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TIGHTENING ELIGIBILITY STANDARDS COULD CUT INVOLUNTARY RETIREME--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

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The Honorable Donald J. Devine
Director, Office of Personnel
Management

Dear Dr. Devine:

Subject: Tightening Eligibility Standards Could Cut Involuntary Retirement Costs by Millions of Dollars. (FPCD-81-71)

The eligibility standards governing the involuntary retirement program permit hundreds of unwarranted early retirements each year. These early retirements increase the retirement system's cost in that early retirees receive immediate benefits, with little or no reduction, even though they do not meet the service requirements for normal retirements. We estimate the additional cost to the civil service retirement system for all involuntary retirees on the rolls will be about $181 million for fiscal year 1981.

Numerous situations exist whereby employees can become eligible for involuntary retirement. (See enc. I for some of these situations.) We have found that many early retirements can be avoided. Our evaluation, presented below, indicates that the Government, by prohibiting unwarranted early retirements, could reduce program outlays by at least $12 million the first year and more each year thereafter.

OBJECTIVE, SCOPE, AND METHODOLOGY

After discussing our preliminary findings and concerns about the program with your staff, we were told that the Office of Personnel Management (OPM) is now considering tightening the eligibility standards for early retirement.

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Because the change being considered would resolve, in large part, our major concern with the program, we reduced the scope of our evaluation efforts.

Our objectives were to determine and evaluate the reasons for involuntary retirements, determine program costs, and also determine whether any of the early retirements were permitted for unjustified reasons. As part of our evaluation, we drew a statistical sample of former employees who in 1979 were added to the involuntary retirement rolls. The universe consisted of 2,872 individuals. To achieve a 95 percent confidence level, we drew a random sample of 357 cases.

The results of our sample indicate that about 56 percent of the involuntary retirees in 1979 were separated for five reasons--reorganizations, work force realignments, deactivation of work units, budget reductions, and transfer-of-functions. Enclosure I shows, for the retirees in our sample, the reasons for separation and number who were offered other positions. OPM's retirement records did not show the specific reasons for the separations of about 29 percent of these retirees.

At OPM's Federal Records Center in Boyers, Pennsylvania, we reviewed the retirement records of the individuals selected in our sample and obtained information on the former employee's agency, work location, job series and grade, reason for separation, and job offers. We also interviewed responsible agency officials from 15 agencies in the Washington, D.C., area whose former employees appeared in our sample. From these officials, we obtained additional data on the retirees and other employees who were affected by the management action(s) leading to the separation of the employee(s) in our sample.

To gain additional perspective, we analyzed the changes made in the involuntary retirement program from its creation in 1922 to the present. These changes include those made through legislation and by OPM's implementing policy and instructions. We also developed cost data for the program. Our methodology for developing this cost data is in enclosure II.

BACKGROUND

The involuntary retirement program was established by Public Law 67-363 in 1922 to provide immediate annuities to employees of long service who are involuntarily separated through no fault of their own. Age, service requirements, and benefits are established in law; however, OPM, as administrator of the civil service retirement system, is responsible for determining what constitutes an involuntary separation. Originally, involuntary retirements were permitted only for employees subject to reduction-in-force. Over the years, however, OPM's implementing policy and instructions have been liberalized.

Under current policy an employee no longer has to be facing separation by reduction-in-force to become eligible for involuntary retirement. Instead, an employee becomes eligible when he or she is merely notified that his or her position is to be abolished. These employees are being permitted the option of accepting offers of similar positions or retiring under the involuntary retirement provisions. OPM's instructions also provide that agencies could direct reassignment of these employees to positions, within the agency, at the same grade and pay, and in the same commuting area.

Presently, under the civil service retirement system, employees with 30 years' service can elect to retire at age 55. However, the current age and service requirement for involuntary retirement is age 50 with 20 years of service or any age with 25 years of service.

EARLY RETIREMENTS ARE COSTLY

The civil service retirement system incurs additional costs for early retirees. A number of factors affect these costs, including (1) the extra years early retirees spend on the retirement roll, (2) the loss to the retirement fund of the employee and agency contributions that would otherwise be made, and (3) cost-of-living adjustments the early retirees receive, counterbalanced by increased annuities employees would earn if they worked longer.

The additional cost to the retirement system is caused primarily by early retirees' receiving immediate benefits with little or no reduction. Under civil service early retirement provisions, employees leaving after age 55 suffer no reduction in their annuitites even though they do not meet the service requirements for normal retirement. Those leaving before age 55 have their annuities reduced by 1/6 of 1 percent for each month they are under age 55. In both cases, the retirement system is absorbing a substantial portion of the extra cost of the early retirements.

At the end of fiscal year 1980, there were about 85,000 involuntary retirees on the rolls with annual annuities of over $1 billion. However, not all of the cost of providing benefits to involuntary retirees is directly attributable to their early retirement. Many would have been eligible for normal retirement benefits at a later date and all early retirees could have received deferred annuities beginning at age 62. The additional cost to the civil service retirement system for permitting involuntary retirements is estimated by our actuaries to be $181.8 million in fiscal year 1981. Using OPM's method of calculating the costs, the estimated amount would be $132 million. (See enc. II.)

COSTLY INVOLUNTARY RETIREMENTS CAN BE AVOIDED

Hundreds of employees whose positions are scheduled to be abolished are retiring early after declining offers of other positions. On the basis of our survey results, we estimate that in 1979 there were between 969 and 1,249 such retirements. Most of these retirements could have been avoided had managers exercised their existing authority to reassign employees. Eliminating early retirements for these individuals could reduce the number of such retirements by about 38 percent and save at least $12 million in outlays the first year and more thereafter.

OPM is considering a change to its policy and instructions governing involuntary retirements for employees in abolishment-of-position situations. For such employees, early retirement would be permitted only after the employing agency certifies there were no vacant positions of the same grade level for which the employee is qualified within the agency and same commuting area.

If OPM's proposed change were implemented, many of the early retirements would no longer be permitted. However, the change would not address instances where an employee could have been offered another position at a lower grade.

Needless loss of experienced employees

Retirement records at the Records Center showed that about 38 percent of the individuals in our sample were offered other positions within their commuting area. Generally, if an offer was made it was for a position substantially similar to the abolished one--same job series and grade within the commuting area. Furthermore, agency officials in the Washington, D.C., area said that more offers could have been extended to employees whose positions were abolished and that they do not attempt to find another position for an employee eligible for involuntary retirement if the employee notifies them that he or she wishes to retire.

After being made aware of our findings and concerns about the program, OPM conducted a review of 98 involuntary retirements resulting from abolishment-of-position situations, occurring during a 12-month period ending May 1981. OPM found that of these 98 employees, 69 (70 percent) were offered other positions at the same grade and pay within the commuting area.

While visiting agencies in the Washington, D.C., area, we also gathered data concerning other employees affected by the management actions that led to the separation of the individuals in our sample. We believe that the following examples highlight the needless loss of experienced employees.

At one agency we learned that six positions were abolished during a reorganization. All six employees occupying the abolished positions were offered other positions of the same grades and job series. Three employees who were eligible to retire with immediate annuities under the involuntary retirement provisions did so. The remaining three employees who were not eligible to retire with immediate annuities accepted the offered positions. Furthermore, one of the employees who retired was offered employment as a consultant or a rehired annuitant, but the employee also declined this offer.

At another agency an employee's position was abolished in a reorganization and the employee was offered a position of the same job series and grade. The employee declined the offer and elected to retire under the involuntary retirement provision. Six weeks after the employee retired, the agency rehired the employee as a consultant to perform what appears to be the duties of the position he was offered and declined.

During a reorganization at a third agency, five positions were abolished and all five employees received job offers. Three of the employees were eligible for immediate annuities under the involuntary retirement program; two declined the offers in order to exercise their early retirement options and the other individual accepted the offer. The remaining two employees did not meet the age and service requirements for immediate annuities and accepted the offers.

Agencies are reluctant to direct employee reassignments since an alternative exists whereby they can offer the employee the option of accepting the position or taking early retirement. Agency officials said they prefer to leave the decision to the employee, believing that to direct reassignment, when an option exists, would have a negative impact on the employee's morale and work performance. Furthermore, some agency officials viewed the early retirement option as an employee right. OPM officials told us that an employee does not have the right to early retirement if the agency reassigns the individual to another position.

Retirement records also showed that when an agency was unable to offer a similar position at the same grade, it was sometimes able to offer a similar position at a lower grade with grade and pay retention. However, agencies lack the authority to direct reassignments to lower-graded positions. Under the grade and pay retention provisions of the Civil Service Reform Act, eligible employees are entitled to grade retention for 2 years and pay retention thereafter. These special features, therefore, would minimize the adverse effects of being placed in lower-graded positions.

CONCLUSIONS

OPM needs to tighten the eligibility criteria for early retirements to avoid unwarranted separations and reduce costs. Hundreds of unwarranted involuntary retirements are occurring because current OPM policy permits employees to decline reasonable offers of other positions and retire early. The involuntary retirement program needs to be restructured to prohibit early retirements when an agency extends to the employee whose position is to be abolished a reasonable offer of another position.

Restructuring the program would serve a twofold purpose by (1) retaining experienced employees who are retiring prematurely, and (2) reducing outlays from the civil service retirement fund.

RECOMMENDATIONS

To restructure the involuntary retirement program and thereby prevent unwarranted early retirements, we recommend that the Director, OPM:

--Disallow involuntary retirements when an agency offers an employee whose position is to be abolished a vacant position within the agency and commuting area for which the employee is fully qualified, and when acceptance would not result in an immediate reduction in pay.

--Monitor the retirement program to assure that agencies are making offers to the fullest extent practicable.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be submitted to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget; and to the Chairmen, Senate Committee on Governmental Affairs and House Committee on Government Operations, House and Senate Committees on Appropriations, and House Committee on Post Office and Civil Service.

Sincerely yours,

Clifford I. Gould

Clifford I. Gould
Director

Enclosures - 2

ENCLOSURE I

SUMMARY OF SAMPLE RESULTS

Reason for involuntary retirement	Number of individuals in sample	Percent of sample	Number of individuals offered other jobs
Reorganization	50	14.01	27
Realignment of work force	62	17.37	35
Deactivation of work unit	30	8.40	2
Budget reductions	27	7.56	11
Transfer of functions	30	8.40	a/29
Work contracted out	13	3.64	3
Inefficiency	7	1.96	1
Loss of military membership (note b)	15	4.20	Not applicable
Miscellaneous	20	5.60	9
Undeterminable (note c)	103	28.85	44
	357	100.00	161

a/The functions of one individual's work group were transferred from the individual's agency to another agency. From the records we reviewed at the Records Center there were no indications that the employee was offered a position in the "new" agency.

b/Public Law 90-486 (August 13, 1968) provides that under regulations prescribed by the Secretary of the Army or Air Force, civilian technicians employed by the National Guard may also be required to be members of the National Guard. The regulations further prescribe that when a technician loses his military membership, he is separated from technician employment. Offers of other positions are not applicable for these employees.

c/Among others, this includes separations that are processed as involuntary retirements without any evidence or development of the circumstances which brought about the separation, e.g., congressional and Schedule C employees.

COST OF INVOLUNTARY RETIREMENTS

To estimate the cost of involuntary retirements, we asked OPM to calculate, using the dynamic economic assumptions established by the retirement system's Board of Actuaries, the net effect of such retirements on the civil service retirement system's normal cost and unfunded liability.

In actuarial terminology, the value of benefit rights earned (accrued) annually by employees covered under a retirement system is referred to as the normal cost of the system. The normal cost is commonly expressed as a percent of payroll and, from a financing point of view, represents an estimated amount of funds which, if accumulated annually and invested over covered employees' careers, will be enough to meet their future benefit payments. The unfunded liability represents the excess of a system's accrued liability over its assets. The accrued liability is attributable to years prior to the date of a particular actuarial valuation and represents that portion of future benefits not covered by future normal costs.

Both the normal cost and unfunded liability can be calculated on either a "static" or "dynamic" basis. Static calculations do not consider future general pay increases or future annuity cost-of-living adjustments. Dynamic calculations do. Consequently, we believe a dynamic valuation represents a more realistic measure of the true cost.

The results of OPM's calculations, updated by GAO to reflect more current information, on a dynamic basis follow:

Normal cost of involuntary early retirements	.20 percent of payroll
Increase in the unfunded liability attributable to involuntary early retirements (assumes that 70 percent of all early retirements are involuntary)	$1 billion

The estimated fiscal year 1981 payroll for the employees covered by the civil service retirement system is $57.4 billion. Thus, the normal cost of involuntary retirements for fiscal year 1981 is about $115.6 million. In addition, the involuntary early retirements have generated about a $1 billion increase in the retirement system's unfunded liability.

Financing this increase in level payments over 75 years would cost another $66.2 million for fiscal year 1981. In total, then, we estimate the cost of involuntary retirements in fiscal year 1981 to be $181.8 million.

Using OPM's method of calculation, we estimated that the cost for involuntary retirements in fiscal year 1981 would be $132 million. The estimates differ because of the methods used in amortizing the unfunded liability. OPM uses a level percent-of-payroll approach, whereas we used a level dollar amount. Actuaries' opinions differ as to the relative merits of both amortization methods. However, there is precedence for using level dollars. The Employee Retirement Income Security Act of 1974 requires that private sector retirement plans employ the level dollar method. The initial amortization payments using a level percent-of-payroll are less, and later payments are substantially higher than using level dollars. In the long run, the total payments under either method would cover the same unfunded liability.