THE ADMINISTRATION EXPECTS EMPLOYEES TO WORK AN EXTRA TEN YEARS,

ACCEPT A PENSION COMPUTATION CHANGE, THROW AWAY ACCUMULATED SICK LEAVE AT RETIREMENT, AND TAKE A FIVE PERCENT PAY CUT - A PROPOSAL LAST TRIED DURING THE 1930s IN THE MIDST OF THE GREAT DEPRESSION. MOREOVER, THE OFFICE OF MANAGEMENT AND BUDGET HAS PROPOSED THE ELIMINATION OF 25,000 JOBS IN FEDERAL REGIONAL AND FIELD OFFICES IN TEN DIFFERENT AGENCIES, THE BULK COMING FROM THE SOCIAL SECURITY ADMINISTRATION.

THIS IS A SIMPLE MATTER OF EQUITY. HOW MUCH LONGER CAN WE MAKE THESE DEMANDS ON FEDERAL WORKERS AND EXPECT THEM TO STAY IN THEIR JOBS OR PERFORM PRODUCTIVELY? SINCE I RETURNED TO THE CONGRESS FOUR YEARS AGO, I HAVE BEEN PREDICTING THAT THESE TYPES OF PROPOSALS WILL RESULT IN A FEDERAL GOVERNMENT COMPRISED OF PEOPLE WHO CAN'T GET JOBS IN THE PRIVATE SECTOR.

MADAME CHAIR, I REGRET THIS IS NO LONGER A MATTER OF PREDICTING THE FUTURE. CIVIL SERVANTS ARE LEAVING THE GOVERNMENT IN UNPRECEDENTED NUMBERS, TOP COLLEGE GRADUATES ARE BEING DISCOURAGED FROM MAKING CIVIL SERVICE A CAREER, AND LIFE-TIME FEDERAL EMPLOYEES ARE TAKING EARLY RETIREMENT. EFFORTS TO ATTRACT AND RETAIN SKILLED, CAPABLE PEOPLE IN FEDERAL SERVICE HAVE BEEN SEVERELY REDUCED. AS A RESULT, THE FEDERAL GOVERNMENT IS BECOMING LESS RESPONSIVE AND RESPONSIBLE TO THE NEEDS OF EVERYONE.

I COMMEND THE SUBCOMMITTEE FOR ITS EFFORTS AND URGE IMMEDIATE ACTION TO HAVE THESE PROPOSALS WITHDRAWN FROM FY 86 BUDGET CONSIDERATIONS.

House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

TELEPHONE (202) 225-4054

OPENING STATEMENT OF CONGRESSWOMAN MARY ROSE OAKAR
CHAIR-DESIGNEE OF THE SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS OF THE HOUSE POST OFFICE
AND CIVIL SERVICE COMMITTEE
OVERSIGHT BRIEFING ON FY 1986 BUDGET PROPOSALS
TUESDAY, FEBRUARY 26, 1985
WASHINGTON, D.C.

THE COMMITTEE WILL COME TO ORDER.

SINCE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE HAS NOT HELD ITS ORGANIZATIONAL MEETING AND HAS NOT ADOPTED ITS RULES FOR THE 99TH CONGRESS, THE PROCEEDINGS TODAY WILL BE CONDUCTED IN THE FORM OF A BRIEFING FOR ALL MEMBERS OF THE COMMITTEE, RATHER THAN AS A SUBCOMMITTEE HEARING. FOLLOWING TODAY'S BRIEFING, I WILL REQUEST THE FULL COMMITTEE TO AUTHORIZE PRINTING OF THESE PROCEEDINGS.

I HAVE SCHEDULED THIS BRIEFING TODAY IN ORDER FOR THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS TO EXPEDITIOUSLY FULFILL ITS OBLIGATIONS UNDER THE BUDGET ACT CONCERNING THE PROPOSALS CONTAINED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1986 AFFECTING FEDERAL PAY, THE CIVIL SERVICE RETIREMENT SYSTEM, AND THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM.

TO BRIEFLY SUMMARIZE THE PRESIDENT'S BUDGET PROPOSALS, HE IS SEEKING TO:

- (1) CUT FEDERAL PAY BY FIVE PERCENT;
- (2) RAISE THE MINIMUM RETIREMENT AGE FOR FULL BENEFITS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM FROM 55 TO 65;
- (3) DECREASE ANNUITIES FOR FEDERAL WORKERS UNDER 65 BY FIVE PERCENT A YEAR. UPON FULL IMPLEMENTATION, THIS WOULD CUT ANNUITIES IN HALF FOR THOSE WHO RETIRE AT AGE 55;
- (4) ELIMINATE THE 1986 COLA;
- (5) CALCULATE FUTURE COLAS BEGINNING IN 1987, BY LIMITING THEM TO THE LOWER OF THE INCREASE IN GENERAL SCHEDULE PAY OR THE

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- CONSUMER PRICE INDEX AND LIMIT COLAS TO 55 PERCENT FOR ANNUITIES THAT EXCEED \$10,000, ADJUSTED BY THE CPI;
- (6) CHANGE THE CIVIL SERVICE RETIREMENT FORMULA SO THAT ANNUITIES WOULD BE CALCULATED ON THE HIGHEST FIVE YEARS OF EARNINGS, RATHER THAN THE PRESENT THREE YEARS;
 - (7) PHASE-OUT RETIREMENT CREDIT FOR UNUSED SICK LEAVE;
OVER 4 YEARS
 - (8) CONFORM CIVIL SERVICE SURVIVOR, ADULT STUDENT AND MINIMUM BENEFITS TO THOSE PROVIDED BY SOCIAL SECURITY;
 - (9) REQUIRE THE POSTAL SERVICE AND THE DISTRICT OF COLUMBIA TO PHASE-IN THE PAYMENT OF THE FULL COST OF PENSIONS, LESS THE EMPLOYEES' CONTRIBUTIONS;
 - (10) DISCONTINUE RETIREMENT LIFE AND HEALTH INSURANCE COVERAGE FOR EMPLOYEES FIRST HIRED BY THE DISTRICT OF COLUMBIA AFTER SEPTEMBER 30, 1985; AND
 - (11) IMPLEMENT A HEALTH BENEFITS VOUCHER PLAN.

I AM DEEPLY CONCERNED WITH THE IMPACT OF THESE PROPOSALS ON THE MORALE AND PRODUCTIVITY OF FEDERAL EMPLOYEES AND THE VITAL SERVICES THAT THEY PERFORM FOR THE CITIZENS OF OUR COUNTRY.

LET'S CONSIDER FOR A MOMENT THAT, WHEN WE SAY "FEDERAL EMPLOYEE," WE ARE TALKING ABOUT PEOPLE LIKE OUR ASTRONAUT, SALLY RIDE, AND DRUG ENFORCEMENT AGENTS WHO RISK THEIR LIVES TO STEM THE FLOW OF ILLEGAL SUBSTANCES THAT ARE FLOODING OUR NATION. WE ARE TALKING ABOUT OUR DEPENDABLE LETTER CARRIERS; THE PEOPLE WHO INSPECT MEAT AND POULTRY TO PROTECT OUR CITIZENS FROM DISEASE; THE MEN AND WOMEN AT THE NATIONAL INSTITUTE OF HEALTH WHO ARE PERFORMING INVALUABLE CANCER RESEARCH; AND THE DEDICATED

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EMPLOYEES WHO ARE RESPONSIBLE FOR ADMINISTERING PROGRAMS
ASSISTING THE FARMERS OF OUR GREAT NATION.

WHEN WE SAY, "FEDERAL EMPLOYEE," WE ARE NOT SIMPLY REFERRING
TO A FACELESS BUREAUCRACY. WE ARE DESCRIBING MANY OF OUR SONS
AND DAUGHTERS, OUR NEIGHBORS, AND OUR FRIENDS. WE ARE REFERRING
TO PEOPLE WHO MAKE CERTAIN THAT SOCIAL SECURITY CHECKS ARE
DELIVERED ON TIME TO OUR SENIOR CITIZENS AND TO THOSE WHO
ADMINISTER VITAL MEDICARE BENEFITS. WE ARE TALKING ABOUT THE
"RETIREEES" WHO, WHEN WORKING FOR THE FEDERAL GOVERNMENT, PLACED
AMERICAN ASTRONAUTS ON THE MOON, DEVELOPED PROGRAMS TO PROTECT
OUR CHILDREN FROM UNSAFE TOYS, AND PRESERVED OUR COUNTRY'S
HERITAGE THROUGH THE ESTABLISHMENT AND ADMINISTRATION OF SUCH
FINE INSTITUTIONS AND MUSEUMS AS THE SMITHSONIAN.

WE ARE DESCRIBING PEOPLE WHO ARE WORKING HARD, RAISING
FAMILIES, AND TRYING TO MAKE ENDS MEET. WE ARE REFERRING TO
GRANDPARENTS AND OTHER SENIORS WHO DEDICATED THEIR LIVES TO
PUBLIC SERVICE. THESE ARE THE MEN AND WOMEN WHO HAVE BEEN MUCH
MALIGNED AND ABUSED BY THIS ADMINISTRATION -- WHO ARE NOW FACING
EXTRAORDINARY REDUCTIONS IN THEIR PAY, RETIREMENT BENEFITS, AND
HEALTH INSURANCE. THESE ARE AMONG THE VICTIMS OF THE FISCAL YEAR
1986 BUDGET WHO ARE BEING SINGLED-OUT FOR EXTRAORDINARY
SACRIFICES. I CANNOT AGREE THAT THESE MEASURES ARE NECESSARY,
FAIR, OR EVEN IN THE PUBLIC INTEREST.

I AM PARTICULARLY DISTURBED BY THE PROPOSAL TO REDUCE
FEDERAL PAY FOR MANY REASONS. FIRST OF ALL, IT IS GROSSLY UNFAIR

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TO SINGLE OUT FEDERAL WORKERS FOR A SUBSTANTIAL PAY REDUCTION, WHILE MILITARY PERSONNEL WOULD RECEIVE A THREE PERCENT PAY RAISE IN JULY.

FURTHERMORE, IN REVIEWING THE HISTORY OF WAGE INCREASES IN THE FEDERAL GOVERNMENT FOR THE PAST 15 YEARS, I AM STRUCK BY THE FACT THAT WAGES FOR WHITE COLLAR WORKERS HAVE RISEN BY 221 PERCENT, WHILE MILITARY PAY HAS GROWN BY 306 PERCENT, AND WAGES IN THE PRIVATE SECTOR HAVE INCREASED BY 290 PERCENT. IN COMPARISON TO THE MILITARY AND THE PRIVATE SECTOR, FEDERAL WHITE COLLAR WAGES HAVE FALLEN SUBSTANTIALLY BEHIND, DESPITE THE CLEAR INTENTION OF THE FEDERAL WAGE COMPARABILITY ACT OF 1970 THAT GENERAL SCHEDULE PAY REMAIN COMPARABLE TO WAGES IN THE PRIVATE SECTOR.

IT IS ALSO IMPORTANT TO NOTE THAT, DURING THIS SAME PERIOD, THE CONSUMER PRICE INDEX HAS INCREASED BY 306 PERCENT. SINCE 1970, FEDERAL WHITE COLLAR WORKERS HAVE SEEN THEIR STANDARD OF LIVING STEADILY DECLINE, DESPITE THE REDUCTION IN THE RATE OF INFLATION FOR THE PAST FEW YEARS.

IN CONSIDERING THE PAY CUT PROPOSAL, WE MUST ALSO KEEP IN MIND THE RECENT REPORT OF HAY ASSOCIATES ON TOTAL COMPENSATION IN THE FEDERAL, STATE, AND PRIVATE SECTORS PREPARED FOR THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE. IN THIS REPORT, HAY ASSOCIATES CONCLUDED THAT FEDERAL PAY LAGS BEHIND THE PRIVATE SECTOR BY 10.3 PERCENT, INCREASING TO 58.4 PERCENT FOR SENIOR EXECUTIVE SALARIES. ON A TOTAL COMPENSATION BASIS, FEDERAL PAY AND FRINGE BENEFITS TRAIL THE PRIVATE SECTOR BY 7.2 PERCENT AND, WHEN COMBINED WITH STATE EMPLOYMENT DATA, 6.2 PERCENT. AND, THE

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MOST RECENT REPORT OF THE PAY AGENT FOUND THAT, UNDER CURRENT PROCEDURES, FEDERAL PAY IS 18.3 PERCENT BEHIND THE PRIVATE SECTOR.

GIVEN THIS DATA, I AM BAFLED BY THE CONCLUSIONS REACHED BY THE OFFICE OF PERSONNEL MANAGEMENT IN ITS REPORT ENTITLED "REFORMING FEDERAL PAY: AN EXAMINATION OF MORE REALISTIC PAY ALTERNATIVES." THIS REPORT APPARENTLY IS THE ONLY DOCUMENT JUSTIFYING THE ADMINISTRATION'S PROPOSAL TO REDUCE FEDERAL PAY BY FIVE PERCENT. I AM LOOKING FORWARD TO QUESTIONING THE DIRECTOR OF THE OFFICE OF PERSONNEL MANAGEMENT CLOSELY ON THE QUALITY OF THE REPORT, THE RELIABILITY OF THE DATA, AND THE VALIDITY OF THE CONCLUSIONS. CERTAINLY, BASED ON MY UNDERSTANDING OF THE REPORT, IT APPEARS TO BE A HASTILY PREPARED DOCUMENT, SORELY LACKING BOTH IN CREDIBILITY AND ANALYSIS.

WITH REGARD TO THE REMAINDER OF THE ADMINISTRATION'S PROPOSALS, WE HAVE SEEN MOST OF THEM IN PRIOR BUDGET SUBMISSIONS OF THE PRESIDENT. CERTAINLY, THE PROPOSAL TO CREATE A VOUCHER PLAN AS A SUBSTITUTE FOR THE CURRENT FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM IS NOT NEW TO THIS COMMITTEE. I, FOR ONE, HAVE CONSISTENTLY OPPOSED A VOUCHER PLAN AS NO MORE THAN A MEANS OF DRASTICALLY REDUCING HEALTH INSURANCE COVERAGE FOR FEDERAL WORKERS AND RETIREES.

IF THERE WAS EVER ANY QUESTION ABOUT THE ADMINISTRATION'S INTENTION IN SEEKING A VOUCHER PLAN, WE NEED ONLY LOOK AT THE BUDGET DOCUMENTS THEMSELVES. THE ADMINISTRATION PROJECTS A REDUCTION IN BUDGET AUTHORITY FOR THE FEHBP FOR FISCAL YEAR 1987, WHEN THE VOUCHER PLAN WOULD FIRST BECOME EFFECTIVE, OF \$56

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MILLION AND, IN 1988, OF \$171 MILLION, COUPLED WITH A \$53 MILLION REDUCTION IN OUTLAYS. IN EFFECT, ONE YEAR AFTER ITS IMPLEMENTATION, THE VOUCHER PLAN WOULD SLASH \$53 MILLION IN HEALTH INSURANCE BENEFITS FOR FEDERAL WORKERS AND ANNUITANTS.

I AM EQUALLY DISTRESSED BY THE UNRELENTING ATTEMPT OF THE ADMINISTRATION TO REDUCE BENEFITS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM. IT IS A TRAVESTY THAT THIS ADMINISTRATION CONTINUES TO TAKE AIM AT SENIOR CITIZENS, SOME OF THE POOREST PEOPLE IN THIS COUNTRY, WHILE THROWING AWAY MONEY ON OVER-PRICED AND USELESS EQUIPMENT AT THE DEPARTMENT OF DEFENSE. OVER THE PAST THREE YEARS, FROM FEBRUARY 1981 TO MAY 1984, A RETIREE WHOSE TOTAL ANNUITY FOR THIS PERIOD SHOULD HAVE BEEN \$63,506 HAS SEEN HER BENEFITS REDUCED TO \$57,581 -- A CUT OF MORE THAN TEN PERCENT -- BECAUSE OF REDUCTIONS IN THE RETIREMENT PROGRAM UNDER THE REAGAN ADMINISTRATION.

I, FOR ONE, AM DEEPLY OFFENDED BY THE MISINFORMATION AND MISREPRESENTATION OF THE CIVIL SERVICE RETIREMENT PROGRAM BY THE GRACE COMMISSION AND THE ADMINISTRATION. SIMPLY PUT, IN MY OPINION, THERE IS NO JUSTIFICATION FOR ANY FURTHER ATTEMPT TO REDUCE BENEFITS UNDER THE CIVIL SERVICE RETIREMENT PROGRAM.

I AM LOOKING FORWARD TO THE TESTIMONY OF THE WITNESSES AT THE BRIEFING TODAY. BECAUSE OF THE TIME CONSTRAINTS FOR THIS BRIEFING, I WOULD ASK THE WITNESSES TO SUMMARIZE THEIR TESTIMONY IN JUST A FEW MINUTES. I AM HOPEFUL THAT THIS BRIEFING WILL PROVIDE THE MEMBERS OF THIS COMMITTEE WITH THE INFORMATION THAT WE NEED TO ASSESS THE WISDOM AND IMPACT OF THE PRESIDENT'S BUDGET PROPOSALS.

NEWS

FROM

NARFE



NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

1533 New Hampshire Ave., N.W. Washington, D.C. 20036

(202) 234-0832

February 26, 1985
FOR IMMEDIATE RELEASE

FOR FURTHER INFORMATION
Judy Park-(202) 234-0832

IF IT'S WRONG FOR A DIME
IT'S WRONG FOR A DOLLAR

Washington, D. C. -- With these words, "Lud" Andolsek, President of the half-million member National Association of Retired Federal Employees, called on Congress to again reject the Reagan Administration's budget proposals on Civil Service retirement and health benefits. Most of the Administration's proposals have been considered and repudiated in the past by Congress. While recognizing that the stakes are higher this year because of irresponsible fiscal policies and their resultant deficits, Andolsek stood firm stating "If it's wrong for a dime, it's wrong for a dollar".

He likened the proposed structural changes to the retirement system to "pulling up stakes on the near end of a transitional bridge before the far side is secured," referring to Congress' yet to be finished work on fashioning a supplemental retirement program for employees hired after 1983. "Let's not break with the past until we have a foot firmly planted in the future."

Attacking the plan to freeze, then cut only Civil Service Retirement COLAS as "duplicitous", Andolsek noted that retiree's deserve inflation protection no matter for whom they worked. On the proposal to manipulate the size of future COLAS, he recalled his days as Commissioner of Civil Service when adjustments were viewed as "election protection for politicians rather than inflation protection for the elderly." He also observed that means-tests might be appropriate for welfare, but they have no place in a staff retirement program.

Concerning the proposed voucher system of health insurance, the Association President stated, "Rebates may be appropriate gimmicks on the car lots of America, but they do not belong on the minds of American citizens making crucial health care decisions."

Expressing the retiree association's concern over the deficit problem, Andolsek expressed a willingness to discuss reasonable approaches to restricting the costs of COLAS. But the requirements for such approaches were made clear -- "They must be consistent across the board, and they must not run contrary to the goals of the retirement programs they affect."

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NATIONAL ASSOCIATION OF LETTER CARRIERS AFL-CIO

VINCENT R. SOMBROTTO
PRESIDENT

100 INDIANA AVENUE, N.W.
WASHINGTON, D.C. 20001
202/393-4695

TESTIMONY OF
NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO
BEFORE THE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U. S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.
FEBRUARY 26, 1985

CONGRESSIONAL TESTIMONY

Madam Chair, my name is George Gould, Legislative and Political Assistant to President Vincent Sombrotto of the National Association of Letter Carriers, a labor organization of over 261,000 members who are either presently employed as city delivery carriers by the U. S. Postal Service or who are retired from such employment. President Sombrotto could not appear today due to a long term commitment to attend the NALC Council of Presidents' annual meeting.

I do not need to detail to you today the fact that postal/federal employee and retiree benefits have been singled out consistently during periods of budget crisis and cutbacks in spending. Although we are not the cause of the budget deficit that exists today, letter carriers have helped to reduce that deficit, while those causing the deficit are unwilling to make a serious effort. The issue is fairness.

As you look at the laundry list of proposed cuts in benefits and programs affecting postal/federal employees, it's easy to recite the money savings to the budget each of these cuts represents.

But the real issue in the '86 budget proposal is people-- individual letter carriers and family members directly affected by each of these proposed cuts. The impact is most

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dramatic when one looks at the out-of-pocket dollar loss or lifetime annuity loss to a government employee. When you look at individuals, the rhetoric of the Grace Commission and those constantly attacking our benefits as "excessive and overgenerous" disappears.

Consider for example the cuts targeted at those already retired. A letter carrier with 30 years of service retiring in March, 1985, will receive an annual annuity of \$12,647. If the retiree provides a survivor annuity, the basic annuity is reduced by \$994.70; the retiree's share of the health benefit premium reduces that basic annuity by another \$863.88. This brings the retiree's annuity to \$899.04 per month or \$10,788.48 per year. As you are aware, a federal employee's annuity is subject to income taxes, thus reducing the amount further.

The current budget proposal would deny this retiree a cost-of-living adjustment in 1986; the retiree would lose approximately \$520 in inflation adjustment. Then in 1987, the loss would be further compounded by paying the COLA on the lower of CPI or federal wage increase--an additional loss of approximately \$165, and capping the COLA on annuities over \$10,000 at 55% of the revised COLA, thus causing an additional loss of \$200 in inflation adjustment.

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Without a change in the current law, by January, 1987, this retiree would receive \$ 1,084 in COLAs based on the Administration's inflation projections; if enacted into law this year these budget proposals would reduce that COLA amount by \$ 740. This retiree's modest annuity will be further eroded because full inflation protection has been eliminated.

If that isn't enough, the Administration's proposal to change the health benefit formula would further reduce the monthly annuity by increasing the retiree-paid portion of the health premium. Additionally, the Administration's voucher plan would force retirees as well as active employees to look for a low cost, low option health plan, bear the additional costs out of pocket, or worse yet forego necessary medical treatment. These proposals changing the federal employee health benefit plan system directly threaten the health of our 10 million federal workers and retirees and their family members covered by the plans.

While the previous proposals affect employees already retired, there are numerous recommendations that would directly impact those currently working. For the active letter carrier, the Administration (management) proposals to change the retirement plan under which this employee was hired should be illegal. In fact, in the private sector, this is a violation of the law. As President Reagan

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recently said, the government made a contract with the people who serve in our armed forces and the government cannot break that contract. Our people have that same contract. Increasing the retirement age to 65 means a letter carrier would have to work 10 years longer, perhaps as long as 46 years--the maximum retirement benefit of 80 percent is reached at 41 years and 11 months--and contribute well over \$15,000 more into the retirement fund while receiving reduced benefits.

Of course, a letter carrier could retire at age 55 with 30 years service, but the basic annuity would be reduced by 5% for each year of early retirement. Therefore, for the letter carrier retiring in March, 1985 that I cited earlier in the testimony, the basic annuity would be reduced from \$12,647 per year to \$6,323.50, less survivor annuity and health premium, bringing the annual annuity down to \$5,097.27 per year, with the poverty level for an elderly family of two being \$6,023. Further, remember this is a letter carrier's retirement income, not a supplement to other retirement incomes!

Other proposed changes would further reduce this basic annuity; for example, calculating the annuity on high-5 instead of high-3 and eliminating retirement credit for unused sick leave. On the latter, let me say this was a sound management decision to encourage employees to work and

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not feel they have to use their unused sick leave before retirement. The proposal is still sound.

The Administration's budget could also affect postal rates, by eliminating the revenue foregone appropriation for reduced mail rates for non-profit mailers such as churches, schools, charities and veterans' groups. If this appropriation is eliminated, the result would double non-profit mail rates, with devastating effects.

Madam Chair, one additional proposal contained in the President's FY'86 budget directly affects the Postal Service. That proposal would require the Postal Service to dramatically increase its contribution to the Civil Service Retirement fund. If enacted, the cost in 1986 alone would be between \$218 and \$300 million, increasing at a greater rate for the later years.

Currently, the USPS transmits to OPM the 14 percent employer/employee contribution as well as an annual unfunded liability payment. In 1984, these amounts were:
\$1,825,284,000 for the 14% employer/employee contribution;
and \$917,204,000 for the annual unfunded liability payment.

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No other federal agency makes a direct contribution to the unfunded liability!

Madam Chair, as I stated earlier, these budget proposals affect real people. It is a retired letter carrier with 34 years of service like Joe Bucciero of St. Petersburg, Florida, whose COLA would be cut. It is the future of active letter carrier Chris Slocum, a mother of three small children, of Yakima, Washington, that is endangered if the retirement contract is broken. And it is the health care benefits of active letter carrier and father of five, Dan Rupp of Cleveland, Ohio, whose benefits would be drastically reduced.

Madam Chair, the examples go on. But the point is the same. The budget cuts proposed in the FY'86 federal budget are cuts against real people who serve and have served as dedicated employees of their government.

I hope this Congress will not allow unconscionable proposals to be enacted this year or any year.

Madam Chair, I will be more than happy to answer any questions you or the other Members of the Subcommittee might wish to ask.

STATEMENT OF
HONORABLE DONALD J. DEVINE
DIRECTOR OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

On

FISCAL YEAR 1986 BUDGET PROPOSALS
CONCERNING CIVIL SERVICE RETIREMENT,
FEDERAL EMPLOYEES HEALTH BENEFITS,
AND FEDERAL PAY

FEBRUARY 26, 1985

MADAM CHAIR AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR INVITING ME TO APPEAR THIS AFTERNOON TO DISCUSS THE ADMINIS-
TRATION'S FISCAL YEAR 1986 BUDGET PROPOSALS ON CIVIL SERVICE RETIREMENT,
FEDERAL EMPLOYEES HEALTH BENEFITS, AND FEDERAL PAY.

CIVIL SERVICE RETIREMENT

A RECENT INDEPENDENT STUDY BY THE CONSULTING FIRM OF TOWERS, PERRIN, FORSTER,
AND CROSBY FOUND THAT THE AVERAGE EMPLOYER COSTS OF PENSIONS IN THE PRIVATE
SECTOR--FOR THE HALF OF THE POPULATION WHICH HAS PENSIONS--WAS 18 PERCENT
OF PAYROLL, COMPARED TO THE GOVERNMENT'S 28 PERCENT OF PAYROLL. EVEN MORE
IMPORTANT, THE STUDY FOUND THAT THE PROVISION OF BENEFITS WAS VERY UNEVEN
BETWEEN DIFFERENT SEGMENTS OF THE WORKFORCE. DATA SHOW THAT 45 PERCENT OF
A COHORT OF NEW EMPLOYEES WILL ACTUALLY SUBSIDIZE THE RETIREMENT SYSTEM, AND
ANOTHER 15 PERCENT WILL RECEIVE NO REAL BENEFITS. ALMOST 60 PERCENT WILL DO
VERY POORLY, WHILE A RELATIVELY SMALL GROUP DOES EXTREMELY WELL. THE CIVIL

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SERVICE RETIREMENT SYSTEM IS THE GOVERNMENT'S THIRD LARGEST ENTITLEMENT PROGRAM WITH AN OUTLAY OF APPROXIMATELY \$23 BILLION IN 1985. IT HAS A DYNAMIC UNFUNDED LIABILITY OF OVER A HALF A TRILLION DOLLARS. IT IS A SYSTEM BADLY IN NEED OF REFORM.

THIS ADMINISTRATION IS COMMITTED TO MAKING THAT REFORM FOR THE SAKE OF BOTH GOOD PERSONNEL MANAGEMENT AND SOUND FINANCIAL ADMINISTRATION. IN 1986, OUR PROPOSED RETIREMENT REFORMS WOULD REDUCE OUTLAYS BY \$731 MILLION AND INCREASE RECEIPTS BY \$269 MILLION. I WOULD LIKE TO DISCUSS EACH OF THESE REFORMS IN TURN.

FIRST, WE PROPOSE TO REVISE THE WAY CIVIL SERVICE ANNUITIES ARE ADJUSTED TO REFLECT CHANGES IN THE COST OF LIVING. CURRENT LAW ENSURES THAT FEDERAL ANNUITANTS, UNLIKE MOST OTHER RETIREES OUTSIDE GOVERNMENT OR EVEN ACTIVE FEDERAL WORKERS, WILL BE COMPLETELY ISOLATED FROM ANY EFFECTS OF INFLATION, SINCE THEIR ANNUITIES ARE REQUIRED TO BE ADJUSTED EACH YEAR TO REFLECT FULL INCREASES IN THE COST OF LIVING AS MEASURED BY THE CONSUMER PRICE INDEX (CPI). CONSEQUENTLY, AS FEDERAL RETIREMENT BENEFITS HAVE RISEN AT A FASTER RATE THAN PAY, MANY RETIREMENT-ELIGIBLE INDIVIDUALS HAVE FOUND IT FINANCIALLY ADVANTAGEOUS TO LEAVE FEDERAL SERVICE. THIS DISINCENTIVE TO WORK HAS TAKEN A PARTICULAR TOLL ON EXPERIENCED AND VALUABLE SENIOR PERSONNEL. REMOVING THIS DISINCENTIVE CONTINUES TO BE A PARAMOUNT PERSONNEL MANAGEMENT CONCERN.

OUR APPROACH TO THE PROBLEM INVOLVES SEVERAL STEPS, STARTING WITH THE ELIMINATION OF THE COST-OF-LIVING ADJUSTMENT (COLA) NOW SCHEDULED FOR THIS DECEMBER. THIS COLA FREEZE WOULD BE CONSISTENT WITH COLA FREEZES BEING PROPOSED FOR A NUMBER OF OTHER INDEXED PROGRAMS, INCLUDING MILITARY RETIRED PAY. THEN, BEGINNING WITH THE DECEMBER 1986 COLA, OUR

COLA AMOUNT WOULD BE THE LESSER OF THE INCREASE IN GENERAL SCHEDULE PAY OR THE CPI CHANGE TO GIVE RETIREES AND EMPLOYEES EQUAL TREATMENT. THAT COLA WOULD BE PAYABLE ON THE FIRST \$10,000 OF ANNUITY. PENSIONS OVER \$10,000 WOULD BE INCREASED BY 55 PERCENT OF THE COLA. IN SUBSEQUENT YEARS, THE \$10,000 BASE AMOUNT TO WHICH THE FULL INCREASE APPLIES WOULD BE ADJUSTED BY THE PERCENTAGE OF THE PREVIOUS YEAR'S COLA. THIS CHANGE WOULD BRING FEDERAL RETIREES INTO CLOSER ALIGNMENT WITH OTHER RETIRED PEOPLE, WHO TYPICALLY RECEIVE FULL COLA'S ONLY ON THEIR SOCIAL SECURITY BENEFITS, AND ONLY ABOUT ONE-THIRD OF THE COLA ON ANY PRIVATE PENSION PAYMENTS THEY RECEIVE.

SECOND, THE BUDGET PROPOSES TO ELIMINATE A PRACTICE UNDER OUR RETIREMENT SYSTEM VIRTUALLY UNKNOWN IN THE PRIVATE SECTOR--UNREDUCED RETIREMENT BENEFITS AS EARLY AS AT AGE 55. WE PROPOSE THAT CURRENT FEDERAL EMPLOYEES WITH SUFFICIENT SERVICE CONTINUE TO BE ABLE TO RETIRE AS EARLY AS AGE 55, BUT BENEFITS WOULD BE REDUCED TO REFLECT THE COST TO THE RETIREMENT SYSTEM OF THIS EARLY RETIREMENT. FOR EACH YEAR THE EMPLOYEE IS UNDER AGE 65 AT THE TIME OF RETIREMENT, THE ANNUITY WOULD BE REDUCED BY 5 PERCENT. THIS REDUCTION WOULD NOT APPLY TO ANYONE WHO IS ALREADY 55, AND IN ORDER TO EASE ITS IMPACT ON THOSE NEAR RETIREMENT, THE REDUCTION WOULD BE PHASED IN OVER 10 YEARS. FOR INSTANCE, AN EMPLOYEE WHO IS NOW 54 COULD RETIRE AT 55 WITH AN ANNUITY REDUCTION OF ONLY 5 PERCENT. ONLY THOSE NOW 45 AND UNDER WOULD BE SUBJECT TO THE FULL REDUCTION. LIKE THE COLA CHANGE, THIS PROPOSAL WOULD BRING FEDERAL RETIREES INTO CLOSER ALIGNMENT WITH RETIREES IN OTHER SECTORS OF THE ECONOMY, WHERE RETIREMENT AT AGE 55 WITH UNREDUCED BENEFITS IS RARELY PERMITTED.

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THIRD, AGAIN FOLLOWING THE NORMAL PATTERN FOLLOWED IN THE PRIVATE SECTOR, WE PROPOSE TO BASE ANNUITY COMPUTATIONS ON THE RETIREE'S HIGHEST FIVE YEARS OF EARNINGS, RATHER THAN THE HIGHEST THREE. PRIOR TO 1969, A PERIOD OF LOW INFLATION, THE HIGH-FIVE YEARS' SALARY WAS USED. SINCE THEN, COMPUTATIONS HAVE BEEN BASED ON THE HIGH-THREE. EMPLOYEES WHO ARE WITHIN THREE YEARS OF ELIGIBILITY FOR RETIREMENT WOULD NOT BE AFFECTED.

FOURTH, WE WOULD PHASE OUT OVER A FOUR-YEAR PERIOD THE RETIREMENT CREDIT CURRENTLY GIVEN FOR UNUSED SICK LEAVE. THIS TYPE OF BENEFIT IS NOT ONLY VERY EXPENSIVE BUT ALSO IS NOT TYPICALLY AVAILABLE TO NON-FEDERAL WORKERS.

FIFTH, WE PROPOSE CHANGES THAT ARE CONSISTENT WITH ENACTED REFORMS AND OTHER EXISTING PROVISIONS IN SOCIAL SECURITY. THESE INCLUDE DELETING THE GUARANTEED MINIMUM BENEFIT FOR FUTURE ANNUITANTS, PHASING OUT SPECIAL BENEFITS FOR ADULT STUDENTS, AND CHANGING ELIGIBILITY RULES FOR SURVIVING SPOUSES, FORMER SPOUSES, AND INSURABLE INTEREST BENEFICIARIES TO PARALLEL MORE CLOSELY THE TREATMENT OF SIMILARLY SITUATED INDIVIDUALS COVERED BY SOCIAL SECURITY.

SIXTH, WE WOULD REQUIRE THE POSTAL SERVICE AND THE D.C. GOVERNMENT TO CONTRIBUTE TO THE RETIREMENT FUND AN ADDITIONAL 2 PERCENT OF BASIC PAY EACH YEAR UNTIL THEIR PAYMENTS, PLUS EMPLOYEE DEDUCTIONS, ARE SUFFICIENT TO COVER THE DYNAMIC NORMAL COST OF THE RETIREMENT SYSTEM. THE D.C. GOVERNMENT AND THE POSTAL SERVICE ARE SUPPOSEDLY NOW SELF-SUPPORTING, WITH ANY FEDERAL SUBSIDIES CLEARLY IDENTIFIED AS SUCH. YET THESE TWO ENTITIES ARE CONTINUING TO RECEIVE MASSIVE HIDDEN SUBSIDIES THROUGH THEIR PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM.

FINALLY, AS A PART OF THE ONGOING EFFORT TO DISENTANGLE FEDERAL AND DISTRICT OF COLUMBIA AFFAIRS, WE PROPOSE TO EXCLUDE EMPLOYEES HIRED BY THE GOVERNMENT OF THE DISTRICT OF COLUMBIA AFTER SEPTEMBER 30, 1985, FROM THE FEDERAL RETIREMENT, LIFE INSURANCE, AND HEALTH BENEFITS PROGRAMS.

FEDERAL EMPLOYEES HEALTH BENEFITS

NOW I WOULD LIKE TO TURN TO THE FEDERAL EMPLOYEES HEALTH BENEFITS (FEHB) PROGRAM, WHERE WE ARE AGAIN PROPOSING A MAJOR LEGISLATIVE REFORM. THE PRESENT FEHB PROGRAM HAS MANY VERY GOOD FEATURES, ESPECIALLY ITS WIDE CHOICE OF PLANS AVAILABLE. TO ENHANCE THIS MOST ATTRACTIVE FEATURE, WE HAVE PROPOSED A SYSTEM THAT IS POPULARLY KNOWN AS A "VOUCHER" SYSTEM. WE BELIEVE THIS APPROACH CAN MAKE A VALUABLE CONTRIBUTION TO THE FEHB PROGRAM.

UNDER THIS SYSTEM, OPM WOULD NO LONGER NEGOTIATE DETAILED CONTRACTS WITH CARRIERS. INSTEAD, ANY CARRIER THAT IS PREPARED TO MEET CERTAIN MINIMAL REQUIREMENTS WOULD BE ADMITTED TO THE PROGRAM, AND WOULD BE FREE TO OFFER ANY NUMBER OF PLANS IT WISHED. ALL PLANS WOULD BE REQUIRED TO INCLUDE CATASTROPHIC COVERAGE, BUT CARRIERS WOULD OTHERWISE BE FREE TO DESIGN THEIR BENEFIT PACKAGES IN WHATEVER WAY THEY THINK WOULD ATTRACT THE MOST ENROLLEES. ENROLLEES WOULD RECEIVE INFORMATION TO HELP THEM IN SELECTING THE PLAN BEST SUITED TO THEIR NEEDS. PARTICIPATION BY A WIDER RANGE OF PLANS WOULD INCREASE THE NUMBER OF CHOICES AVAILABLE TO ENROLLEES, FURTHER SHARPENING THE COMPETITIVE FORCES THAT HAVE MADE THE CURRENT PROGRAM SUCCESSFUL.

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THE GOVERNMENT CONTRIBUTION WOULD NO LONGER BE CAPPED AT THE CURRENT 75 PERCENT OF A PLAN'S PREMIUMS SO ENROLLEES WOULD NO LONGER BE PENALIZED FOR ENROLLING IN A LOW-COST PLAN. ENROLLEES WOULD EVEN BE ABLE TO RECEIVE A REBATE IF THE PREMIUM FOR THE PLAN THEY CHOOSE IS LESS THAN THE GOVERNMENT CONTRIBUTION. THE GOVERNMENT CONTRIBUTION WOULD NO LONGER BE DETERMINED BY THE PREMIUM COSTS OF PARTICULAR PLANS, BUT WOULD INSTEAD BE BASED ON THE DOLLAR AMOUNTS OF THE AVERAGE GOVERNMENT CONTRIBUTIONS FOR SELF-ONLY AND SELF-AND-FAMILY COVERAGES IN THE YEAR PRIOR TO INAUGURATION OF THE VOUCHER, ADJUSTED IN FUTURE YEARS BY PERCENTAGE CHANGES IN A GENERAL PRICE INDEX.

FEDERAL PAY

THE BUDGET PROPOSES A ONE-TIME REDUCTION IN PAY OF 5 PERCENT, EFFECTIVE IN JANUARY OF 1986, FOR FEDERAL CIVILIAN EMPLOYEES. AS YOU RECALL, DURING THE RECESSION, LABOR UNIONS IN THE PRIVATE SECTOR RENEGOTIATED THEIR CONTACTS AND TOOK CUTS TO HELP THEIR INDUSTRIES GET BACK ON THEIR FEET AGAIN. IT SEEMS ONLY APPROPRIATE THAT GOVERNMENT EMPLOYEES, TOO, SHOULD CONTRIBUTE IN A SIMILAR WAY TO HELP THEIR EMPLOYER AND TO SHARE IN CUTTING THE COST OF GOVERNMENT. A CORPORATION WITH A \$200 BILLION RED INK BALANCE AND A \$500 BILLION UNFUNDED PENSION LIABILITY SURELY IS A BUSINESS IN TROUBLE. WE MUST ALL SHARE IN PUTTING OUR HOUSE BACK IN ORDER.

THANK YOU. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

TESTIMONY BY REP. MICHAEL D. BARNES
BEFORE THE HOUSE SUBCOMMITTEE ON COMPENSTION AND EMPLOYEE BENEFITS
ON THE EFFECTS OF THE ADMINISTRATION'S FY 86 BUDGET PROPOSALS
ON FEDERAL EMPLOYEES AND RETIREES.

February 26, 1984

It is always a privilege to appear before this Subcommittee and its distinguished Chair. Today it's also a heavy responsibility. The decisions that this Subcommittee will make in the next week may well be pivotal to the future of Federal service in light of what the Administration has proposed in its budget.

At the outset, let me join with the Chair and with my co-Chairman of our Federal Government Service Task Force, Vic Fazio, in rejecting the proposal to cut Federal pay by 5 percent. In my view, this pay cut could be the fatal blow that crushes the spirit of public service in our country. The reasons are many.

On a number of occasions, I have spoken about the impact of previous cuts proposed by the Administration and adopted by Congress on the morale of the Federal worker. I have been genuinely alarmed by the degree to which career public servants have become discouraged. We've already lost too many of our very finest Federal employees.

What happens if youth no longer want to serve?

But I am also distressed by the reaction I've found among young people from our Nation's finest universities, colleges, and graduate schools. Most of them reject the premise that it's still possible to build a fruitful career in public service. Young people no longer regard Federal service as an exciting, honorable vocation.

In short, if we do not support a strong Federal service, we simply devalue it. John Kennedy's call for a Federal service that is a "lively career", his challenge to young Americans to serve, to build a secure American future, now seems the faintest echo in the public's mind.

When we devalue pay we devalue Federal service.

We have devalued Federal pay for eight straight years. Federal pay laws require government to pay Federal workers amounts comparable to those received by their private sector counterparts. We seem to forget that when we cut pay we trade a measure of quality for that reduction. Since 1978, inflation-fed deficits obliged government to invent every conceivable excuse for holding pay below the level of comparability. Year after year, pay cuts--and these were pay cuts because the value of Federal pay did not come close to keeping pace with inflation--dragged Federal pay so far behind comparable private pay that the entire pay-setting process became an embarrassment.

We are embarrassed, not because the Bureau of Labor Statistics survey is wrong, but because deficits make us helpless to put the matter right, to obey the law, and to tradeoff pay with minimal damage to the quality of service. We risk making career paths in Federal service a walk into no man's land.

There is no justification for a 5% pay cut.

The pay cut's advocates believe that the reduction can be justified for four reasons: a) deficits create a national emergency that justifies such drastic measures, b) workers in the private sector have had to endure similar cuts in pay in the last year, c) Federal quit rates are several times less than those in the the private sector, d) surveys that show Federal workers are paid less than private workers are wrong because Federal pay should be compared to the average pay of all workers--not just workers in enterprises similar to the Federal government.

Vic Fazio wants to speak to the point about private wage givebacks--and also has comments on the ludicrous quit rate analysis prepared by the Office of Personnel Management. My testimony focuses on pay-cut proponents' other two arguments.

Recent work done by our Federal Government Service Task Force provides evidence that a 5% pay cut for Federal workers could precipitate a national emergency in its own right. I don't think the best way to fight one National emergency is to create another one.

The Task Force analysis compares average private pay to Federal pay.

I do not doubt the accuracy of existing comparability surveys. Nevertheless, we decided to examine what would have happened in the last ten years to Federal pay and benefits had--as pay-cut proponents suggest--the Federal government paid its workers the same raise received by the average private sector worker. Please note we're not talking about the average raise for white collar employees or for employees in larger firms. We're just talking about the average worker.

The results of this analysis yield some important insights about Federal pay practices. Using an average private pay raise as a baseline, we found that the Federal government had already saved \$12.3 billion from 1977 through 1985--an average of \$1.35 billion per year by limiting pay increases to well under average annual increases in the private sector. (See chart no. 1, appendix).

For the average Federal worker these savings translated into an out of pocket loss of \$22,330 for the period. That's quite a premium to pay for the privilege of working in the public service. For many, it probably meant that that they could not afford to send a child through college or put aside something extra for retirement. (See charts nos 2,3 and 4).

If we cut Federal pay by 5% in FY 86, the gap would rocket up to just under \$30,000--a loss of \$7500 in one year alone. That's \$7500

raises equal to those paid to average private sector workers. (See chart no. 3). In 1986, therefore, the gap between Federal and private pay will be 11.9%--a 5% cut and a 6.9% advance for the average private sector employee.

Pay cuts, like deficits, snowball

We have begun to realize--having learned the hard way--that unchecked deficits tend to snowball. Before it's too late, we ought to realize that the same lesson applies to paycuts. We make these cuts in one year, and the reduced salary base keeps on rippling throughout an employee's career and on into retirement. By reducing pay below private sector levels for eight consecutive years, we have amplified this initial ripple into a wave that is dramatically reducing lifetime and retirement earnings.

These are not speculative or imaginary earnings, but very real dollars that Federal employees would have earned had they received the same raise as the average private sector employee for the last ten years. (See chart no. 4).

The snowball keeps right on rolling through the retirement years.

Pay cuts directly affect Federal annuities, particularly for employees at the end of their careers. Pay cuts even more heavily damage Federal employees who defer their retirement to remain in Federal service. Our analysis shows that each year that a retirement eligible employee experiences an additional pay cut cumulatively adds to the amount of pay and retirement benefits he or she loses. This fact is not unknown to senior employees now leaving government. (See charts no. 5 & 6).

An average Federal employee who retired from Federal service in 1977, lost 3% of his or her annuity because pay was held below the average private sector increase. (See profile of losses for 1977 retiree, chart no. 8). The average 1978 retiree lost 5.8% of the annuity. (chart no. 9). The average 1979 retiree: 3.4%. The average 1980 retiree: 4%. Note that during these years, Federal pay stayed within shouting distance of average private pay. (Charts no.s 10 & 11).

Then, beginning in 1981, the percentage of annuities lost began to climb dramatically as pay began to really lag behind. In 1981: the percentage of annuity lost moved into double digits to 10.8% ; then to 10.9% in 1982, up to 11.6% in 1983, and 11.7% in 1984. This year the gap, even without a pay cut, will explode to 15.8%. And, if we go along with a 5% pay cut rather than the private sector increase we will be short-changing our average 1986 retiree by 21.7%. (See chart no. 5). These percentages apply to the amount of annuity lost from the date of retirement to the present, not simply to the impact of pay withheld on the retiree's annuity at the time of retirement.

But the effects on initial annuities are equally serious. The 1977 retiree lost \$303.00 of his or her annuity. By 1981, the average

Initial loss was over \$1,000 more (\$1347.00). Last year, pay cuts cost the 1985 retiree \$2298.37. It's small wonder that the average 1985 retiree who had carefully planned for retirement over the past ten years left government disappointed, if not embittered. The 1986 retiree can look forward to an initial annuity of \$3012 less than he or she would have received through average private sector pay raises. In other words, the loss to the initial pension has doubled since 1981. (See Chart no.s 6 & 7).

Recent retirees have been the hardest hit.

Three-quarters of a million (non-postal) employees retired between 1977 and 1985. This group took the brunt of the Federal pay cuts. The later an employee retired during this period the harder he or she was hit. (See chart 13). A 1978 retiree lost a combination of \$8,161 to pay cuts during the last ten years. In 1981 this combined total loss had grown to \$15,654 for an employee retiring that year. But hang on to your hats, because next year, if we cut pay by 5%, the 1986 retiree will have lost a combined total of \$32,749. (See Chart 14).

Conclusions

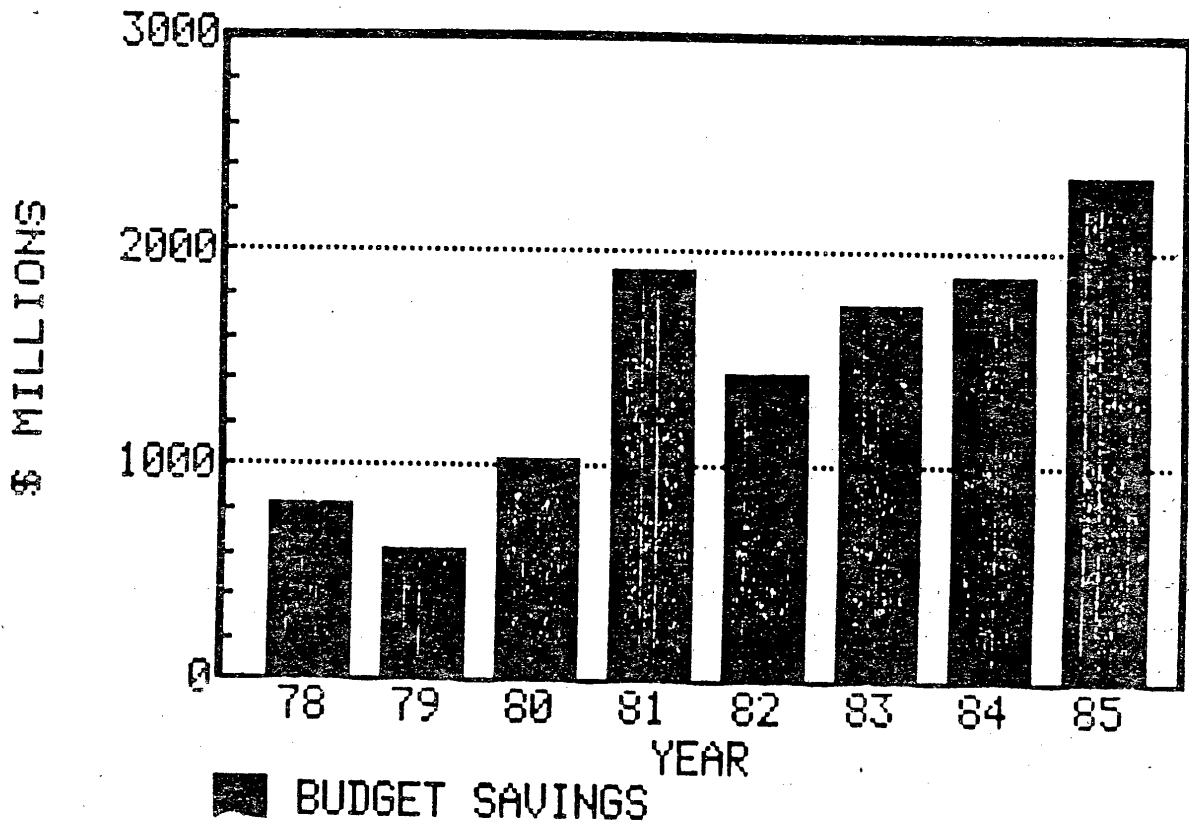
No one suggests that Federal employees should not share the burdens of deficit reduction, but the clear and convincing evidence, Madam Chair is that they have done more than their fair share and will continue to do so even when we reject this irresponsible proposal to cut Federal pay. What I have tried to do this afternoon is demonstrate that the idea of cutting pay was not discovered yesterday. We have cut pay. We have burdened Federal employees over the last ten years as no other group of workers in our society. We haven't always acted responsibly in cutting pay in the past, but neither have we faced the destruction of what can continue to be the world's finest civil service.

I thank my colleague for his patience in letting me go through this analysis. I know that he has several critically important comments to add about the Administration's proposals on Federal retirement. Let me emphasize that the annuity losses I discussed were the indirect consequences of withdrawing wage increases. As heavy as those losses were, we have to recognize that Congress made direct cuts to Federal retirement of over 10% since 1977. In this context, I think it's clear that Congress must continue to reject efforts to reduce the Federal retirement system. In my view, the Administration's proposals to cut retirement is not only a breach of faith with Federal employees and retirees, but a direct attack on a system of public service that serves this country well.

Once again, thank you for the opportunity to share these views with the Subcommittee. After my colleague makes his presentation, I'm sure we will be happy to try to answer any questions that you may have.

CHART NO. 1

PAY + RETIREMENT SAVINGS



BUDGET SAVINGS

78	815
79	609
80	1024
81	1912
82	1421
83	1748
84	1893
85	2353

CHART NO. 2

PRIVATE V. FEDERAL PAY

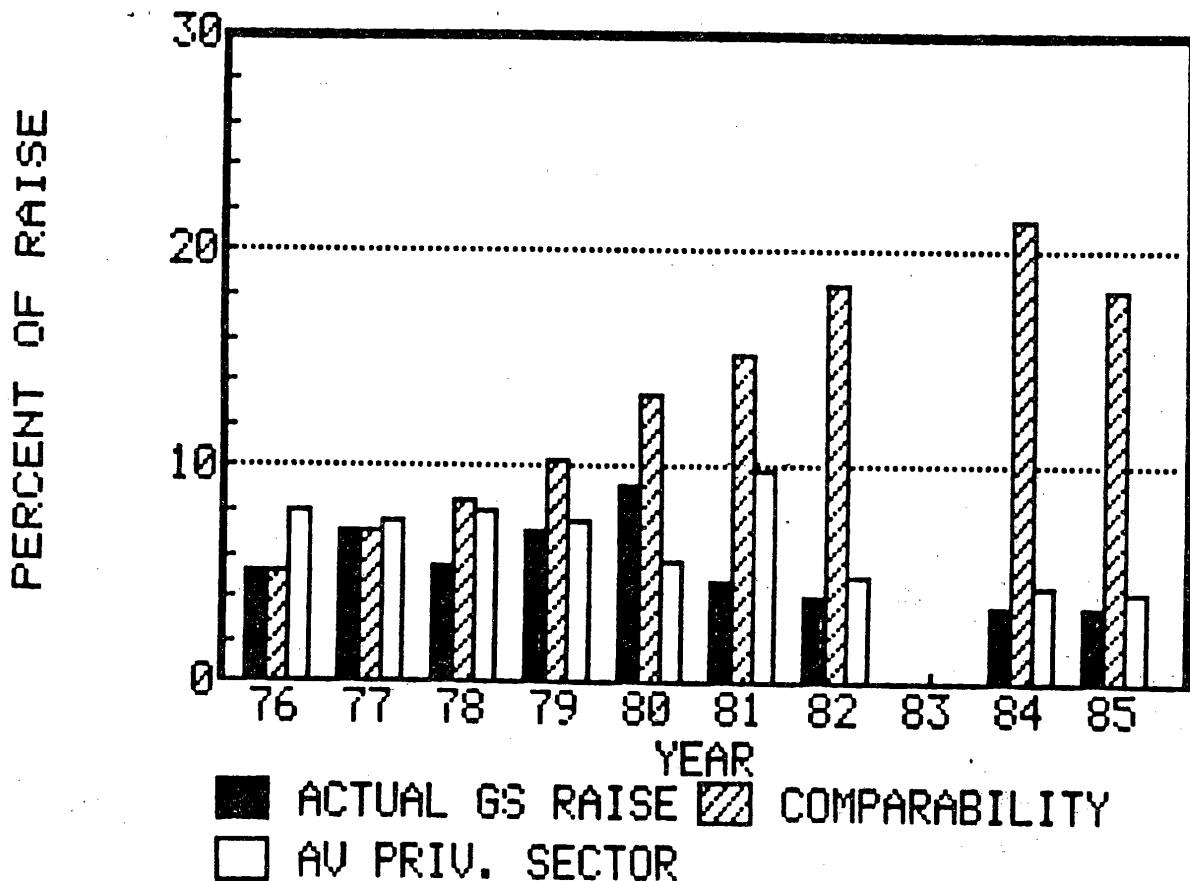


CHART NO. 2

CHART NO. 3

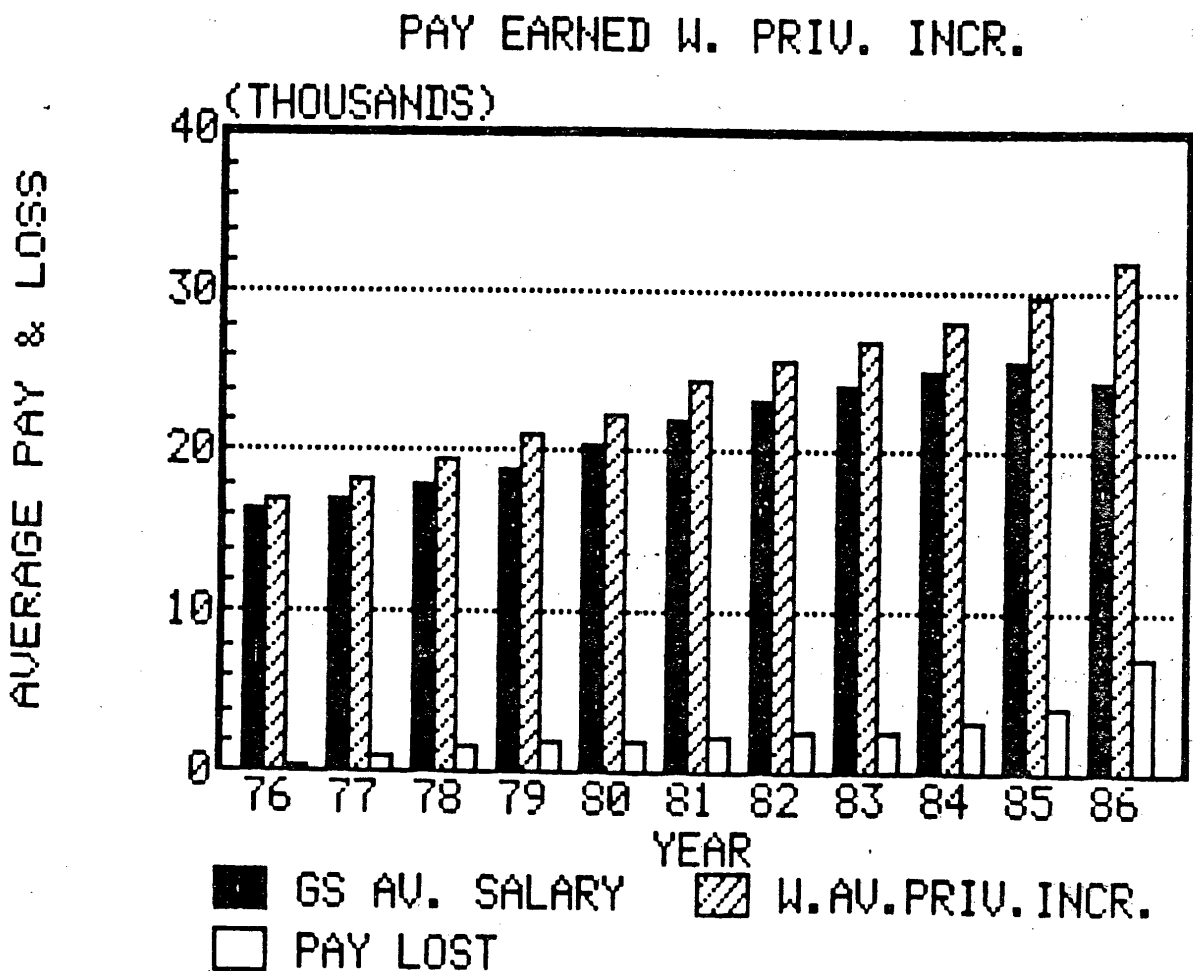


CHART NO. 3

	GS AV. SALARY	W. AV. PRIV. INCR.	PAY LOST
76	16352	16891	539
77	17170	18175	1005
78	17995	19629	1634
79	18984	21121	2137
80	20313	22346	2033
81	22162	24558	2396
82	23225	25781	2536
83	24154	26946	2792
84	25000	28132	3132
85	25875	29961	4086
86	24581	32028	7447

CHART NO. 4

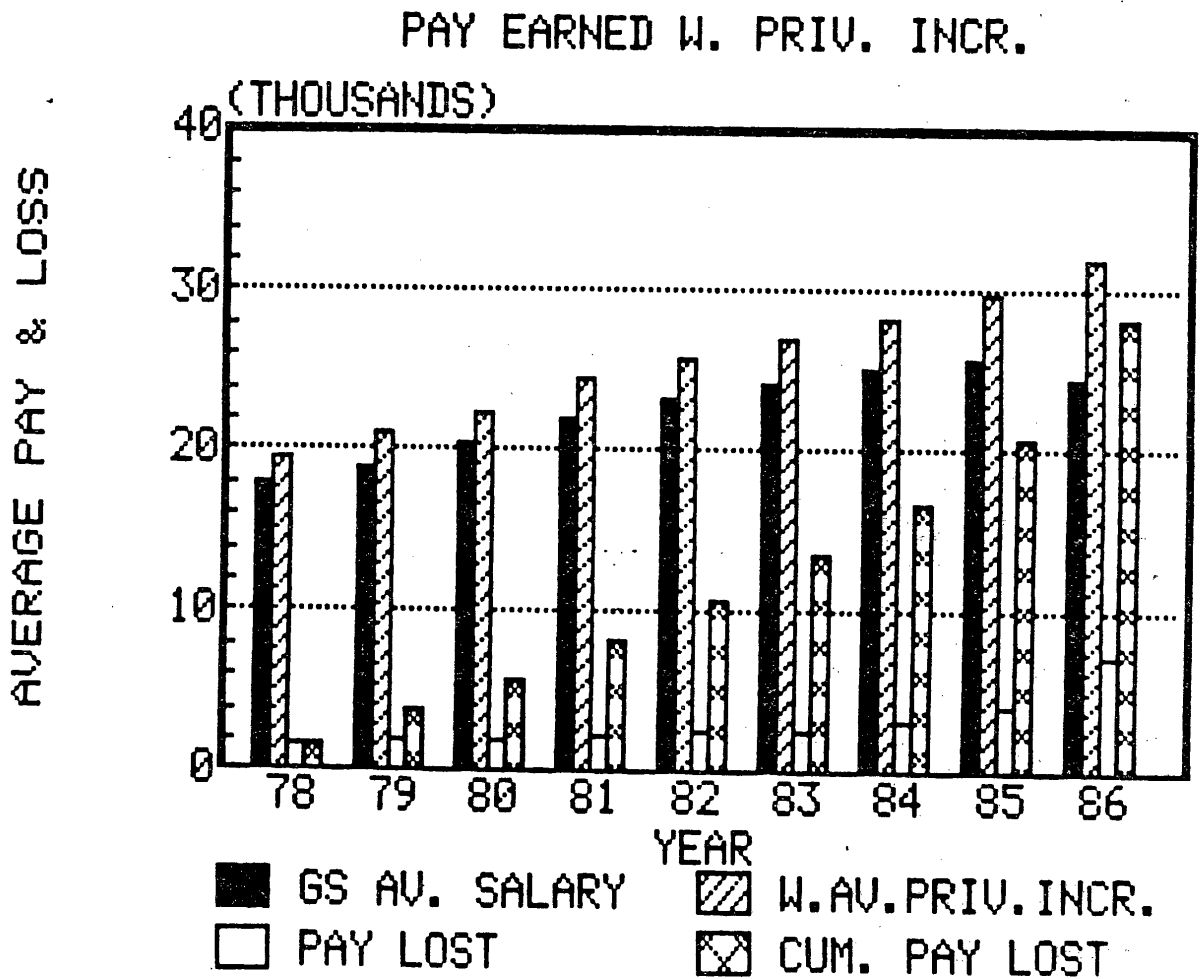


CHART NO. 4

	GS AV. SALARY	W. AV. PRIV. INCR.	PAY LOST	CUM. PAY LOS
78	17995	19629	1634	1634
79	18984	21121	2137	2137
80	20313	22346	2033	2033
81	22162	24558	2396	2396
82	23225	25781	2536	2536
83	24154	26946	2792	2792
84	25000	28132	3132	3132
85	25875	29961	4086	4086
86	24581	32028	7447	7447

CHART NO. 5

PAY LOSS REDUCES ANNUITY

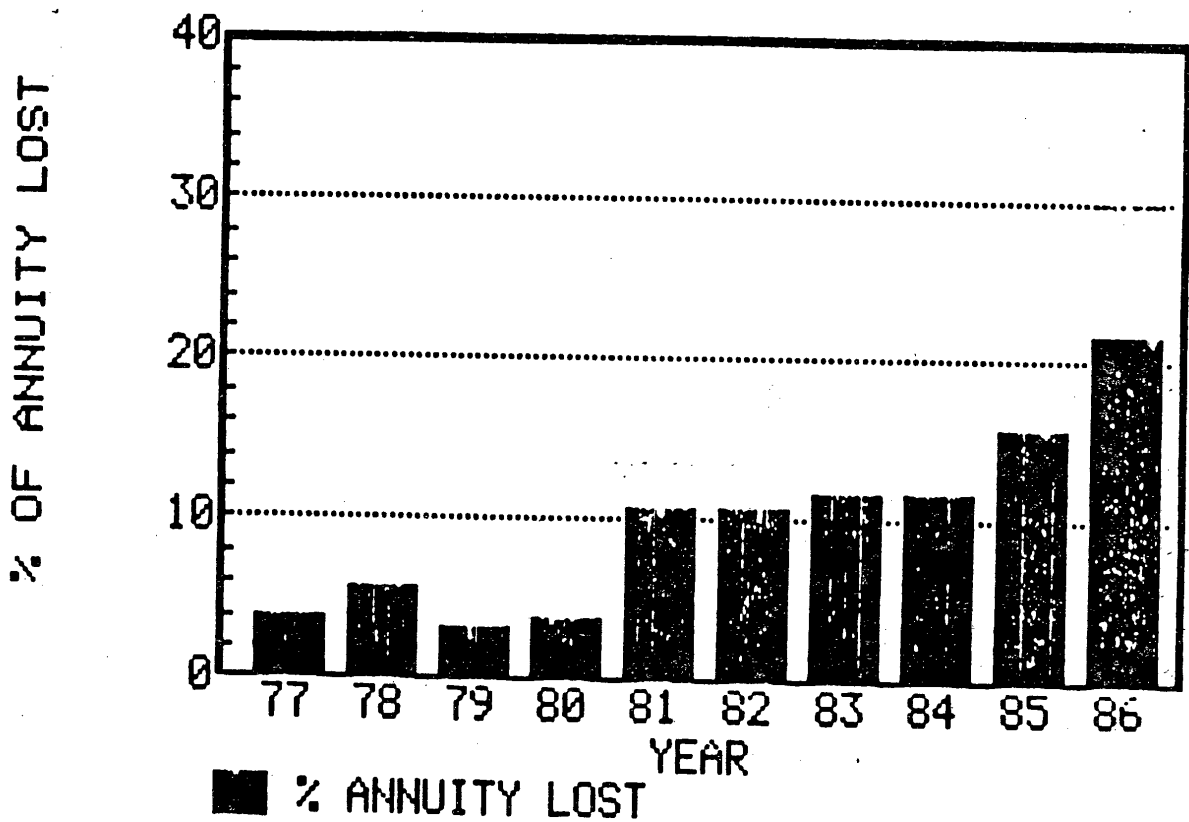


CHART NO. 5

*** ANNUITY LOST**

77	3.80
78	5.80
79	3.40
80	4
81	10.80
82	10.90
83	11.60
84	11.70
85	15.80
86	

11

CHART NO. 6

LOST \$ AT RETIREMENT

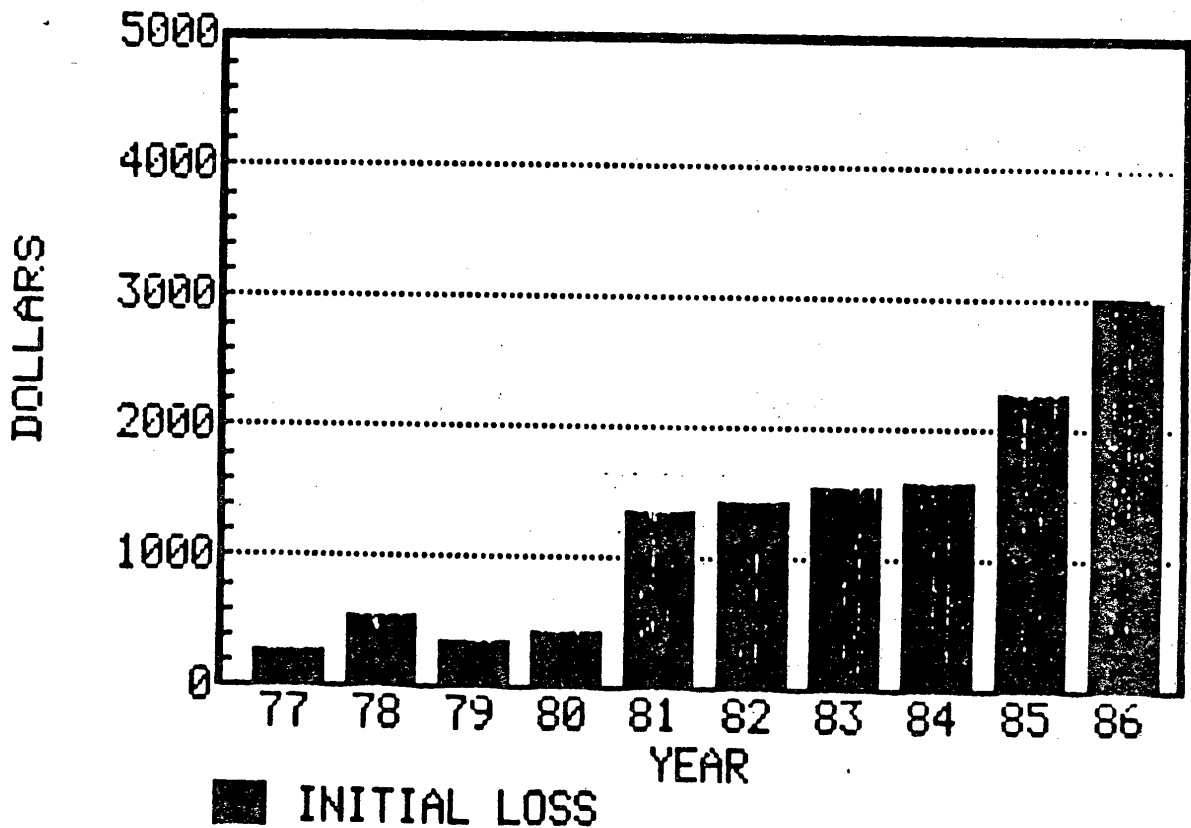


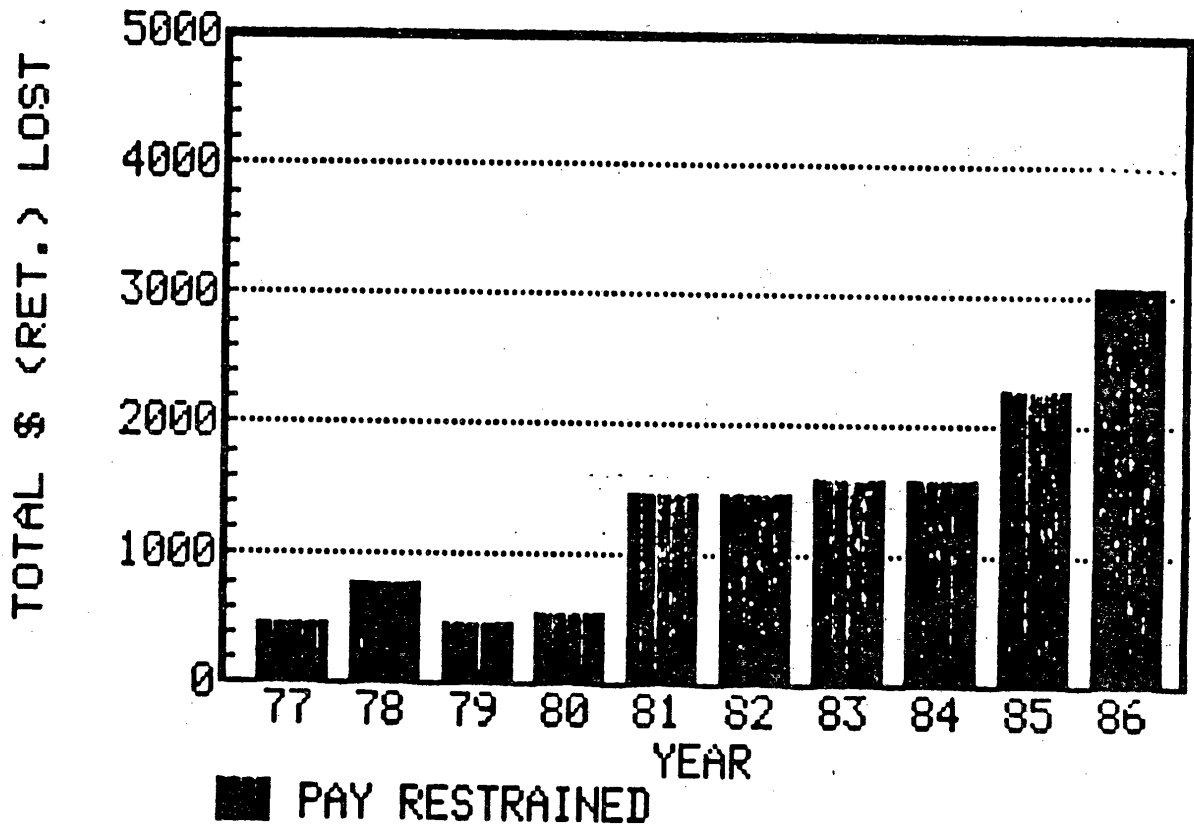
CHART NO. 6

INITIAL LOSS

77	303.18
78	565.31
79	362.81
80	454.50
81	1347.75
82	1426.50
83	1572.18
84	1586.25
85	2298.37
86	

CHART NO. 7

TOTAL RET. \$ LOST (PAY)



PAY RESTRAINED

77	496.31
78	776.58
79	470.22
30	541.74
31	1477.57
32	1480.88
33	1599.70
34	1586.25
85	2298.37
86	

CHART NO. 8

LOSS PROFILE 1977 RETIREE

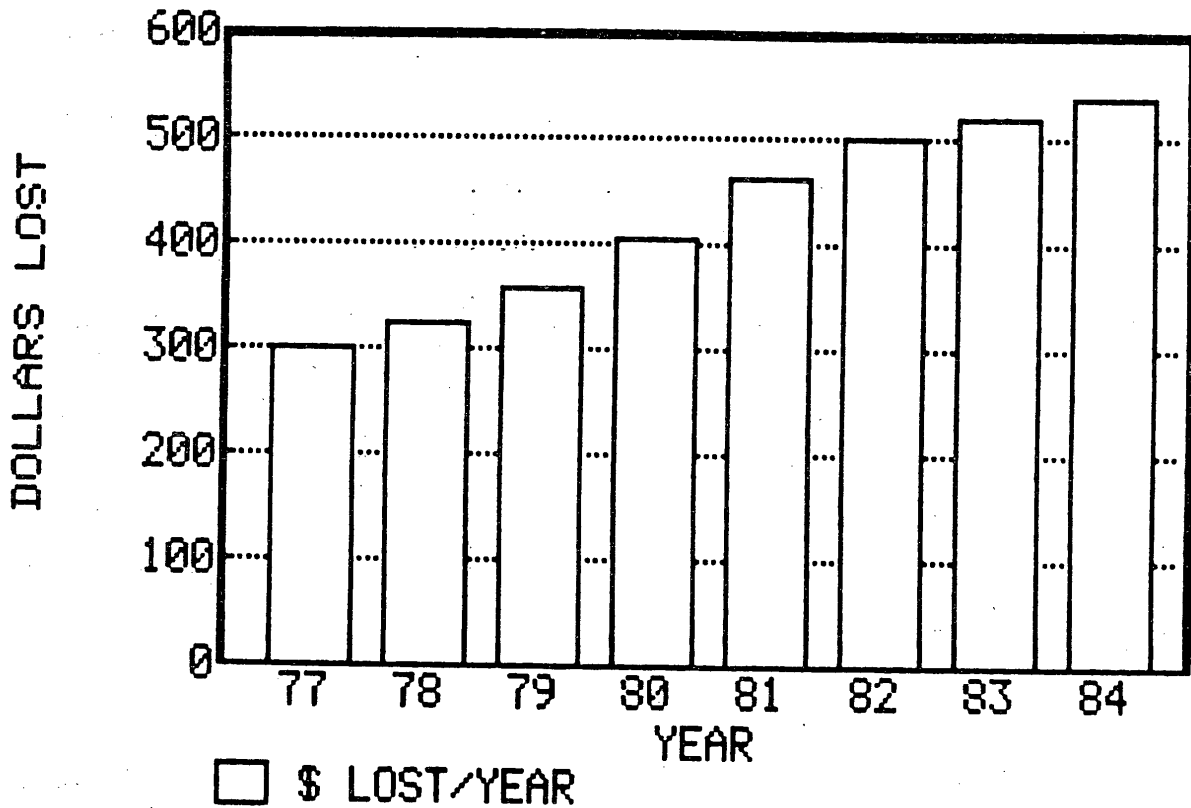


CHART NO. 8

*** LOST/YEAR**

77	303
78	325
79	360
80	409
81	463
82	503
83	523
84	541

CHART NO. 9

PROFILE OF 1978 RETIREE

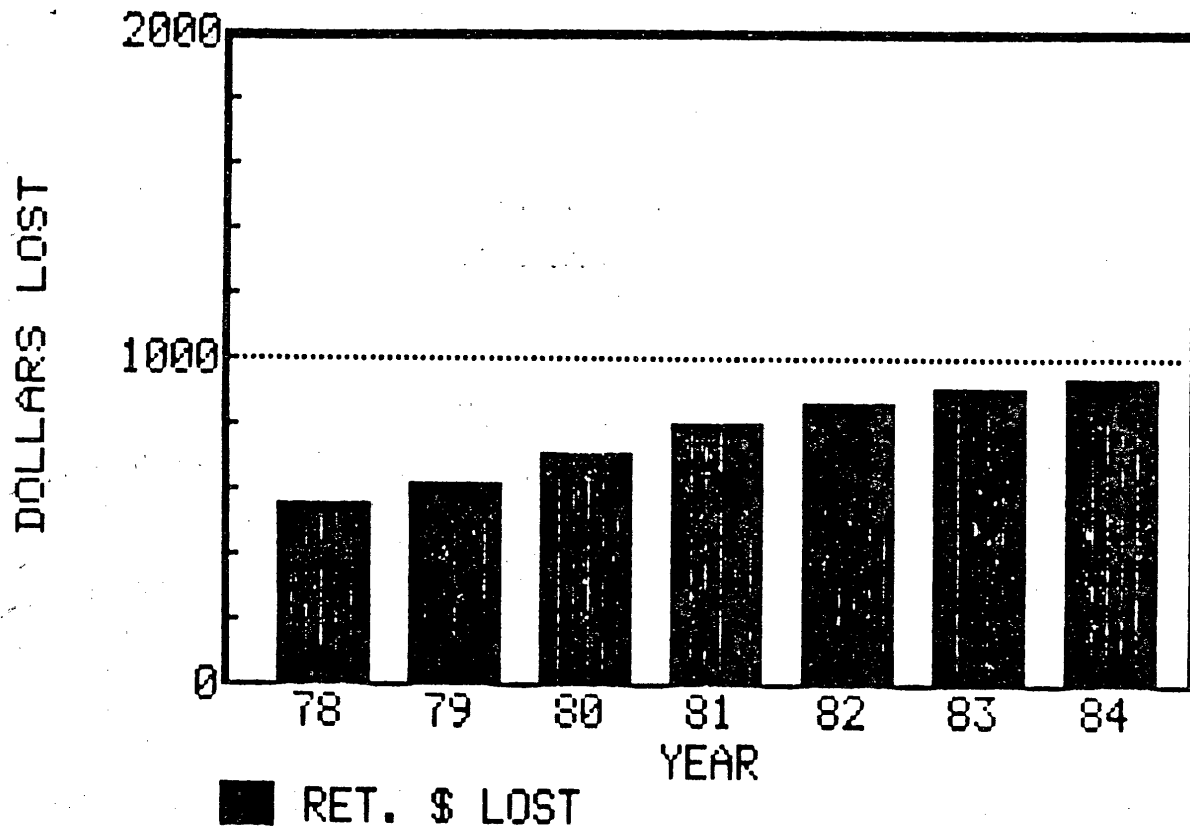


CHART NO. 9

RET. & LOST

78	565
79	626
80	712
81	805
82	875
83	909
84	941

CHART NO. 10

PROFILE OF 1979 RETIREE

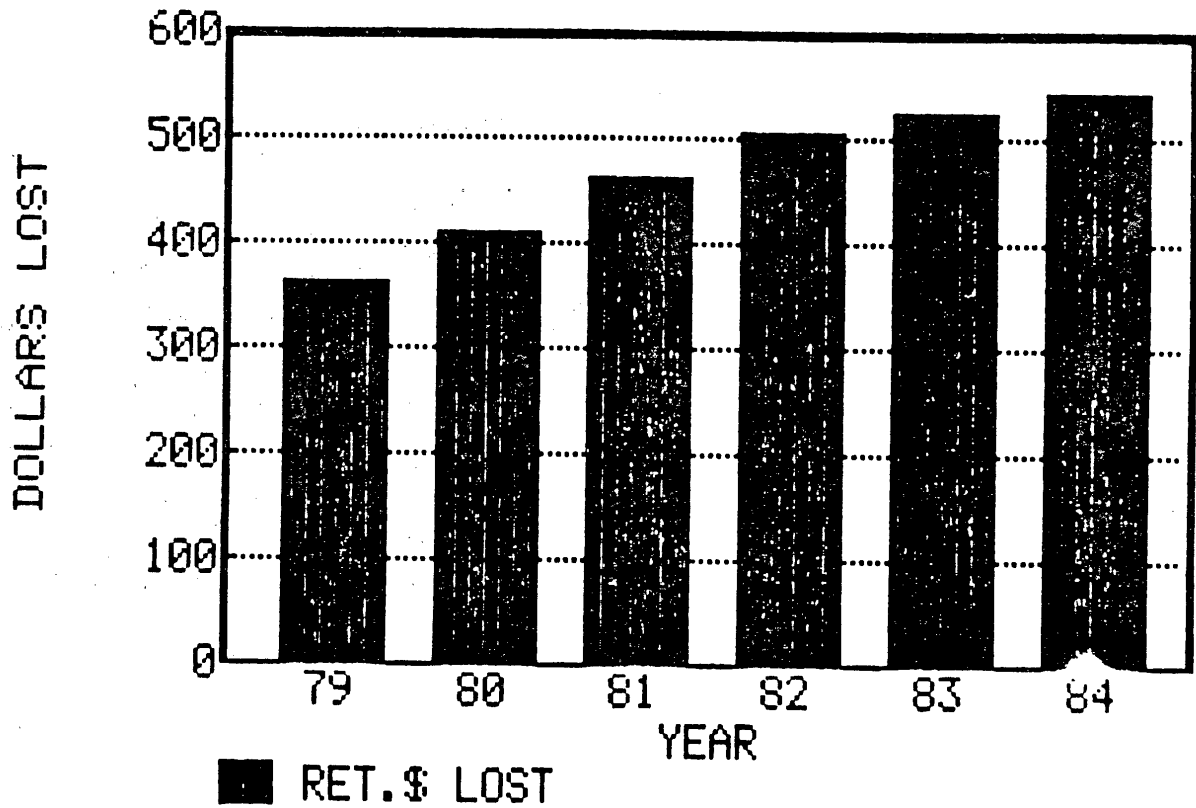


CHART NO. 10

RET. # LOST

79	362
80	412
81	466
82	507
83	526
84	545

CHART NO. 11

PROFILE OF 1980 RETIREE

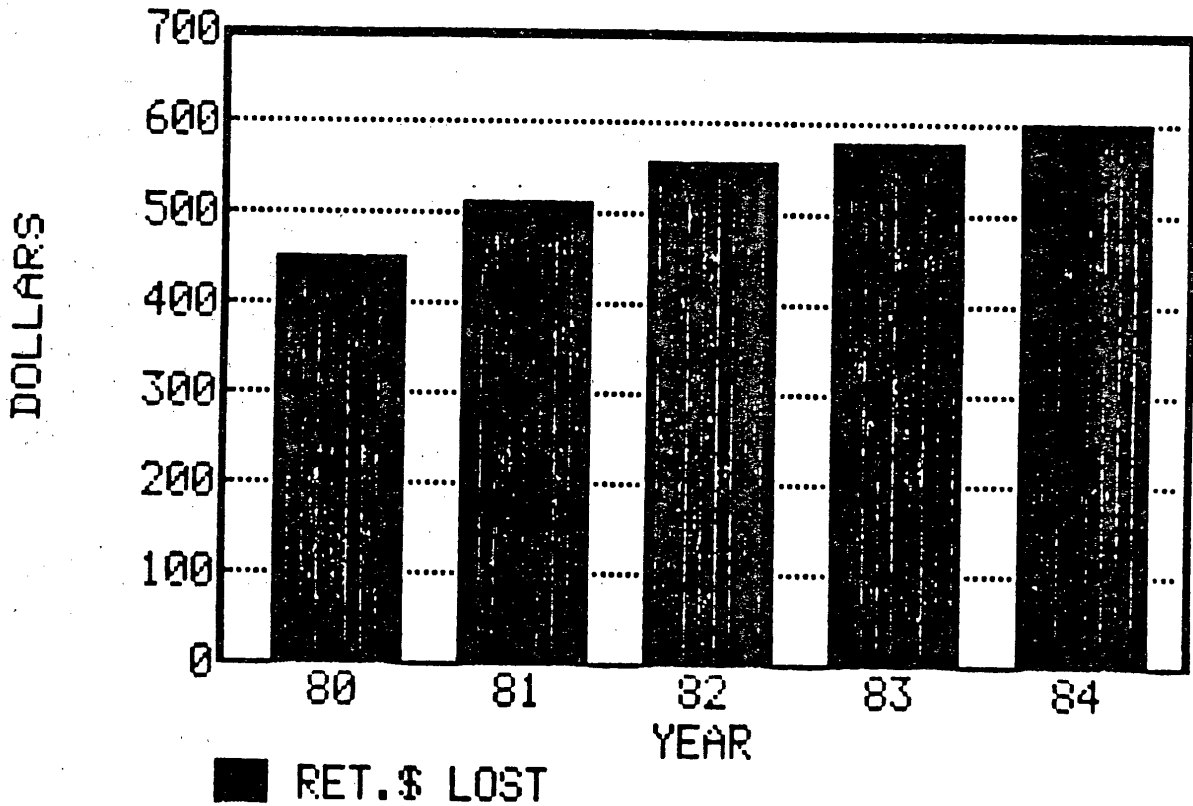


CHART NO. 11

RET. ● LOST

80	454
81	514
82	558
83	580
84	600

CHART NO. 12

RETIREE COHORTS & LOSSES

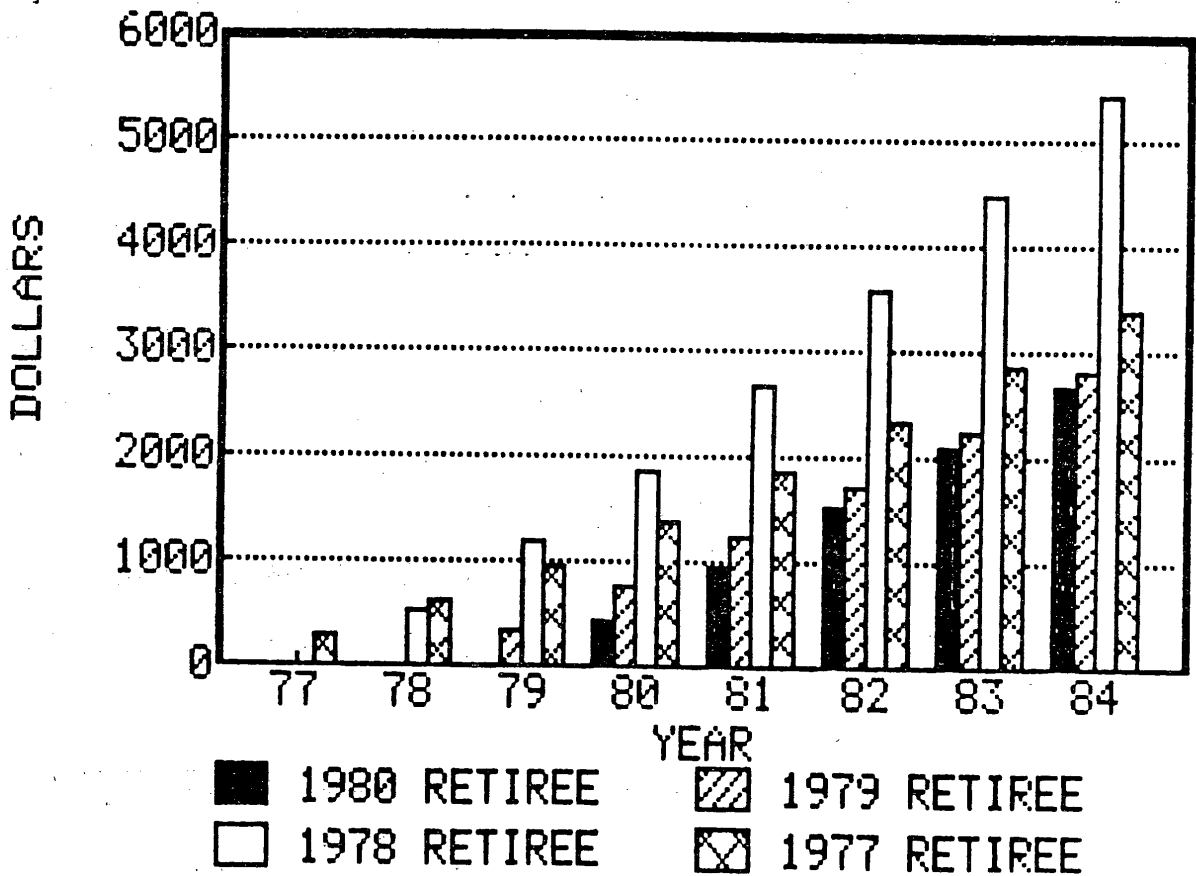


CHART NO. 12

	1980 RETIREE	1979 RETIREE	1978 RETIREE	1977 RETIREE
77				303
78			565	325
79		362	626	360
80	454	412	712	409
81	514	466	805	463
82	558	507	875	503
83	580	526	909	523
84	600	545	941	541

CHART NO. 13

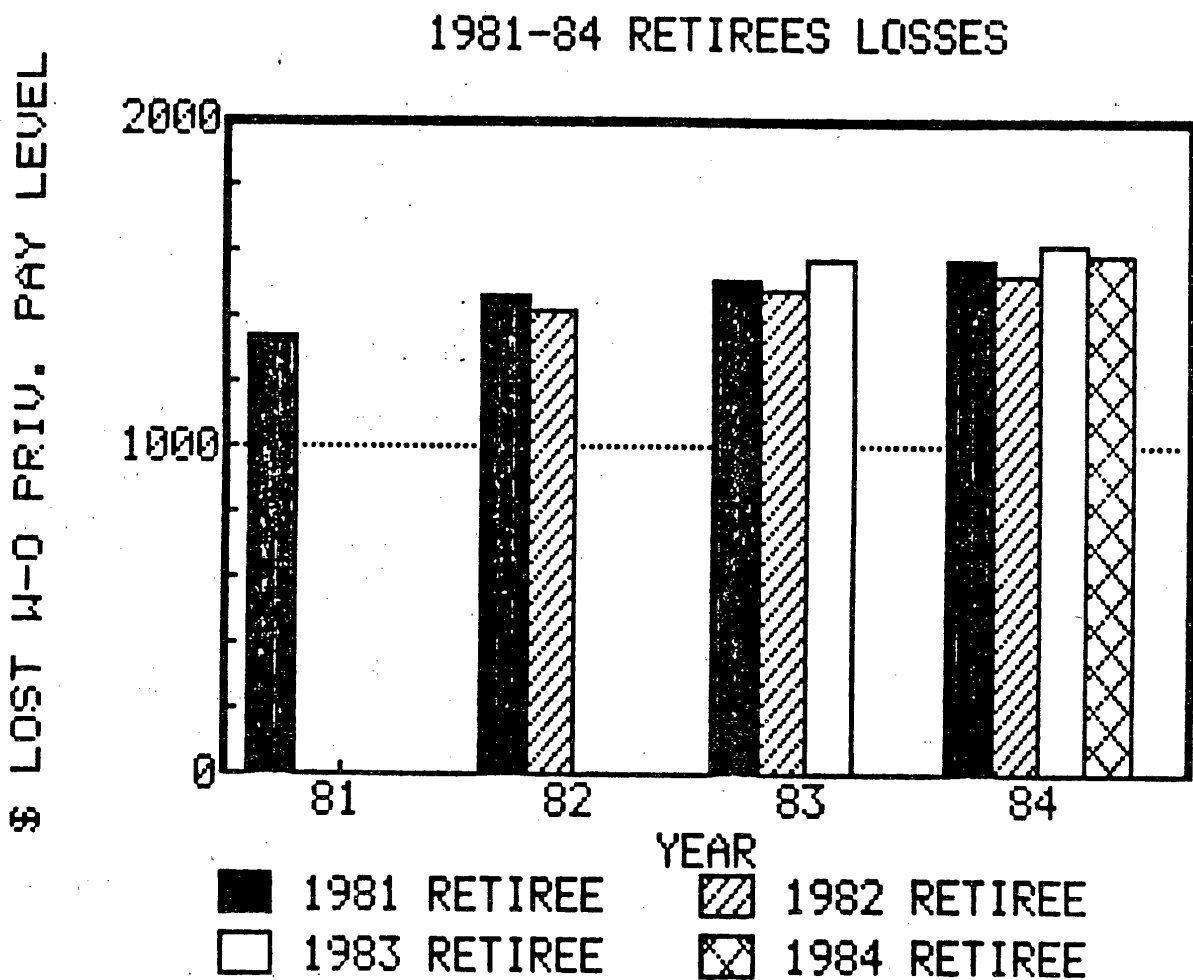


CHART NO. 13

	1981 RETIREE	1982 RETIREE	1983 RETIREE	1984 RETIREE
81	1347			
82	1465	1426		
83	1522	1482	1572	
84	1575	1534	1627	1586

CHART NO. 14

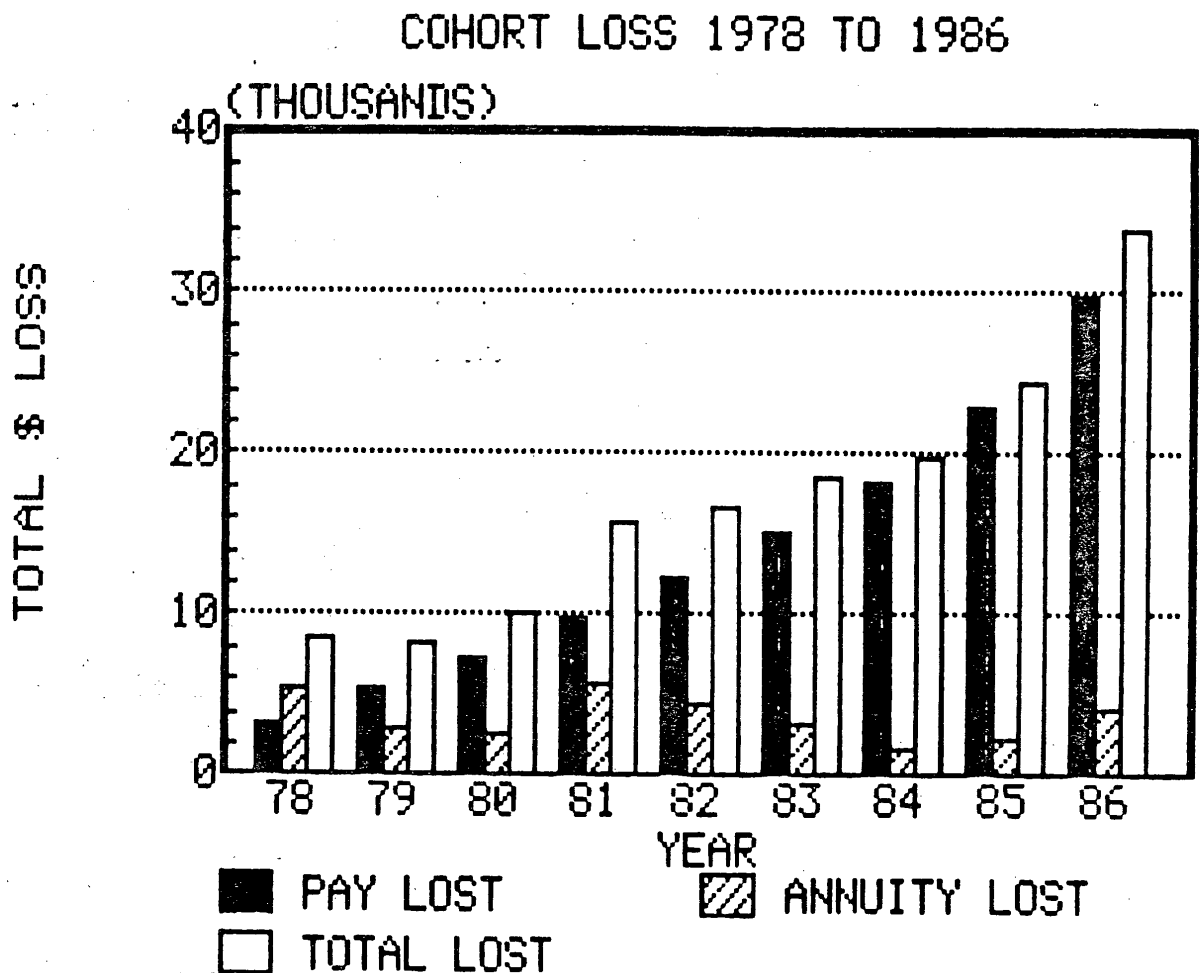


CHART NO. 14

	PAY LOST	ANNUITY LOST	TOTAL LOST
78	3178	5436	8614
79	5315	2821	8136
80	7348	2708	10056
81	9744	5910	15654
82	12280	4442	16722
83	15072	3199	18271
84	18204	1586	19790
85	22920	2298	24588
86	29737	4188	33925

ON THE IMPACT OF FY 86 BUDGET PROPOSALS

UPON FEDERAL EMPLOYEES AND RETIREES

BEFORE THE HOUSE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

February 26, 1985

This Subcommittee, under your leadership Madam Chair, has championed a responsible course in Federal pay and benefits--one that has kept faith with both the public servant and with the taxpayer. We owe you a debt of thanks. I know that our Task Force Members look forward to working with you and your Subcommittee to continue on a responsible course in Federal pay and benefits policy.

Our Task Force analysis demonstrates how badly we have breached our good faith commitment to keep Federal pay in line with private sector pay. We have failed even by the most conservative standards. When an enterprise in the private sector fails to meet the market rates for labor for a period of years, it finds itself trapped in a downward spiral. Its most productive people bail out. Successful retrenchment plans always minimize the period in which wages and benefits are cut. Such plans plot a clear course toward restoring pay to market rates.

Private workers have suffered the pain of retrenchment in a number of major companies, but in most instances, companies took pains not to breach faith with their workers. Private executives worked hard to avoid conveying a sense of hopelessness to their workers and to the public.

It's time to give Federal workers a boost.

After eight years of pay cuts--and when we fail to meet the going private rate we are cutting pay--Federal workers realize that belt-tightening is not a one-year or two-year or three-year affair. It has become an annual exercise in real dollars and sense sacrifice. The snowball effects just described for the Subcommittee literally leave Federal families out in the cold.

Not only has Federal pay fallen short of the average private mark, it has also, since 1970, fallen well behind rising consumer prices. During the last fifteen years, consumer prices have risen 309.1% but Federal pay has increased by only 221.7%. Private sector workers, by comparison, took home 291% in wage increases. They, at least, broke even. Rather than tread water, Federal workers found themselves submerged by a nearly one-third loss in their purchasing power (See chart no. 1).

Since 1970, the Federal payroll shrunk as a share of budget outlays from 13.3% of outlays to 8.8%. Federal workers' share of the

civilian labor force also dropped from 3.4% to 2.5%--a decline of one-fourth. Federal employment dropped from 2.6 million to 1.72 million (competitive service). (See tables no. 1 , 2 & 3 provided by the Congressional Research Service.)

For fifteen years, we've asked fewer Federal workers to do more with fewer resources--and they have. Their reward has been a steady diet of sacrifice. We have cut their purchasing power by a full third.

Mike Barnes noted that young Americans on the threshold of their careers recoil from the stigma and sacrifice of Federal service. When we look at these numbers, we can understand why.

We read yesterday in the Washington Post about the Office of Personnel Management dragging its feet on implementing the 1981 consent decree that replaced the PACE exam we used to competitively recruit for Federal service. This foot dragging is symptomatic of an indifference to whether our government can hire talent coveted by the private sector. We have to be able to compete with the private sector. Public service has been a partner in innovation that has spurred private growth and technological advancement. We can not afford to cripple that partnership any more than we can allow Federal deficits to go unchecked.

A disastrous package of proposals

Mike Barnes has described the effects of a 5% payout on both employees and retirees. For the 1986 retiree, the initial loss in annuity as a result of pay restraint would jump 6 points to 21.7%. In this context, the Administration's proposals to cut deeply into retirement appear, in my judgment, ludicrous.

We rejected most of these proposals last year and many the year before that. Yet, here we are again. Nevertheless, it's worth taking a quick look at the impact of some of these proposals upon the average Federal retiree and the Federal employee who is about to retire. We've selected the proposed change to a high-5 salary base, the proposal to restrain COLA to the lesser of the General Schedule increase or the CPI, and the proposed COLA freeze.

We did not analyze the recommendation to means test the COLA and reduce it for retirees with annuities in excess of \$10,000 because we reject the concept that an earned benefit should be means tested. The Civil Service Retirement System is not a need-based entitlement, it is an integral part of our compensation package. Private sector pension practice does not use a means test to adjust annuities for this reason. Further, a means test only reinforces the notion that Federal employees are maintained at the public's expense rather than productively employed in the public interest.

A switch to a high-5 base would cost the 1986 retiree 7% of his or her annuity from the time of retirement through 1990. That comes to \$5,220 for the average retiree or \$1,044 per year. For the purpose of this analysis, we assumed a 1986 COLA freeze, which I sincerely hope

we can avoid. (See chart no. 2).

The proposed limitation of COLAs to the lesser of the GS pay raise or the CPI hurts even more. Since the Administration would couple the 5% pay cut with this COLA limitation, Federal annuities could also be reduced by 5%. For the 1986 retiree, the loss for the period 1985 to 1990 would be \$5,354 or 6.5% of his annuity. (See chart no. 3)

Similarly, freezing the COLA in 1986 would cost the average retiree \$1,836 through 1990, an average of \$367 per year. (See chart no. 4). The cumulative effects of a COLA freeze on an average employee retiring in the next year would amount to \$9,176 through 1990--an average of \$1,835 per year or 11.55% of his or her expected pension per year.

Direct cuts to Civil Service Retirement enacted over the past several years, according to this Committee's own analysis already have been reduced by 10%. If we pile these cuts on top of the extent to which pay cuts limit annuities, it becomes clear why this Committee rejects any further tampering with the existing retirement system--particularly at a time when it must wrestle with legislation to provide a supplemental pension for Federal employees covered under Social Security.

The private sector experience

I would like to take this opportunity to set the record straight on two other points. Those who argue that private workers simply gave back huge portions of their wages in the last year are misleading the American people. Labor did not get up from the bargaining table empty-handed. In exchange for wage concessions, they received additional job security or they participated in innovative programs designed to revitalize the job market in their areas of employment. In 1984, 75% of all collective bargaining agreements included provisions to strengthen worker protection during technological change, work transfer or plant closings.

For example, Republic Airlines, Inc. and Airline Pilots Association agreed last year to a contract that extended a 15% pay reduction that began in October 1982 through the end of March 1987. On its face these appear to be pretty grim figures, even though the effect of the reduction is spread across 6 years. Republic Air, however, as an incentive to its employees, agreed to restore wages by 9% in 1986 if the company shows \$20 million in profits. Republic also converted its employee profit-sharing plan into a stock ownership plan (ESOP) and issued 1,666,000 shares of the company's common stock to a trust set up for the employees. The current value of the stock is \$6 per share. Along with the stock, employees received voting rights as company share holders.

Eastern Airlines concluded a similar agreement with the Airline Pilots Association. Employees directly invested 18% of their 1984 wages in Eastern stock (\$6 per share). The company issued 12 million shares to its employees on a pro rata basis based upon their invested

Our Task Force is collecting examples of such quid pro quo agreements and when we have tabulated our findings we will be happy to share them with the Subcommittee. Even preliminary analysis, nevertheless, indicates that give backs are the temporary exception and not the rule in the private sector. In 1986, as we have noted, private salary increases are expected to average 6.9%. As we reach for the zenith of economic recovery, private sector workers are gearing up to participate in the upturn.

I share the Subcommittee's views about the Office of Personnel Management's quit rate analysis. The OPM study, based upon stale data, methodologically indefensible, and from the standpoint of responsible management practice totally incoherent, is yet another exercise in arrogance disguised as fiscal responsibility.

If we want to be fiscally responsible and fully accountable to the American people, we should recognize that the \$3.4 billion in savings can be more than offset by the disastrous consequences of a pay cut on productivity and the quality service delivery.

We recently discovered that a one-half percent increase in the error rate in processing Social Security payments can result in a \$1 billion loss to the Treasury. Similar losses could occur at I.R.S. and other agencies. Such losses would quickly eat up and probably exceed the savings attributable to a pay cut.

Conclusion

In my view, the proposed pay cut and retirement changes in the Administration's FY 86 budget are wholly indefensible. They will not work from a budgetary standpoint. They would come at a disastrous moment for the Federal service--at a time when we should be rebuilding public confidence. They would violate every principle of responsible personnel management now employed in the private sector.

In short, Madam Chair, we have to start paying the going rate for employees. We should be prepared to act responsibly, not precipitously. It's time we restored the pride and confidence that a short time ago characterized public service. It's time we recognized the thousands of employees in government who risk their lives to protect us. It's time we restored the image of the Federal worker on the front lines of America's new frontiers.

This was not empty idealism during John Kennedy's Presidency and it should not be mere rhetoric while Ronald Reagan is in office.

INCREASES IN SOCIAL SECURITY BENEFITS, FEDERAL CIVILIAN AND MILITARY RETIREMENT, MILITARY PAY, FEDERAL PAY, VETERANS COMPENSATION, AVERAGE WAGES, AND THE CONSUMER PRICE INDEX

YEAR	SOCIAL SECURITY		FED/CIVILIAN MILITARY RETIRE		FEDERAL PAY		MILITARY PAY		VETERANS COMP		AVERAGE WAGES		CONSUMER PRICE INDEX	
1970	JAN	15.0%	AUG	5.6%	JAN	6.0%	JAN	6.0%	JULY	10.0%	JULY	4.8%	JULY	5.8%
1971	JAN	10.0%	JUNE	4.5%	JAN	6.0%	JAN	6.0%	JULY	10.0%	JULY	5.1%	JULY	5.8%
							NOV	13.1%					JULY	4.4%
1972	SEPT	20.0%	JULY	4.8%	JAN	5.5%	JAN	5.5%	AUG	10.0%	JULY	7.6%	JULY	3.0%
1973			JULY	6.1%	JAN	5.1%	JAN	5.1%			JULY	7.6%	JULY	5.7%
					OCT	4.8%	OCT	4.8%						
1974	JUNE	11.0%	JAN	5.5%	OCT	5.5%	OCT	5.5%	MAY	17.2%	JULY	6.2%	JULY	11.5%
			JULY	6.3%										
1975	JUNE	8.0%	JAN	7.3%	OCT	5.0%	OCT	5.0%	AUG	11.8%	JULY	4.8%	JULY	9.6%
			AUG	5.1%										
1976	JUNE	6.4%	MARCH	5.4%	OCT	4.8%	OCT	4.8%	OCT	8.0%	JULY	8.1%	JULY	5.5%
1977	JUNE	5.9%	MARCH	4.8%	OCT	7.1%	OCT	7.1%	OCT	6.6%	JULY	7.6%	JULY	6.7%
			SEPT	4.3%										
1978	JUNE	6.5%	MARCH	2.4%	OCT	5.5%	OCT	5.5%	OCT	7.3%	JULY	8.0%	JULY	7.7%
			SEPT	4.9%										
1979	JUNE	9.9%	MARCH	3.9%	OCT	7.0%	OCT	7.0%	OCT	9.9%	JULY	7.6%	JULY	11.4%
			SEPT	6.9%										
1980	JUNE	14.3%	MARCH	6.0%	OCT	9.1%	OCT	11.7%	OCT	14.3%	JULY	5.8%	JULY	13.2%
			SEPT	7.7%										
1981	JUNE	11.2%	MARCH	4.4%	OCT	4.8%	OCT	14.3%	OCT	11.2%	JULY	9.9%	JULY	10.7%
1982	JUNE	7.4%	MARCH	8.7%	OCT	4.0%	OCT	4.0%	OCT	7.4%	JULY	4.9%	JULY	6.7%
1983	DEC	3.5%	APRIL	3.9%					OCT	3.5%	JULY	4.6%	JULY	2.4%
1984	DEC	3.5%	DEC	3.5%	JAN	3.5%	JAN	4.0%	APRIL	3.5%	JULY	4.4%	JULY	4.1%
									DEC	3.2%				
1985	JAN	3.5%	JAN	3.5%	JAN	3.5%	JAN	4.0%	JAN	3.5%	JULY	6.5%	JULY	3.9%
							July	3.0%						
1986	JAN	4.1%	JAN	4.1%	JAN	-5.0%	JAN	...	JAN	4.1%	JULY	6.9%	JULY	4.3%
TOTAL GROWTH CUMULATED		378.1%		320.2%		221.7%		318.5%		350.0%		291.2%		309.1%

Chart 1

Chart 2

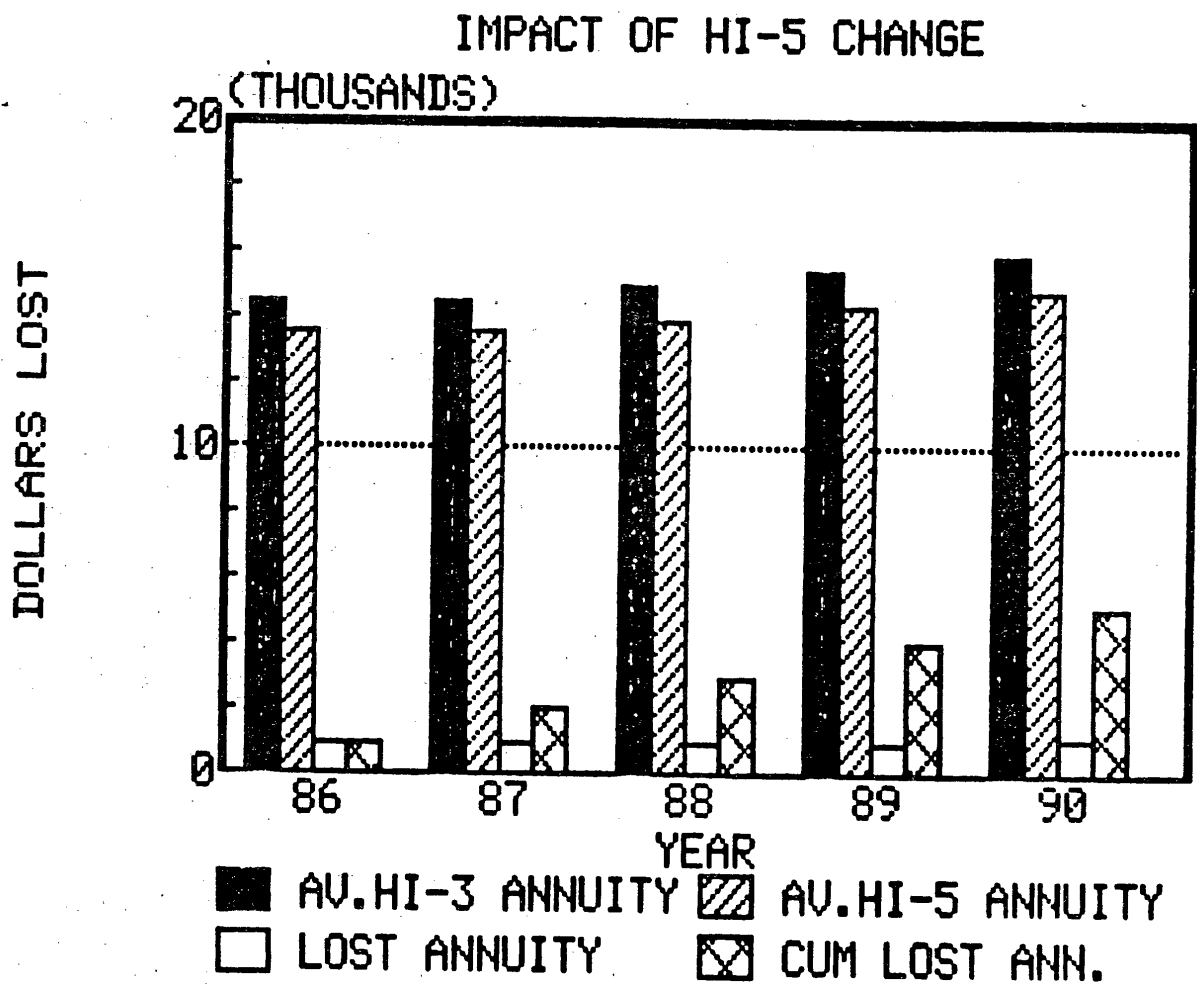


CHART 2

	AV. HI-3 ANNUITY	AV. HI-5 ANNUITY	LOST ANNUITY	CUM LOST ANN.
86	14554	13546	1007	1007
87	14554	13546	1007	1007
88	14990	13953	1037	1037
89	15440	14371	1068	1068
90	15903	14802	1100	1100

Chart 3

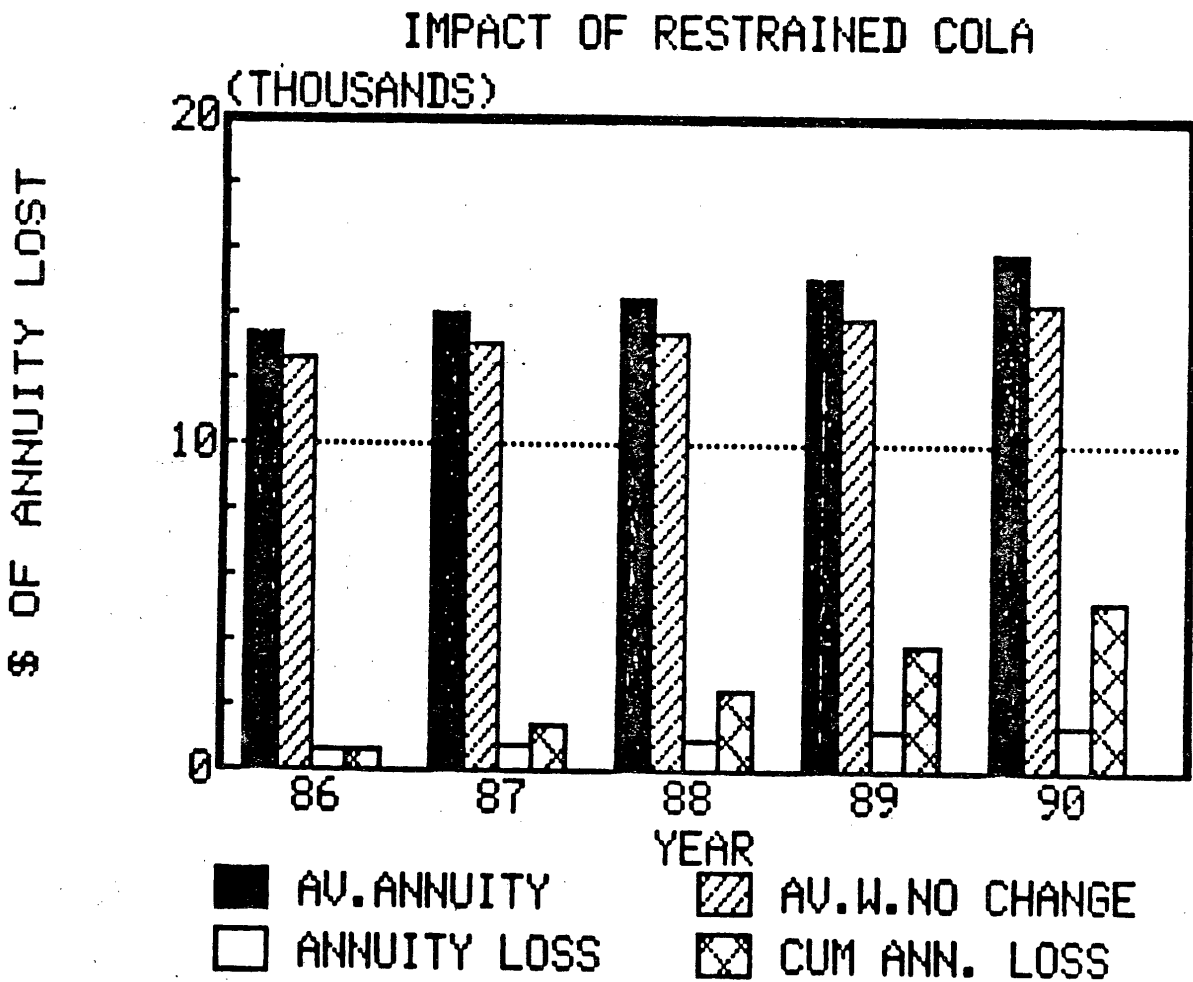


CHART 3

	AV. ANNUITY	AV. W. NO CHANGE	ANNUITY LOSS	CUM ANN. LOSS
86	13433	12761	671	671
87	14010	13144	866	866
88	14599	13538	1060	1060
89	15212	13944	1267	1267
90	15851	14363	1488	1488

Chart 4

COLA FREEZE

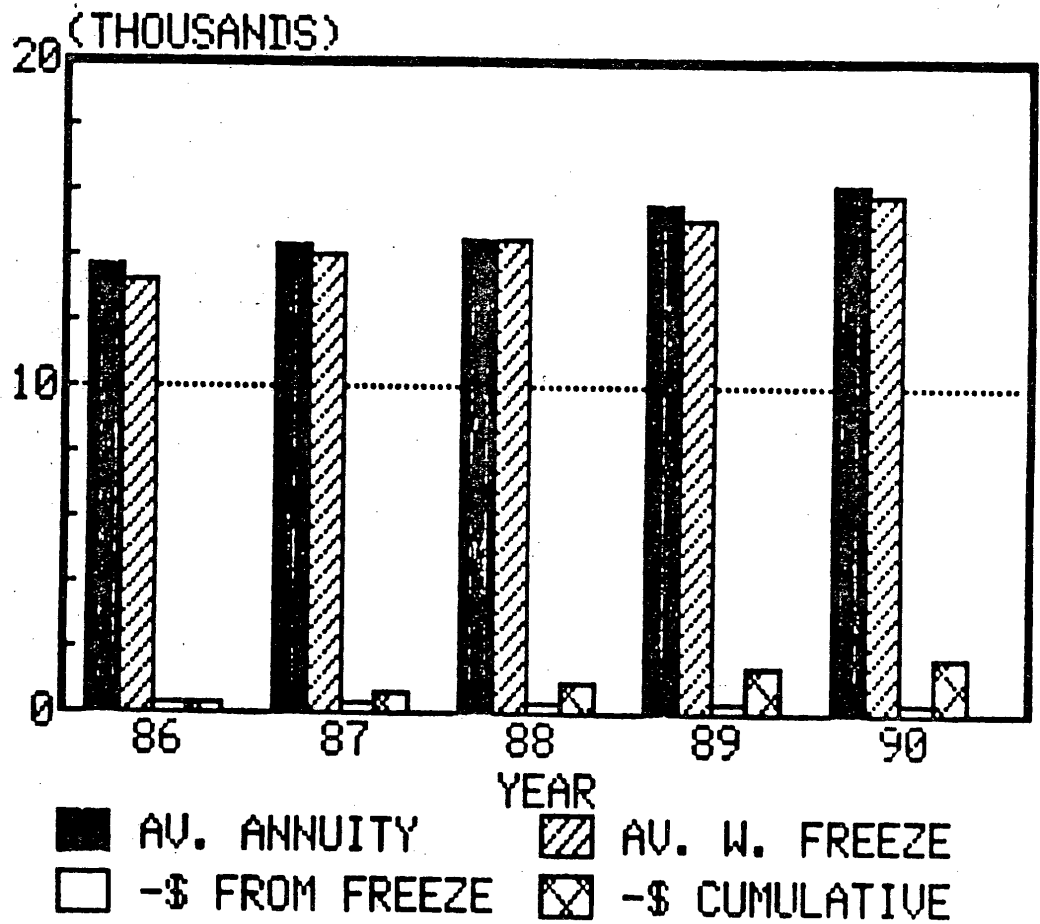


CHART 4

	AV. ANNUITY	AV. W. FREEZE	-* FROM FREEZE	-* CUMULATIVE
86	13783	13344	350	350
87	14348	14010	338	338
88	14599	14599	366	366
89	15594	15212	382	382
90	16249	15851	398	398

TABLE 4. Federal Civilian Payroll as Percentage of Budget Outlays, 1950-1983

Year	Federal civilian payroll <u>1/</u> \$	U.S. budget outlays <u>2/</u> \$	Federal civilian payroll as percentage of budget outlays
1950	6,671,057,000	42,597,000,000	15.7
1951	7,797,688,000	45,546,000,000	17.1
1952	9,699,175,000	67,721,000,000	14.3
1953	10,148,854,000	76,107,000,000	13.3
1954	9,751,505,000	70,890,000,000	13.8
1955	9,917,734,000	68,509,000,000	14.5
1956	10,592,586,000	70,460,000,000	15.0
1957	11,097,444,000	76,741,000,000	14.5
1958	11,558,773,000	82,575,000,000	14.0
1959	12,427,107,000	92,104,000,000	13.5
1960	12,758,328,000	92,223,000,000	13.8
1961	13,766,981,000	97,795,000,000	14.1
1962	14,420,960,000	106,813,000,000	13.5
1963	15,476,661,000	111,311,000,000	13.9
1964	16,342,808,000	118,584,000,000	13.8
1965	17,402,536,000	118,430,000,000	14.7
1966	18,914,286,000	134,652,000,000	14.0
1967	20,723,618,000	157,608,000,000	13.1
1968	22,630,019,000	178,134,000,000	12.7
1969	24,505,755,000	183,645,000,000	13.3
1970	27,321,909,000	195,652,000,000	14.0
1971	29,474,750,000	210,172,000,000	14.0
1972	31,626,070,000	230,681,000,000	13.7
1973	33,240,383,000	245,647,000,000	13.5
1974	35,661,238,000	267,912,000,000	13.3
1975	39,125,979,000	324,245,000,000	12.1
1976	42,259,472,000	364,473,000,000	11.6
1977	45,894,671,000	400,506,000,000	11.5
1978	49,929,505,000	448,368,000,000	11.1
1979	53,590,892,000	490,997,000,000	10.9
1980	58,011,770,000	576,675,000,000	10.1
1981	63,792,800,000	657,204,000,000	9.7
1982	65,502,988,000	728,375,000,000	9.0
1983	69,877,692,000	795,969,000,000	8.8

1/ U.S. Office of Personnel Management. Workforce Analysis and Statistics Division. Federal Civilian Payrolls Fiscal Year 1950-1983. Handwritten memo to CRS from May Eng, March 1984. These data differ from payroll figures in Table 2 because they are for twelve month periods (fiscal years).

2/ Executive Office of the President. Office of Management and Budget. The United States Budget in Brief: Fiscal Year 1985. Washington, U.S. Govt. Print. Off., 1984. p. 96.

TABLE 2

CRS-13

TABLE 2. Federal Civilian Employment, Payroll, Number in Labor Force and Federal Civilian Employees as Percentage of Labor Force, 1950-1983

Year	Federal civilian employment <u>1/</u>	Monthly Federal civilian payroll <u>2/</u> \$	Number in labor force <u>3/</u>	Federal civilian employees as percentage of labor force
1950	2,117,000	613,400,000	63,377,000	3.34
1951	2,515,000	857,400,000	64,160,000	3.92
1952	2,583,000	855,900,000	64,524,000	4.00
1953	2,385,000	793,100,000	65,246,000	3.66
1954	2,373,000	784,800,000	65,785,000	3.61
1955	2,378,000	845,700,000	67,087,000	3.54
1956	2,410,000	943,700,000	68,517,000	3.52
1957	2,439,000	918,600,000	68,877,000	3.54
1958	2,405,000	1,091,400,000	69,486,000	3.46
1959	2,399,000	1,072,700,000	70,157,000	3.42
1960	2,421,000	1,117,800,000	71,489,000	3.39
1961	2,484,000	1,213,600,000	72,359,000	3.43
1962	2,539,000	1,346,900,000	72,675,000	3.49
1963	2,548,000	1,423,200,000	73,839,000	3.45
1964	2,528,000	1,475,200,000	75,109,000	3.37
1965	2,588,000	1,483,700,000	76,401,000	3.39
1966	2,861,000	1,664,800,000	77,892,000	3.67
1967	2,993,000	1,842,300,000	79,565,000	3.76
1968	2,984,000	2,137,300,000	80,990,000	3.68
1969	2,969,000	2,335,300,000	82,972,000	3.58
1970	2,881,000	2,427,900,000	84,889,000	3.39
1971	2,872,000	2,528,700,000	86,355,000	3.33
1972	2,795,000	2,709,600,000	88,847,000	3.15
1973	2,786,000	3,012,000,000	91,203,000	3.05
1974	2,874,000	3,294,300,000	93,670,000	3.07
1975	2,890,000	3,583,800,000	95,453,000	3.03
1976	2,843,000	3,564,600,000	97,826,000	2.91
1977	2,848,000	3,918,400,000	100,665,000	2.83
1978	2,888,000	4,343,900,000	103,882,000	2.78
1979	2,869,000	4,727,700,000	106,559,000	2.69
1980	2,907,000	5,215,700,000	108,544,000	2.68
1981	2,865,000	5,238,600,000	110,315,000	2.60
1982	2,848,000	5,959,000,000	111,872,000	2.55
1983	2,875,000	6,301,500,000	113,226,000	2.54

See footnotes on next page.

1/ U.S. Department of Commerce. Bureau of the Census. 1977 Census of Governments, Vol. 3, Public Employment, No. 2, Compendium of Public Employment. Washington, U.S. Govt. Print. Off., 1979. p. 10 (for years 1950-1977). U.S. Department of Commerce. Bureau of the Census. Public Employment in 1978-1983. Washington, U.S. Govt. Print. Off., 1979-1984. p. 1, 7, 9. (October 31 rounded totals used except for 1957, which is an April total.) Federal civilian employment includes all civilian Government employees working in the United States and abroad, except for those in the uniformed military, the Central Intelligence Agency, and the National Security Agency.

2/ Ibid. Federal civilian payroll includes all salaries, wages, fees, or commissions paid to employees and represents gross payrolls for one-month period of October.

3/ U.S. Department of Labor, Bureau of Labor Statistics. Employment and Earnings. Washington, U.S. Govt. Print. Off., Jan., 1984. p. 17. Number in labor force includes all those aged 16 and over who are not institutionalized and who are civilians employed in either agricultural and nonagricultural industries, the resident armed forces, or unemployed.

TABLE 6. Extension of the Competitive Civil Service, 1884-1983--Continued

Year	Federal civilian employment	Federal employees under competitive civil service	
		Number	Percent
1943	3,299,414	<u>4/</u>	<u>4/</u>
1944	3,332,356	<u>4/</u>	<u>4/</u>
1945	3,816,310	<u>4/</u>	<u>4/</u>
1946	2,696,529	<u>4/</u>	<u>4/</u>
1947	2,111,001	1,692,065	80.2
1948	2,071,009	1,707,220	82.4
1949	2,102,109	1,771,927	84.3
1950	1,960,708	1,656,803	84.5
1951	2,482,666	2,144,882	86.4
1952	2,600,612	2,247,692	86.4
1953	2,558,416	2,138,899	83.6
1954	2,407,676	1,992,057	82.7
1955	2,397,309	2,004,853	83.6
1956	2,398,736	2,042,007	85.1
1957	2,417,565	2,067,285	85.5
1958	2,382,491	2,032,944	85.3
1959	2,382,807	2,042,034	85.7
1960	2,398,704	2,050,938	85.5
1961	2,435,804	2,096,635	86.1
1962	2,514,197	2,159,050	85.9
1963	2,527,960	2,164,163	85.6
1964	2,500,503	2,153,658	86.1
1965	2,527,915	2,154,992	85.2
1966	2,759,019	2,367,100	85.8
1967	3,002,461	2,485,863	82.8
1968	3,055,212	2,569,752	84.1
1969	3,076,414	2,549,506	82.9
1970	2,981,574	2,410,054	80.8
1971	2,922,841 ^{5/}	2,375,887	81.3
1972	2,158,799	1,713,412	79.4
1973	2,126,312	1,694,843	79.7
1974	2,185,916	1,648,741	75.4

^{5/} Effective July 1, 1971, all employees of the U.S. Postal Service were converted from the competitive service to the excepted service under the authority of P.L. 91-375 (84 Stat. 719 et seq.), approved August 12, 1970. For the years 1972-1983, postal employee totals from Table 5 have been subtracted from the Federal civilian employment totals.

TABLE 6. Extension of the Competitive Civil Service, 1884-1983--Continued

Year	Federal civilian employment	Federal employees under competitive civil service	
		Number	Percent
1975	2,197,770	1,663,228	75.7
1976	2,204,955	1,661,532	75.4
1977	2,234,944	1,652,269	73.9
1978	2,278,780	1,679,532	73.7
1979	2,283,650	1,668,272	73.1
1980	2,455,541	1,749,795	71.3
1981	2,282,737	1,731,112	75.8
1982	2,249,244	1,727,772	76.8
1983	2,257,436	1,729,775	76.6