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Work Force Management

> PPSS found serious deficiencies in the planning for and use of the Federal work force. These deficiencies are apparent in overstaffing, lack of employee motivation and low productivity. The problems are deep-rooted in the lack of a management structure to focus on human resource needs.
>
> PPSS recommended that the Office of Personnel Management develop a systematic approach to formulating human resource policies and procedures for use by all Government agencies. These would have the purposes of assuring the application of high standards of personnel development.
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> In FY 1983, the Government spent $66.3 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $357.0 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $300.7 billion in 2000, a saving of $56.3 billion, or 15.8%.

In addition to analyzing the compensation of Federal employees, including retirement and fringe benefits, PPSS reviewed how Federal employees are managed, including the incentives provided to and the productivity of the Federal work force; staffing, grading (assigning salary levels to jobs), spans of control (number of workers per supervisor); and training and development.

Incentives and Productivity

A staff study prepared for Congress in 1979 stated: "If the overall Federal productivity could be increased by 10%, personnel costs could be reduced by more than $8 billion per year without a cutback in services."

Q. In what specific Government agencies are productivity improvements possible?

A. Social Security Administration (SSA) employees, for example, operate at about 50% of capacity because:

- Supervisors are not adequately controlling the flow of work through their units -- employees have almost total control over the workflow.

- Supervisors have little or no responsibility for short-term planning.

- Supervisors have no incentive to increase productivity since improved productivity can decrease staff allocations and negatively affect the supervisor's compensation -- a prime example of Federal procedures providing a disincentive to effective management.

- Upper management has not provided line supervisors with a standardized approach for organizing work, nor a specific approach to solving problems.

Q. What did PPSS recommend?

A. PPSS recommended a management system which would have supervisors develop and execute daily and weekly plans; a field office productivity system which would establish office productivity goals and would offer incentives for meeting or surpassing goals; and a reduction in the supervisory span of control from the current 15.4 employees for each supervisor to 9-12 employees per supervisor.

Projected savings of $1.266 billion over three years are based on raising productivity from 50% to 75%, thereby reducing staff levels by 16,000-18,000 employees. Productivity increases of this magnitude have been achieved in the private sector by instituting a supervisory planning and control system. In the private sector, this discipline, lacking throughout the Federal work force, is necessary to ensure the continued survival of the organization.

Q. In what other areas did PPSS find room for productivity improvements?

A. For one, in the area of real property maintenance, budgeted at $3.5 billion in FY 1983. In the past 30 years, there have been many efforts to use industrial engineering techniques to reduce maintenance costs in Government-owned facilities. Results have been less than successful -- government-wide productivity in carrying out in-house maintenance still averages only 40% - 45%. Productivity rates below 50% fall in the "low" range by private sector standards. PPSS found that:

- Maintenance productivity varies significantly from installation to installation; it ranged in a survey sample from 20% to 50%, indicative of the lack of Government productivity standards.

- Productivity in Government maintenance cannot be improved substantially unless present inadequacies in the areas of scheduling, estimating, and planning are corrected.

- There appears to be little, if any, incentive for managers to improve productivity, because neither rewards nor penalties are associated directly with this aspect of their jobs -- promotions come customarily from being good mechanics rather than from displaying administrative skills.

Q. What is the level of maintenance productivity in the private sector?

A. Good productivity levels for maintenance in the private sector are in the range of 60% to 65%. Generally, high productivity in the private sector is associated with plants and facilities that use their own highly-skilled maintenance people and that use well-defined planning and scheduling programs.

PPSS recommended that:

- a government-wide program to raise the level of maintenance productivity be introduced;

- performance indices for property maintenance be established, both as a management tool and as performance incentives; and

- emphasis be placed on improving job estimates, plans, and detailed scheduling.

The Civil Service Reform Act of 1978 mandated a complete redesign of Federal systems for developing, motivating, and rewarding employees. The objective of the legislation was to materially improve Federal employee efficiency, responsiveness, and productivity through performance measurement systems (PMS) comparable to those used by private industry. The basic concept of all such plans is to measure employee performance against pre-established management goals and objectives.

Q. Did PPSS review performance evaluations and their effect on productivity?

A. Yes. Take the Veteran's Administration (VA) as an example. Performance evaluations in VA claims processing can be greatly improved. The VA Department of Veterans Benefits (DVB) disbursed $15 billion in benefits to six million claimants in FY 1983 through 58 field stations.

The DVB work measurement system does not accurately measure individual and field station performance. A standard time for performing each major activity is used to measure productivity by comparing the standard to total time available. Since standards measure total elapsed time rather than the time taken to complete a task (i.e., standards include lost and unproductive time), the system overstates actual productivity and effectiveness.

Q. Can the DVB work measurement system be used effectively?

A. DVB productivity data has <u>not</u> been used to evaluate field station staffing levels or to project future personnel requirements. It is used to compare performance among stations and to ensure that they stay within an acceptable range. The current DVB productivity range of 65% to 92% is considered acceptable by DVB. The GAO, however, contends that the same productivity data indicate that field stations are overstaffed. The fact that since 1975 the claims work load has declined by 30%, while field station personnel have decreased only 22% and productivity, as measured by DVB's system, has <u>increased</u> 5%, supports GAO's conclusion.

Q. How does VA productivity compare with the private sector?

A. VA productivity figures can be put into perspective by comparing VA performance to the experience of private insurance companies. In the private sector, long-term disability claims are processed generally within 42 days compared to 98 days in 1981 for processing VA pension claims.

Q. How can VA's performance be improved?

A. To improve efficiency, the current VA productivity measurement system needs to be revised to conform to private sector standards. This measurement system should then be used as the basis for implementing a system of performance evaluations through annual reviews. Savings of $272 million over three years will accrue as a result of an estimated 30% reduction in direct labor necessary to process VA claims.

Q. Are there other agencies where the performance measurement system is not working as intended?

A. Yes. For example, in the Department of Labor's (DOL) work measurement system. Although 57% of supervisors indicated that most of their employees' work is measured, less than half feel that these measurements are a fair and equitable basis for evaluating individual performance. Further, only 30% believe that employees have control over the conditions affecting the quantity of work output. Fewer than one-half of supervisors believe that existing output measures, without improvement, can be used to appraise individual work performance.

Q. What did PPSS recommend?

A. The DOL management information systems do not produce the information needed to evaluate the performance of individual employees, nor do they identify the unit cost of major activities. Such data is vital to cost containment and productivity measurement.

Developing productivity measurement systems, holding managers accountable for meeting specific productivity improvement objectives, and providing managers with financial incentives for meeting these objectives would save $50 million over three years.

Q. What is the primary obstacle to increasing productivity and improving work force planning?

A. The Government has recognized that the major problem is disincentives to improve. For example, the GAO summarized the problem as follows:

> ... disincentives, which were identified in previous GAO reports, include
>
> - across-the-board budget cuts, [in anticipation of] which...managers...keep staff above minimum levels in order to absorb the cuts and still perform the work;
> - tying grade levels to number of staff supervised; and
> - inability of managers to discipline employees who do not perform.

Q. What solutions did PPSS propose to address these problems?

A. OMB, within the broader framework of the strongly recommended Office of Federal Management, should be directed to establish programs to improve productivity throughout the Federal work force.

OMB, with assistance from OPM, should utilize existing incentive awards to recognize managers whose contributions to and participation in the program result in improved productivity.

Performance appraisals should include an evaluation of productivity improvement programs by managers and subordinates.

Staffing, Grading, and Spans of Control

PPSS noted that Government personnel policies fail to provide incentives to encourage efficient use of the Federal work force, resulting in:

- inordinate use of overtime;
- creation of thousands of unnecessary, temporary positions;
- assignment of inappropriate spans of control to managers;
- contracting of jobs to the private sector at a higher cost than could be accomplished internally (as opposed to Federal requirements that jobs be contracted out only when cost savings are possible); and
- excessive layering of management, including excessive use of deputies and assistants, duplicate organizational frameworks, and overgraded positions.

PPSS concentrated on staffing, grading, and spans of control.

Overstaffing can be viewed in terms of productivity. Eliminating excessive staff is a central aspect of productivity improvement and cost control. As an example, excessive staff exists in the Consumer Product Safety Commission (CPSC) and EPA.

Q. What problems are there in CPSC regarding excessive staff?

A. In comparison to other agencies, CPSC has proportionately more administrative staff relative to total employees as shown below:

	(1) Finance	(2) Admin. Services	(3) Personnel
(1) CPSC	1:40	1:16	1:28
(2) Average For Six Non-CPSC agencies	1:51	1:22	1:52
(3) Average Non-CPSC As Multiple Of CPSC	1.275X	1.375X	1.857X

- The ratio of administrative to CPSC staff exceeds average non-CPSC staffing in these six agencies by 1.3X-1.9X for the administrative areas listed above. By eliminating 22 positions, CPSC would save $3 million over three years and achieve an administrative staff ratio that is the same as the average in the six non-CPSC agencies.

Q. What overstaffing problems exist in EPA?

A. EPA's ratio of personnel staff to employees, 2.8 per 100, is considerably higher than the median private sector ratio, which ranges from 0.7 to 1.0 per 100 employees. PPSS recommended that EPA achieve a ratio of 2 personnel staff per 100 employees by reducing the personnel staff by 101 employees. Savings of $13 million over three years are estimated.

In addition to overstaffing, there is excessive layering of positions such as deputies and assistants, whose functions are to free top management from the less important aspects of their jobs.

Q. What are some of the specific situations that PPSS found regarding overuse of deputy and assistant positions?

A. The Environmental Protection Agency (EPA), again, is an example where there is an unnecessarily large number of deputy and special assistant positions.

PPSS found 41 special assistant and 41 deputy positions in EPA. The direct salaries of the special assistants amounted to $1.7 million, an average of over $42,000 each; direct salaries for the deputy positions were $2.3 million, an average of over $55,000 each.

PPSS found that 30 of the 41 special assistant and half of the 41 deputy positions could be eliminated, with savings of $11 million over three years.

In addition, end-strength ceilings are numerical limitations placed on the civilian work force by the Office of Management and Budget (OMB) and Congress. The intent of these ceilings is to control the number of employees. However, civilian end-strength ceilings have been ineffective as management tools. Agencies have found ways to manipulate the ceilings, increasing staff over assigned limits and increasing personnel costs. Also, ceilings do not take into account personnel shortages that may exist in certain skills which impede efforts to accomplish agency functions.

Q. How do agencies manipulate end-strength personnel ceilings?

A. As of July 1982, the Air Force had approximately 260,400 civilian employees. Many of these were temporary employees who were taken off the books for one day, at year end, then "rehired." Others were "on call," career-conditional permanent employees who received full benefits but who could be taken off the rolls when necessary. The end-of-year ceiling process does not control the number of Air Force employees and does not take into account certain costs, such as the disruption of workflow as employees are "fired" and "rehired."

Q. Are there other specific problems resulting from the use of personnel ceilings?

A. PPSS found the following Air Force examples of major problems with personnel ceilings:

More costly alternatives -- Work which cannot be accomplished during regular hours is completed by paying overtime or by contracting out for the work at higher cost. The Air Force estimates that overtime in depot maintenance could be reduced by approximately 64% if the ceiling on civilian personnel were increased, saving $3.5 million annually.

Cost of year-end terminations -- To stay within year-end ceilings, agencies furlough employees and hire them back. There is a cost associated with furloughing an employee for the last day of a fiscal year and rehiring the employee one day later. The Air Force has estimated that this cost is about $150 per employee. Even though the Air Force plans to reduce its current over-employment from 12,000 to 4,000 by the end of FY 1982, it will cost approximately $600,000 simply to terminate and rehire these 4,000 employees.

Work force imbalances -- Ceilings create imbalances in the composition of the work force and shortages in certain skills. In the Air Force, one result of the ceiling has been a reversal in the planned conversion of 6,000 positions from military to civilian functions. This is contrary to established policy of conserving military personnel for military functions.

Reduced readiness -- Work that has been funded but cannot be accomplished because of ceilings results in reduced readiness. In addition, the ability to "surge" to meet future crises is limited if overtime becomes the regular mode of operation.

Overall, PPSS identified $18-$40 million in possible annual cost savings to the Air Force alone if end-strength ceilings were eliminated, with savings over three years estimated at $96 million.

As discussed above, personnel ceilings are a flawed management tool and lead to inefficiencies. Other inefficient government-wide policies noted by PPSS are across the board personnel reductions and reduction-in-force (RIF) procedures.

Q. What damage do across the board staff reductions cause?

A. The Office of Revenue Sharing (ORS) of the Treasury Department is an example of an agency using across the board staff reductions inefficiently. The ORS has the same organizational structure today that it had in 1978, despite a 22% decrease in its work force.

Prior staff reductions have been across the board, reducing personnel in all divisions. This process may have severely weakened the organization by reducing some divisions to a point at which staffing is less than sufficient.

Reducing the ORS from seven to five divisions, with the attendant reduction of two division managers, will result in a more effective organization.

Future decreases in personnel, if required by additional reductions in manpower ceilings, can be achieved by abolishing whole units rather than eliminating staff across the board. This approach might be less devastating and more efficient than cutting staff on an equal division basis.

Q. How do reduction-in-force (RIF) procedures hinder efficient staffing?

A. When an agency determines a RIF is necessary, it must identify the positions to be abolished, determine which employees will lose or change jobs, determine whether employees who lose their jobs have rights to other positions, issue notices to the affected employees at least 30 days before the reduction is scheduled to take place, and assist employees in finding other jobs.

Some of the problems involved in current RIF procedures can be seen in RIFs undertaken by the Department of Health and Human Services (HHS) and by the Office of Personnel Management (OPM).

Q. What problems occurred during the RIF at HHS?

A. During FY 1982, 1,840 positions were abolished at HHS Headquarters and regional locations. In the process, 190 RIF separations took place, while 1,530 employees were affected by either reductions in grade or reassignments. <u>For each employee actually involuntarily separated, 8 employees were affected</u>. To abolish the 1,840 positions in

Headquarters and the regions, HHS spent almost $5 million for staff time, administration, retraining, or relocation. In addition, there were large, incalculable costs associated with lost productivity, skills, and quality.

Q. What happened during the RIF at OPM?

A. During FY 1982, 278 positions with an average grade of GS-11 were abolished at OPM. Because employees in some of these positions were entitled to "bump" lower graded employees, the average grade of employees separated was GS-7, four grades below the positions that were abolished. The Agency experienced very heavy attrition during the two months prior to the RIF, and eventually only 113 persons were separated. The staff time to plan and execute OPM's 1982 RIF cost an estimated $222,000.

Q. What happens to employees who "bump" other employees or who are downgraded?

A. Downgraded employees assume the functions and responsibilities of the employees they replace. They are entitled to retain their previous salaries for two years, even though the jobs they now occupy are paid at lower rates. PPSS noted instances of highly paid professionals and managers performing jobs of low status and importance. The cost of this is evident. Of equal importance, however, is the effect on the morale of the downgraded employees, and those who work with them, doing the same work at a much lower rate of pay.

Q. Doesn't moving/down-grading employees from one position to another have a negative effect on agency efficiency?

A. Yes. Generally, unrestricted displacement of employees under the current system results in costly and counterproductive employee moves and substantially weakens agency organizations. Performance and efficiency under existing procedures carry little weight in determining retention rights. The quality and use of personnel retained in an agency after a RIF can become secondary under the current system of retention and reassignment.

Q. What does PPSS recommend to remedy present RIF procedures?

A. PPSS recommended:

- Assigning greater weight to performance and efficiency in determining employee ratings in RIF procedures. For example, veterans' preference has excessive weight in determining point assignments, while performance has too little weight.

- Limiting bumping and retreat rights (displacing employees with lower standing) to no more than one grade level lower than the position from which the RIF employee is released to prevent excessive and indiscriminate displacement and the loss of valuable employees.

- Designating separate retention lists by clerical and nonclerical classifications. Establishing lists on this basis will help lessen disruption by eliminating replacement of highly skilled clerical employees by marginally skilled or unskilled nonclerical employees.

PPSS estimated that the Government would have saved $43 million in 1982 if PPSS recommendations had been in place, or over one-third of 1982 RIF costs of $105 million.

Reorganizations help to determine what staff is necessary to an agency and how that staff should be organized. Studies are necessary to determine whether current structures meet agency needs and whether more efficient structures are possible. In many Government agencies, reorganizations would help define responsibilities, decrease personnel costs, and increase efficiencies. The private sector does this regularly.

Q. Did PPSS note any specific agencies where reorganizations would help reduce personnel costs?

A. EPA's policy on position management includes the following:

- A minimum number of managerial and supervisory positions are to be established.
- Fragmentation (unnecessarily splitting the organization into many small segments) is to be avoided.
- Narrow spans of control (providing more supervision than is necessary) are to be avoided.

However, EPA has not been following its own policy for position management. Some 161 small groups are scattered throughout EPA. More than half consist of four or five employees, the remainder of three or less. This has led to an excessive number of managerial and supervisory positions, as well as to narrow spans of control.

Q. What did PPSS recommend?

A. EPA should concentrate on eliminating small organizational units by having senior officers submit reorganization plans as soon as possible. Reorganizing and reducing the number of small organizational units within the agency would result in long-term annual savings of $1.4 million. Organizational units should be large enough to prevent the tendency to inflate job grades artificially by proliferating the number of small units.

Q. Do fragmentation problems exist in some of the smaller agencies or bureaus?

A. Yes. In the Interstate Commerce Commission (ICC), the Office of Compliance and Consumer Assistance (OCCA) employs approximately 485 people. OCCA's personnel have not been reduced to reflect the greatly decreased regulatory mission of ICC as a result of 1980 legislation.

Staff positions help reduce personnel costs by increasing the efficiency of professionals and managers. However, in some agencies, there are not enough staff to support higher levels of management. Examples of the above were noted in the Department of Justice (DOJ) and the Department of Commerce (DOC).

Q. What is wrong with the ratio of professionals to staff in DOJ?

A. Paralegals are becoming an increasingly important resource for improving productivity and cost-efficiency in private legal practices. In the private sector, the ratio of attorneys to paralegals is about 5:1 compared to an average of 6:1 for all non-DOJ Executive Branch agencies. The ratio of attorneys to paralegals at DOJ legal divisions is 8:1, nearly 40% below the ratio in the private sector.

DOJ can save more than 50% in salary expenses for each attorney it replaces with a paralegal. Bringing the ratio of attorneys to paralegals in line with private sector practices within DOJ legal divisions would save the Government $13 million over three years.

Q. What about the Department of Commerce (DOC)?

A. The National Bureau of Standards (NBS) of DOC is a research laboratory whose primary mission is to provide measurement-related data and standards for use by industry, Government, academia, and the general public.

The 1983 budget for NBS calls for a staff that includes approximately five full-time professional employees for every one full-time technician (846 professional employees, 172 technicians). Typical industry research and development laboratories utilize one-to-one ratios of professionals to technicians.

To increase both the efficiency and effectiveness of NBS, a target of approximately three full-time professionals to one full-time technician is recommended.

Grade controls deal almost exclusively with grade escalation. Grade escalation is the tendency of average grades in the General Schedule to increase over time. Since 1949, the average grade in the General Schedule has increased as follows:

Increase in General Schedule Average Grade, 1949 - 1981

	Year	
(1)	1949	5.25
(2)	1974	8.03
(3)	1981	8.48

Q. Are average grades in the Government comparable to those in private industry?

A. No. The current Federal classification system has resulted in large numbers of people in professional and administrative jobs being grouped in the higher GS grades. Approximately 70% of the exempt (from the Fair Labor Standards Act) positions are in grades 11 and above, and about 50% in grades 12 and above. As discussed under the "Compensation" section of this report, the resulting "inverted pyramid" distribution of exempt workers differs sharply from conditions in the private sector. In the private sector, only about 26% of the white collar work force is usually found in levels similar to GS-11 - GS-15, as shown below:

Distribution of Management Personnel

		(1)	(2)	(3)
	Grade	Federal	Private Sector	Federal as Multiple of Private Sector
(1)	GS-11 and above	72%	26%	2.77X
(2)	GS-5 to 10	28	74	0.38

Q. Does this mean that Government grade controls, if any, are not effective?

A. Yes. A 1982 OPM study found that the net cost to the Government of positions that are incorrectly graded is $682 million annually. Furthermore, the study showed that 15.8% of all Federal positions are incorrectly graded, with another 8.9% having incorrect titles. The results of the survey are shown below:

Classification Errors, FY 1981

Problem	(1) Number of Employees	(2) Percent of Total GS Employees
(1) Overgrading	187,600	14.3%
(2) Title Errors	116,800	8.9
(3) Undergrading	19,700	1.5
(4) Total	324,100	24.7%
(5) Memo: Total Full-Time, Permanent General Schedule Employees	1,312,000	

As is clear from the above, the Federal Government has a large problem with grade controls and with personnel management -- 24.7% of all Government jobs have one of the three problems listed.

In the Washington, D.C. area, nearly one-third of all positions are overgraded and nearly half are misclassified with the wrong grade, occupation, or title.

Q. Are some agencies better than others at controlling grade misclassifications?

A. Yes. OPM noted that the Department of Defense (DOD) had fewer positions overgraded than other agencies, as shown below:

[Table on following page]

Misgrading, DOD and Non-DOD

		(1)	(2)	(3)
		Percentage		Non-DOD As Multiple of DOD
		DOD	Non-DOD	
(1)	Overgraded	8.7%	16.7%	1.9X
(2)	Undergraded	0.4	2.3	5.8

Q. Why is DOD more effective than other agencies?

A. DOD has established procedures and controls to implement effective position management programs. DOD managers are required to issue internal program policies and procedures, conduct periodic compliance inspections or surveys, and commit sufficient resources to the program. Line managers and supervisors are evaluated at least annually for position management effectiveness.

As a result, the classification accuracy rate is much higher for DOD agencies than for other Federal agencies. Furthermore, DOD devotes more resources to classification work. The number of Position Classification Specialists in DOD is higher than in the other Federal agencies. In 1978, the ratio of DOD classifiers to employees was more than twice that of other agencies. In addition, the training program for Position Classifiers in DOD was considered by OPM to be more thorough than that of other Federal agencies.

Q. What changes did PPSS recommend to improve position classification accuracy?

A. Restructure the work force, reducing the average grade by one-half a grade. Average grade would then equal the value it had in 1974.

Intensify efforts to reduce overgrading, reducing overgrading to 5% of what now exists.

PPSS estimated that savings over three years could be $5.164 billion if the Federal position classification system were redesigned.

Q. How do promotion policies lead to grade escalation?

A. A 1976 study prepared for the Civil Service Commission shows that:

- o The typical time between promotions for the Federal occupations surveyed is less than for the private sector. For example, in the three professional occupations which have career ladders (Accounting, Procurement, and Engineering), the typical time lapse between promotions in the private sector ranged from 41% to 93% longer than for promotions in the Federal Government.

o The percentage salary increase accompanying Federal promotions is larger than comparable increases in the private sector. For example, the percentage salary increases in each of the three professional occupations mentioned above were at least 40% higher in the Federal Government than in the private sector.

Furthermore, there is very little incentive to perform better since employees eligible for career ladder promotions whose performance is rated "outstanding," "highly effective," or "fully successful" are all promoted at about the same time.

Q. What did PPSS propose to change the present situation?

A. PPSS recommended relating promotional timing to individual performance, developing better promotion monitoring and auditing procedures, and ensuring a proper balance among mission needs, efficiency of operations, and effective employee utilization.

The question of <u>spans of control</u> (the number of employees per manager) is one of the many problems the Federal Government faces in position management. PPSS analyses in the Department of Energy (DOE) and the Public Health Service (PHS) of the Department of Health and Human Services provide examples of how various position management problems are connected.

Q. What problems exist in the Energy Department?

A. The 1982 average Department of Energy (DOE) salary of $31,200 per year is 30% higher than the Federal average. Furthermore, the average General Schedule (GS) grade level for all DOE employees in 1982 was 10.6 -- which is higher than all but 2 of the 17 agencies and departments surveyed by PPSS. Even a comparison of clerical employees showed that DOE's average annual salary and grade level at the end of 1981 was about $1,600 and a full GS level higher than that of the Government as a whole.

Q. Why are DOE salaries so high?

A. In percentage terms, DOE has more than twice as many employees in "supervisor" classifications as does the

Federal Government overall. During 1982, the ratio of non-supervisory employees to first-level supervisors in the Department was 2.9:1, compared with the Federal average of 6.9:1. (A goal of 7:1 is standard in the private sector.)

Q. What problems do these small spans of control cause?

A. It is important from the standpoint of management efficiency to see that the proper amount of supervision is being provided at various levels. Too much management can be as bad as too little. Excessive "layering" of supervisory levels increases the number of employees, causes delays, and may actually lower the quality and consistency of the work. These problems are in addition to added personnel costs.

Q. Were similar problems evident in the Public Health Service (PHS)?

A. Yes. PPSS noted the following general problems which, in turn, result in specific problems in PHS:

- Civil Service "seniority" overvalues "experience" in a reduction-in-force mandate. The employee with the longest service record may not be the most productive.

- The widespread use of "Assistant" and "Deputy" positions is suspect. These positions, for the most part, are not the result of substantive or unique work requirements.

- The control over "grade creep" is weak for the administrative type operations, i.e., non-science disciplines. At present, there are GS-15s reporting to other GS-15s. There are too many GS-14s, GS-13s, etc. in the same group of administrative type employees.

- Responsibility for personnel actions has not always been coupled with corresponding authority at the agency level. The most common problem cited was the lengthy time involved in hiring high-quality scientists.

- The large number of sub-divisions, branches, and other organizational breakdowns adds to payroll costs and fragments responsibility.

- Current line/staff manning levels provide excess manpower at the current level of activity, and indicate that there are opportunities for productivity increases.

Q. What can be done to correct the situation?

A. PPSS recommended:

- o upgrading RIF guidelines so that job performance is part of the criteria for job retention;

- o allowing one year of retained pay and grade for those personnel who, after a RIF is completed, find themselves in a lower graded position than their former one. After one year, grade and pay should be adjusted to correspond to current job duties;

- o eliminating some Deputy/Assistant positions and classifying employees based upon work performed to eliminate "grade creep"; and

- o consolidating small organizational units, decentralizing authority and responsibility, and reducing staff.

PPSS recommendations would reduce PHS staff by 2,617 staff-years and result in three year savings of $475 million.

Q. How do Congressional activities affect work force planning in the Executive Branch?

A. Congress can mandate minimum personnel levels or require that it be notified of pending reorganizations so as to prevent reductions in personnel.

Imagine the head of a $26 billion operation with over 200,000 employees who must get the approval of his board of directors for any reorganization plan that will affect as few as three employees -- and have to wait eight months to implement it.

This is the situation in the Veterans Administration (VA). The VA Administrator must submit a detailed plan to Congress for any administrative reorganization plan that will affect 10% or more of the permanent full-time equivalent employees at a "covered office or facility." That last term includes any VA office or facility that has 25 or more permanent employees or is a free-standing outpatient clinic.

In addition, the Administrator must submit the plan to Congress the same day the President submits the next fiscal year's budget. Since that must be done in February, it means Congress gets until October 1, eight months later, when the new fiscal year starts, to analyze that plan.

While the VA was perhaps the only agency tied up in law in quite this way, many others find themselves with a myriad of personnel directives. The Environmental Protection Agency (EPA) is another example. As part of an effort to cut costs and refine operations, EPA proposed a budget of $540.4 million for employee salaries and expenses for FY 1984, a cut of $8.2 million, or 1.5%, from the 1983 appropriations of $548.6 million.

Congress increased the 1984 appropriation over the 1983 level by $26.3 million, or 4.7%, and increased spending above the Executive Branch proposal by $34.5 million, or 6.3%, to a total of $574.9 million.

In another instance, in 1983, Congress raised the funding level for the Consumer Product Safety Commission by $13 million, or 38%, over its current operations, and another $10 million over the ensuing four years, for a total increase of 68%.

But, even though the Commission said it did not need that much additional money, the real issue was a paragraph stating:

> The Commission shall employ on a permanent basis not fewer than the full-time equivalent of 650 officers and employees. Any decision of the Commission to employ more than the full-time equivalent of 650 officers and employees shall not be subject, directly or indirectly, to review or approval by any person within the Executive Office of the President.

In other words, the agency would not only be required to maintain a minimum number of employees on the payroll, whether or not they were needed, but would also be free to hire as many employees as it could justify to Congress, not the President.

Training and Development

PPSS reviewed training and development programs and concluded that training and development have no central focus in the Government. This is a contributing factor to problems in human resource planning.

The law does not specifically authorize the Office of Personnel Management (OPM) to prescribe the types and methods of intra-agency training or to regulate the details of intra-agency training programs. As a result, agencies are duplicating efforts in the design, development, and delivery of generic supervisory and management level training programs. Many programs are very similar in course content and training approaches both among agencies, and between agencies and OPM.

PPSS found that no one in the Federal Government knows how much is being spent on training in total. Further, there are problems with the training systems in various agencies, aside from the area of duplication.

- o In the Department of Education (ED), personnel development and training of employees was budgeted at $550,000 in 1983. Sixty percent of this amount was intended for professional development in the field of eduction, 10% for clerical work improvements, leaving only 30% of existing funds for badly needed training in management and technical skills. By changing the focus of training activities to support ED's mission, savings of $32 million over three years could be achieved.

- o Improving EPA's programs for personnel training, development, and performance appraisal would redirect the $2.0 million training budget toward priority needs, strengthen management's ability to function in an increasingly complex environment, and reduce payroll costs. Recommended changes would result in significant management and program improvements, as well as reducing costs by $6 million over three years.

- o No organized and sustained program exists to prepare Executive Level appointees for the complexities facing them in their jobs. A more comprehensive orientation program for these appointees is necessary.

- o In the Army, permanent change of station (PCS) moves (with family relocations) are not necessary for attendance at advanced courses. By reducing the length of the courses, savings of $64.5 million over three years can be achieved.

- o In 1981, unused training facilities in the Army cost $169.4 million. Additionally, it cost the Army $580.6 million to train personnel in occupational specialties it did not need.

Q. Why aren't agencies coordinating their training efforts?

A. Agencies are not subject to rigorous audits when it comes to spending discretionary funds for generic training, nor does it appear that they concern themselves too much with trying to avoid duplication of effort. This finding is supported by a review of contract actions and by PPSS interviews with agency training officers. There is no penalty for waste and no reward for avoiding it.

Q. What needs to be done to correct the present situation?

A. OPM needs to identify the training which is necessary to meet both the specific and general needs of the agencies. OPM should then develop courses to meet these needs. OPM and the Office of Management and Budget (OMB) should monitor agency training programs to prevent duplication.

Savings are estimated at $66 million over three years.

This cost savings is only a small part of the benefits that could result. A better trained work force will be more effective and efficient, saving many times the amount calculated above.

Other Programs

Among other personnel programs PPSS reviewed were:

- Feedback systems
- Grievance procedures in the U.S. Postal Service (USPS)
- USPS policies regarding official time off for Equal Employment Opportunity Commission (EEOC) grievances.

These areas offer opportunities not only for cost savings but, more significantly, for increasing productivity and job satisfaction and decreasing personnel-related costs by helping Government and Federal employees resolve work-related problems.

In addition to the issues discussed above, there are a number of other areas that present opportunities for cost savings.

Reorganizations/Reductions in Staff. In Health and Human Services (HHS), for example, weak delineation of responsibilities leads to duplicate staff, conflicting responsibilities, and lack of authority, inhibiting effective management. Reducing the size and role of central staff departments could lead to 1,461 fewer management staff personnel. Other examples of potential savings can be found in the Departments of Education, Labor, and Energy; Occupational Safety and Health Review Commission; Tennessee Valley Authority; Army Corps of Engineers; Federal Housing Authority; and Immigration and Naturalization Service. Estimated savings of $1.479 billion over three years are possible.

Better Management of Personnel Resources. Basic techniques, such as using a Management by Objectives system in the Public Health Service, revising the Housing and Urban Development system for tracking how employees use their time, developing cost/benefit analyses of IRS staff additions, and better management of permanent change of station moves (i.e., moving military personnel among installations), represent potential savings. Other examples can be found in the Department of Agriculture, the Foreign Service, Housing and Urban Development, and the U.S. Synfuels Corp. Savings of $662 million over three years can be achived by implementing PPSS recommendations.

Training. The Army could reduce costs by decreasing the number of permanent change of station moves involved in training programs and by cancelling Learning Resource Centers training programs since they do not further the Army's primary mission. Also, some of the civilian executive training centers should be relocated, and training staffs reduced from 4 or 5 to 3. Total estimated savings over three years are $168 million.

Productivity Improvement. One example of the need for productivity improvement is in correspondence handling within Health and Human Services (HHS). One piece of correspondence requiring the signature of the HHS secretary involves 55-60 people and requires approximately 47 days to complete. Productivity improvements are also possible in the Department of Education and in disseminating information about jobs with the Federal Government. Savings of $37 million over three years are estimated in these three areas.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $10.770 billion -- equal to the three-year taxes of 1.6 million median income families.

Retirement Systems

PPSS reviewed the two largest Federal retirement systems, the Civil Service Retirement System (CSRS) and the Military Retirement System (MRS), which together cover approximately 98% of all Government employees, and the Foreign Service Retirement System (FSRS), and concluded that the Government retirement plans provide benefits and incur costs three to six times as great as the best private sector plans.

PPSS found that, in general, CSRS, MRS, and FSRS programs specify benefit formulas more liberal than can typically be found in the private sector; allow retirement, with unreduced benefits, at an earlier age than is typically found in the private sector; and provide full protection against inflation.

PPSS recommendations would reduce Federal retirement costs to levels comparable to those in the private sector by increasing the normal retirement age from 55 for CSRS and about 40 for MRS to age 62, reducing benefits actuarially for retirement before age 62, reducing the credit granted for each year of service to levels comparable to those in the private sector, revising the benefit formula to define base earnings as the average of the highest five years salary (versus three years currently), and revising cost-of-living adjustments to reflect prevailing private sector practices. PPSS also recommended that smaller pension plans (including FSRS) be revised to be consistent with those of CSRS.

In FY 1983, the Government spent $39.6 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $227.7 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $150.6 billion in 2000, a saving of $77.1 billion or 33.9%.

Retirement systems in both the public and private sectors are generally designed to fulfill three basic objectives -- attracting, retaining and, ultimately, separating employees in a socially acceptable manner. While Federal retirement systems are similar in objectives to their private sector counterparts, both the benefits provided and the costs incurred are several times greater. PPSS is committed to the principle that Federal pensions should be both fair and equitable; as they are presently structured, they are neither.

To place the generosity of current Federal retirement programs in perspective, if American taxpayers had told Congress many years ago, "Federal Government employees are doing an excellent job, and we want a retirement plan for them which is comparable to the best the private sector has to offer -- equal to typical plans in the top Fortune 500 companies," and Congress had provided just that, in the last 10 years the two biggest Federal retirement systems (the Civil Service and Military Retirement Systems) would have cost taxpayers $103 billion less than they actually did. Over the next ten years taxpayers would have saved $314 billion.

From 1973 to 1982 the Government paid out more than $200 billion in pension benefits to retired Civil Service and military personnel. Over the next ten years, 1983-1992, these costs are projected to increase to about $500 billion, 2.5 times as great as spending in the prior ten-year period.

These enormous expenditures are only part of the picture. The Government actually understates its retirement costs by failing to adequately provide for future benefits. The Government's shortfall, or the amount by which future costs exceed current assets and future contributions (unfunded liability), is more than a trillion dollars and has been increasing, on average, by $94 billion annually, 1979-1982. These costs must be paid for by current and future generations of taxpayers and, in many ways, are analogous to National Debt.

With the above perspective, PPSS estimates that Federal retirement costs for the CSRS and MRS would be $68 billion less over the three-year period 1984-1986 if prevailing private sector standards for pension costs and benefits had been previously adopted and fully implemented by the Government.

Savings which occur through changes in retirement benefits are usually long term, 10 to 20 years after implementation. As a result, there is little current political or financial incentive to apply restraints, and little has been done to change the benefits or to reduce the costs of Federal retirement systems. To provide an accurate assessment of cost reductions, savings from PPSS recommendations have been calculated based on payroll costs in the years 2001 to 2003 and have been discounted to their 1983 value. On this basis, PPSS savings for the CSRS ($30.000 billion) and MRS ($28.100 billion) come to $58.100 billion.

The three major factors contributing to the higher benefit levels and the higher costs of Federal plans are provisions which include liberal benefit formulas, early retirement ages, and cost-of-living adjustments (COLAs) which provide full inflation protection. These provisions:

- specify liberal benefit formulas -- Civil Service Retirement System (CSRS) and Military Retirement System (MRS) benefits are computed based on the high three years average salary, versus high five years in the private sector, and the credit for service is about 40% to 60%

greater in the public sector than in the private sector (1.7% to 1.9% per year in the public sector compared to 1.2% in the private);

- allow retirement at an earlier age -- typically 55 and 40 in the Civil Service and military, respectively, versus 63/64 in the private sector; and

- provide full protection against inflation -- as demonstrated from March 1977 to March 1982, when COLAs averaged 9.2%/year for Civil Service and military pensions, versus about 2%-3% for the private sector.

PPSS reviewed four retirement systems in the Federal Government out of the total of over 50 programs. These four programs are:

Civil Service Retirement System (CSRS)
Military Retirement System (MRS)
Foreign Service Retirement System (FSRS)
Railroad Retirement Board (RRB)

RRB provides pensions for private sector railroad retirees; it is the only private sector plan administered by the Government. The three other programs cover approximately 98% of all Federal military and civilian employees.

The costs of these programs are as follows:

Retirement Plan Outlays (a)
($ Billions)

		(1) 1970	(2) 1982	(3) 1982 as Multiple of 1970	(4) Average Annual % Increase
(1)	CSRS	$2.8	$19.5	7.0X	17.6%
(2)	MRS	2.8	14.9	5.3	14.9
(3)	FSRS	0.02	0.2	10.0	21.2
(4)	RRB	1.6	5.4	3.4	10.7
(5)	Total	$7.2	$40.0	5.6	15.4

(a) Includes administrative and other costs.

As shown above, these retirement programs are very expensive. They amounted in 1982 to 8.7 times the total cost of running the Government in the year President Franklin D. Roosevelt took office (1933). In 1982, the four retirement systems reviewed by PPSS cost $40.0 billion. The two largest plans, CSRS and MRS, cost $34.4 billion in 1982. Not only are these costs enormous, but they have been increasing rapidly. Between 1970 and 1982, the four retirement plans averaged annual increases of 15.4%, so that by 1982 outlays for these four retirement plans were 5.6 times 1970 spending. At this rate of increase costs double in less than five years. At the 17.6% annual rate of increase for CSRS, 1970-1982, costs double in only slightly more than four years. This rate of increase results in the following actual and projected spending:

CSRS Outlays

		At an Average Annual Increase of 17.6% ($ Billions)
	Actual	
(1)	1970	$ 2.8
(2)	1982	19.5
	Projected	
(3)	1986	37.3
(4)	1990	71.3
(5)	1994	136.4
(6)	1998	260.9

In 1998, just 14 years from now, CSRS outlays could reach $260.9 billion -- an economically unacceptable prospect.

PPSS analyzed and provided recommendations on several Government retirement programs, with attention primarily directed toward the two major systems, the Civil Service Retirement System and the Military Retirement System, which collectively cover about 98% of all Federal employees.

Most of the remaining retirement plans, such as the Foreign Service, U.S. Coast Guard, and the four-member U.S. Presidents Retirement System, are patterned after one of the two major plans. Proposed revisions to these two major programs are, therefore, equally applicable to the minor programs.

The table below compares private sector pension plans with the CSRS and MRS on the basis of benefit provisions:

[Table on following page]

Comparison of Pension Plan Provisions
Corporate Versus Civil Service and Military

	Provisions	(1) Typical Private Sector Pension	(2) Civil Service	(3) Military	(4) Private Sector Fav./(Unfav.) to Civil Service	(5) Private Sector Fav./(Unfav.) to Military
(1)	Most Common Retirement Age	63	55	40	(8 Years)	(23 years)
(2)	Credit for Service	1.2%	1.7%	1.9%	(41.7%)	(58.3%)
(3)	Pay Base	Highest 5 Years	Highest 3 Years	Highest 3 Years	(2 Years)	(2 Years)
(4)	Early Retirement Reduction (% Per Year)	3%-6%	2%	(a)	(55.6%)	(a)
(5)	Indexing (% of CPI)	None	100%	100%	Infinite (b)	Infinite (b)
(6)	Vesting (Years of Service)	10	5	(a)	(5 Years)	(a)
(7)	Social Security (SS) Integration	Usually	No SS(c)	No	ND	ND

ND = Not Determinable.

(a) No early retirement provision; minimum 20 years service required.

(b) Depending on future inflation rates.

(c) Approximately 70% to 80% of all Civil Service retirees eventually qualify for Social Security, despite the non-participation of Civil Service employees in the Social Security system.

As shown in the table above, Federal employees in the CSRS and MRS can retire earlier than their private sector counterparts, receive more credit per year of service, are protected against inflation through cost-of-living adjustments (COLAs), and have their pensions reduced by less when they retire early (before the normal retirement age).

Retirement in the private sector usually means retirement from the work force and loss of salary. In contrast, the earlier Federal retirement age offers an opportunity for a second career in the private sector and qualification for a second and even a third pension (i.e., private sector pension and Social Security). For example, approximately 70%-80% of CSRS retirees will also receive Social Security retirement benefits, often as a result of jobs held outside Civil Service. In comparing the MRS and CSRS, and the other Federal pension plans, with private sector pension plans, this difference should be kept in mind.

Q. How did costs and benefits for CSRS and MRS get so far out of line compared to the private sector?

A. The rationale for establishing liberal public pensions was the perception in the 1920's that both civilian and military salaries were not competitive with the private sector. Rather than incurring the immediate cost of increased compensation, the "problem" of noncompetitive Federal salaries was solved by the more politically palatable solution of pushing the costs far into the future -- establishing exceedingly generous pension systems. A dollar paid in future pension benefits has less immediate financial and political impact than a dollar paid in current salary. Therefore, more future benefit dollars have been promised in order to achieve personnel recruitment and retention objectives.

The Federal Salary Reform Act of 1962 dramatically changed the position of Federal salaries relative to those in the private sector by mandating pay comparability but made no compensating changes in Federal pensions. By the late 1960's public and private sector salaries were comparable; retirement benefits and costs, however, were not.

Q. How do typical Federal pension benefits compare to typical private sector pension benefits?

A. The following chart shows how lifetime pension benefits for typical retirees compare under the CSRS, MRS, and an average private sector pension plan:

[Chart on following page]

Comparison of Lifetime
Pension Benefits
($000)

		(1)	(2)	(3)
	Pre-Retirement Salary	Federal Benefits	Private Sector Pension Plus Social Security	Federal Benefits as Multiple of Private Sector
		CSRS (a)		
(1)	$25,000	$ 542,000	$266,000	2.0X
(2)	50,000	1,085,000	398,000	2.7
		MRS (d)		
(3)	$25,000 (b)	$1,072,000	$176,000	6.1
(4)	50,000 (c)	1,679,000	252,000	6.7

(a) Retirement at age 55 with 30 years of service.
(b) Retirement at age 39 with 20 years of service.
(c) Retirement at age 43 with 20 years of service.
(d) Includes Social Security.

PPSS concluded that CSRS and MRS respective benefit levels are about 3 times and 6 times as great as the best private sector plans.

Q. How much do these higher CSRS and MRS pension payments cost the Federal Government compared to employer costs in the private sector?

A. The following summarizes cost comparisons as a percentage of payroll, including and excluding the funding of previously incurred pension plan liabilities (i.e., unfunded liabilities):

[Table on following page]

Public and Private Sector
Comparisons of Employer
Retirement Costs
As a Percent of Payroll

		(1)	(2)	(3)	(4)
		Amortization of Unfunded Liabilities			
				As Multiple of Private Sector	
	Excluding Private Sector Thrift Plans	Excluded (Normal Cost)	Included (Total Cost)	Excluded	Included
(1)	Private Sector (a)	12%	14%	1.0X	1.0X
(2)	CSRS	30	85	2.5	6.1
(3)	MRS (a)	41	118	3.4	8.4
	Including Private Sector Thrift Plans				
(4)	Private Sector (a)	14%	16%	1.0X	1.0X
(5)	CSRS	30	85	2.1	5.3
(6)	MRS (a)	41	118	2.9	7.4

(a) Both MRS and private sector costs include Social Security.

Excluding the amortization of unfunded liabilities (i.e., normal cost), CSRS and MRS costs are, respectively, 2.5 and 3.4 times as great as in the private sector, excluding private sector thrift plan costs. The Government's retirement programs are, however, substantially underfunded -- the CSRS and MRS have combined unfunded liabilities of more than a trillion dollars, increasing at the rate of $94 billion annually in the last three years.

Amortizing these liabilities in a manner consistent with private sector practices shows the Government's total costs as a percent of payroll to be 85% and 118% for CSRS and MRS, respectively, or 6 to 8 times the comparable private sector cost.

Q. Did PPSS analyses evaluate thrift/matching contribution plans which add to private sector annuities?

A. Thrift and profit-sharing plans would add about 2% points to the cost of private sector pension plans. Including thrift and profit sharing plans, CSRS and MRS normal costs are, respectively, 2.1 times and 2.9 times as great as in the private sector, while total costs are, respectively, 5.3 times and 7.4 times as great.

Q. The amount of the unfunded liability of Federal pension plans has no effect on the current costs of these systems. Why is the unfunded liability of these plans important?

A. The unfunded liability represents money that will have to be paid out at some future date for retirement benefits. These amounts are not potential costs, but actual costs that are accumulating and which future generations will have to pay. In the private sector, companies provide for these costs by contributing more money than is necessary to cover current costs. The excess funds cover future costs.

Further, the unfunded liabilities of the MRS and CSRS understate costs, inhibiting the ability of Congress to make sound financial decisions regarding the plans. Understating retirement costs results in benefits which jeopardize the affordability of the retirement systems.

Over 50% of the current unfunded liability of the CSRS stems from the failure of the Federal Government to project the impact of salary increases and COLA increases on benefits.

Q. How much is the unfunded liability for all Federal pension systems?

A. The Government does not calculate the total cost of the unfunded liability for all its pension plans. However, the unfunded liabilities for the two largest Federal pension plans -- CSRS and MRS -- are available in published reports.

The unfunded liabilities of CSRS and MRS, as of September 30, 1982, were $514.8 billion and $526.8 billion, respectively. This $1,041.6 billion is the additional amount which would have to be contributed to CSRS and MRS to pay for the benefits promised to current employees and retirees, above employee and employer contributions -- costs that will have to be paid by us, our children, and our grandchildren. At this writing, the unfunded liabilities of the CSRS and MRS total between $1.1 and $1.2 trillion.

Q. How much would it cost to amortize the unfunded liability?

A. In 1982, in addition to $23.6 billion in Government and employee contributions, $30.0 billion in additional contributions would have been necessary to amortize the CSRS unfunded liability. The $30 billion in amortization costs would have to be added to the normal retirement cost each year, for the next 40 years, in order to fully fund the CSRS. Total costs of $53.6 billion in 1982 are 91.9% of covered payroll of $58.3 billion. Actual contributions of $23.6 billion include employee contributions of $4.2 billion, so that the total net cost to the Government of the CSRS was $49.4 billion, or 84.7% of payroll -- almost as much for pensions as for payroll.

In 1982, the added cost of the MRS unfunded liability, amortized over 40 years, would have been $11.0 billion. In total, amortizing the CSRS and MRS unfunded liabilities in 1982 would have cost taxpayers an additional $41.0 billion.

Q. What accounts for the unfunded liability of pension plans in the Federal sector? How did this unfunded liability arise?

A. The unfunded liabilities of Federal pension plans arise from inadequate funding resulting from the failure to adjust employer and employee contributions to reflect periodic improvements in Government pension plans. The magnitude of the unfunded liability arises from the following factors:

- Federal plans provide unreduced retirement benefits earlier than the best private sector plans.
- Early retirement enables Federal employees to obtain benefits over a much longer period of time while allowing less time to accumulate the assets necessary to fund retirement benefits.
- Federal pensions are adjusted to reflect changes in the Consumer Price Index (CPI), allowing for annual increases in Federal pensions, a practice almost nonexistent in the private sector.
- Federal programs deliver higher annual pensions.

Q. Regarding the CSRS, doesn't the employee contribution of 7% of salary cover half the cost of employee pensions?

A. No. The CSRS is structured so that employees pay 7% of their salaries to the plan and employing agencies pay 7%, with the rest of the fund income coming from interest and profit on investments and appropriations from the general fund of the U.S. Treasury -- the last, of course, coming ultimately from American taxpayers. The chart below presents the income for the CSRS for the period 1970-1982.

[Chart on following page]

Civil Service Retirement Trust Fund (a)
($ Billions)

	(1) Employee Contri-bution	(2) Employing Agency Contri-bution	(3) U.S. Treasury Contri-bution	(4) Interest & Profits(b)	(5) Total Gov't	(6) Total Receipts
(1) 1970	$1.7	$1.7	$0.2	$1.1	$3.0	$4.7
(2) 1982	4.2	5.0(c)	14.5	7.8	27.3	31.5

1982 Contributions only 2.47X the 1970 level, vs 9.1X for the Gov't.

1982 Contributions 9.1X the 1970 level, only 12 years earlier

Avg. Ann. % Inc.						
(3) 1970-1982	7.8%	9.4%	42.9%	17.7%	20.2%	17.2%
	---- As a % of Total Receipts ----					
(4) 1970	36.2%	36.2%	4.2%	23.4%	63.8%	100.0%
(5) 1982	13.3	15.9	46.0	24.8	86.7	100.0

Down 22.9% Pts.

Up 22.9% Pts.

(a) Cash basis.
(b) Includes interest and profits on employee and Government contributions.
(c) Includes $0.9 billion from U.S. Postal Service as payment for unfunded retirement expense.

Total Government (taxpayer) contributions increased from $3.0 billion in 1970 to $27.3 billion in 1982, or at an average annual rate of 20.2%. At the same time, Federal employee contributions increased from $1.7 billion to $4.2 billion, an average annual rate of increase of 7.8%. Looked at another way, in 1970 employees accounted for 36.2% of the CSRS receipts; in 1982, employee contributions amounted to only 13.3% of CSRS receipts.

Q. How do COLAs affect CSRS and MRS pension costs?

A. Each 1% increase in the CPI in 1981 added approximately $190 million to CSRS outlays. Further, about one-half of military retirement system outlays result from cost-of-living adjustments. The MRS COLA cost alone was about $8 billion in 1983. If there is no change in the law and assuming a COLA of only 5% per year from 1989 on (less until then), the MRS COLA costs will be $35 billion by the year 2022.

Q. How do COLA benefits under CSRS and MRS, and typical private sector pension plans compare?

A. Federal benefits are adjusted for the full increase in the CPI, while only the Social Security portion of private sector pensions is adjusted for full CPI increases. COLA benefits available for Federal retirees under the current CSRS and benefits available to employees covered under private pension plans and Social Security are shown below:

COLA Increases

	Type of Retirement	Percentage Cost-of-Living Increases Recovered by Pension Adjustment
(1)	Civil Service/Military Service	100%
(2)	Combination of Private Pension and Social Security	70
(3)	Social Security	100
(4)	Private Pension	33

On average, it is estimated that cost-of-living adjustments for the combination of Social Security with a private pension recover about 70% of increases in the Consumer Price Index.

Q. How have COLA increases affected Federal pensions?

A. The table below compares increases in cost-of-living adjustments for Federal (General Schedule and Military) retirees, General Schedule salary increases, and increases in the Consumer Price Index for the period 1968 through 1982.

[Table on following page]

Increases in
Cost-of-Living Adjustments (COLAs)
For Federal Retirees, General Schedule Salaries, and Consumer Prices

	(1) Index of COLA Increases to Annuitants	(2) Index of General Schedule Salary Increases	(3) Consumer Price Index
(1) 1968	100.0	100.0	100.0
(2) 1982	297.6	231.3	277.6
Avg. Ann. % Inc.			
(3) 1968-1982	8.1%	6.2%	7.6%

Since 1968, increases in cost-of-living adjustments (COLAs) for Federal retirees have exceeded both increases in General Schedule salaries and the Consumer Price Index (CPI). A Federal employee retiring in 1968 would thus be receiving 3.0 times his 1968 average yearly annuity in 1982, while a General Schedule employee still working would be receiving 2.3 times his 1968 average yearly salary, assuming he were at the same grade. This means that an active employee, 1968-1982, received only 66.4% of the increases retired employees received (increases of 131.3% for active employees versus 197.6% for retirees). As a result, 1982 average annual annuities are 28.7% greater than if COLA increases had been similar to General Schedule increases over the same period. Further, 1982 pensions are 7.2% greater than they would be had COLA increases matched the increases in the CPI, 1968-1982.

Q. How would these increases affect the pension payments of retirees?

A. Here is a hypothetical example:

A CSRS employee retiring at the end of 1968 after 30 years of service and earning $18,700 in his last year would be entitled to a 1968 pension of approximately $10,000. In 1982, that pension would have risen to $29,800, 1.6 times his salary in 1968.

A CSRS employee earning $18,700 in 1968 who retired in 1982 after 30 years of service would be receiving a pension of $23,100, based on a salary of $43,300 in

1982 -- $6,700, or 22%, less than the 1968 retiree received in 1982.

The results compare as follows:

	(1)	(2)
	CSRS	
	1968 Retiree	1982 Retiree
	-(Average Annual	Amounts)--
(1) 1968 Salary	$18,700	$18,700
(2) 1982 Salary	NA	43,300
(3) 1968 Pension	10,000	NA
(4) 1982 Pension	29,800	23,100

The high cost of CSRS pensions is due in large part to COLAs, but also to granting full retirement benefits at earlier ages for Federal workers.

Q. How do retirement ages in the Government and the private sector compare?

A. A Congressional Budget Office study dated May 1981 included the following data:

Male Civil Service and Private Sector Retirees by Age at Retirement

		(1)	(2)	(3)	(4)	(5)
		As % of Total Retirements		CSRS as Multiple Of Private Sector	Cumulative % of Total	
	Age at Retirement	CSRS	Private Sector		CSRS	Private Sector
(1)	Under 55	9.5%	1.1%	8.6X	9.5%	1.1%
(2)	55 - 59	39.6	6.3	6.3	49.1	7.4
(3)	60 - 61	14.5	12.6	1.2	63.6	20.0
(4)	62 - 64	18.1	42.1	0.4	81.7	62.1
(5)	65 and Over	18.3	37.9	0.5	100.0	100.0

As shown above, 63.6% of all male CSRS employees retire before age 62, compared to only 20.0% of private sector workers. The seven additional years over which CSRS provides unreduced benefits (and the COLA increases in each of those years) is a major contributing factor to the 1,891% increase in CSRS costs over the 1960-1981 period -- more than nine times the rate of inflation. Further, the Office of Personnel Management reported that as of September 30, 1982, "only 10% of employees who were eligible to retire before age 60 remained in active service at age 60."

For perspective, the following shows the cost impact of provisions which allow retirement at a relatively early age in the public sector:

The Cost of Early Retirement

	Age	Cost Index
(1)	65	1.0
(2)	62	1.3
(3)	60	1.5
(4)	55	2.2
(5)	45	3.4
(6)	40	4.0

Costs 1.7X as great with retirement at 55 instead of 62

Providing for early retirement at 40-45 years of age increases costs by 3.4X-4.0X.

To provide the same level of benefits at age 40, all else being equal, would cost four times as much as providing those benefits at age 65.

Q. Isn't there any incentive for Federal workers to keep working?

A. On the contrary, the Congressional Research Service has noted:

> The combination of a) retirement opportunity with full benefits or with less than actuarial reductions; b) inflation protection; and c) second career possibilities with additional accrued benefits under both Social Security and a private pension strongly encourages Federal employees to aggressively pursue early retirement. This is unusually advantageous to the employee. It is clearly not in the best

interest of the employer or the general taxpayer public and must be curtailed.

Q. How have disability provisions affected the CSRS?

A. To be eligible for disability retirement, an employee must have 5 years of service, be unable to satisfactorily and efficiently perform one function of the current position, and not be qualified for reassignment to a comparable position in the same agency.

The following chart is based on a 1978 Congressional Budget Office report and compares the rates at which CSRS and private sector annuitants retire under disability standards:

Disability Retirement Rates,
CSRS vs Private Sector Eligibility Standards

		(1)	(2)	(3)
		Rate of Disability per 100,000 Employees		
	Attained Age	CSRS Standard	Private Standards	CSRS Rate Greater Than Private Rate
(1)	30	1.4	0.9	55.6%
(2)	50	13.7	9.1	50.5
(3)	60	34.2	28.5	20.0
(4)	65	56.4	47.0	20.0

Between ages 30 and 50, the probability of a Federal employee retiring under CSRS provisions was over 50% greater than under private sector standards. Federal disability provisions have been tightened since the report was published. Nevertheless, retirees under "lenient" disability provisions in previous years contribute to the high costs of the CSRS. At the end of FY 1982, over 348,000 Civil Service retirees, nearly 27% of all retirees, retired under disability provisions.

Q. How do the liberal benefit formulas of the CSRS and MRS contribute to their high costs?

A. CSRS and MRS benefit provisions are much more liberal than those in the private sector, as shown below:

- <u>Credit for Service</u>. The percentage of pay per year of service in the benefit formula of the CSRS (1.9% -- of which about 1.7% is the employer-paid portion) and the

MRS (1.9% of BMC, Basic Military Compensation, a measure comparable to salary in the private sector) are high compared to a good private sector plan percentage of pay per year of service of 1.2%.

- <u>Average Salary</u>. The three-year average pay basis in the CSRS and MRS benefit formulas provides for a higher base salary, and hence higher benefits, than does the prevailing private sector practice of averaging salary over five years.

Q. What recommendations does PPSS propose to change the CSRS and MRS?

A. Some of the adjustments to the CSRS (which apply equally to the MRS) that would bring it more in line with private sector pensions are:

- Increase the age requirement for unreduced pension benefits to age 62;
- Reduce benefits actuarially for retirement before age 62, with no voluntary retirement before age 55;
- Revise the benefit formula to define base earnings as the average of the highest five years of salary;
- Reduce the credit granted for each year's service to levels comparable to those in the private sector (with the MRS benefit slightly higher than in the private sector);
- Increase the service requirement for vesting in the CSRS from 5 to 10 years. In the MRS, allow employees to vest after 10 years of service.
- Decrease COLAs in both the MRS and CSRS to reflect prevailing private sector practices; and
- Integrate CSRS and MRS with Social Security and eliminate provisions which allow "double dipping" (employees receiving two pensions, pay and a pension, or unreduced Federal pensions and full Social Security).

Q. What specific changes does PPSS propose to reduce Federal COLA provisions?

A. In general, COLA increases are recommended at 70% of inflation for Federal retirees without Social Security; for employees with Social Security, COLA increases are recommended at 33% of inflation. These adjustments conform to prevailing private sector practices. For purposes of determining how much of the <u>CSRS</u> pension should be fully indexed to inflation, a Social Security equivalent pension would be determined based on the employee's CSRS employment history. COLA increases equal to those under Social Security would be granted based on this amount -- i.e., indexed at 100% of the CPI.

The difference between the actual CSRS pension benefit and the Social Security equivalent pension would be considered to be equivalent to a private sector pension. This pension would be adjusted for inflation in a manner consistent with private sector practices, currently 33% of the increase in the CPI.

Regarding the Military Retirement System, for annuitants under age 62 COLA increases would be limited to the lower of the CPI or the military "salary" increase. Since military personnel are covered under Social Security, for retirees age 62 and over the MRS pension benefit would be limited to COLA adjustments prevalent in the private sector, currently 33% of inflation on average.

Q. As a result of being included in the Social Security System, a new retirement plan is required for employees joining Civil Service after January 1, 1984. How does the new plan affect PPSS recommendations?

A. The recently passed Social Security legislation includes a provision making it mandatory for new Federal Civil Service employees to be included in the Social Security retirement system starting January 1, 1984.

This legislation means that a new Civil Service Retirement System must be developed for new employees, with the present retirement system presumably closed to new entrants. This presents a unique opportunity to create a Civil Service retirement system for new employees which is fair not only to the employees but also to the taxpayers.

This new plan should be designed to be comparable in benefits and costs to good private sector plans. With appropriate protection of present participants (grand-fathering and adjustments for differences in Social Security coverage), the CSRS should be modified to the same standard and permit transfer to the post-January 1984 plan.

There probably is no other retirement system which is as liberal and costly as the U.S. Military Retirement System. For this reason, among others, several major studies of the Military Retirement System have been made over the last few years. Many recommendations for reform have been proposed, some drastic, but <u>not one significant recommendation of these studies has yet been adopted by Congress</u>.

Military personnel can retire at any age with 20 years of service. The retiree receives an immediate annuity calculated as 2.5% of base pay for each year of creditable service, subject to a maximum of 75% of base pay. A member has no vested right in the retirement system, receiving no benefit if he retires before reaching the 20-year mark.

The Military Retirement System is relatively inefficient and not cost effective because:

- It provides no incentive to undertake hazardous duty -- all personnel are eligible for 20-year retirement regardless of the nature of their service.

- It creates for many an arbitrary career length of 20 years, thus needlessly depriving the military of qualified personnel.

- Conversely, it causes less than optimal retention of personnel up to the 20-year point since there is no vesting until 20 years of service are completed.

- It provides limited incentive to join the military and lacks the flexibility to respond to short-term fluctuations in personnel needs, since benefits are paid after service is completed.

- It eventually provides benefits to only 13% of entering personnel.

Q. How does PPSS justify direct cost comparisons between private sector and military retirement systems, since they are radically different in their fundamental nature and purpose?

A. The primary difference between private sector retirement programs and the Military Retirement System is the use of the latter as a personnel management tool and not as a means of providing retirement income. To the extent both military and private sector retirement programs are intended to meet the financial needs of retired personnel, the cost and benefits provided are directly comparable. PPSS believes the MRS has limited value as a manpower management tool since, in essential aspects, it is counterproductive to the military's manpower requirements, e.g., the need to retain skilled personnel. The transition of military labor requirements from relatively unskilled to highly skilled is not reflected in the retirement system. Force management objectives could be better met by a combination of adjustments in other elements of the military compensation package, such as bonuses or salaries, and a revised retirement system.

Q. How does PPSS address arguments that high pensions are necessary to compensate for hazardous duty?

A. Retirement pay for hazardous duty is inequitable for two reasons. First, of those who enter the service only 13% ever collect retirement pay; the other 87% are not compensated in this way for hazardous and arduous duty. Second, the same retirement pay goes to all retirees of the same years of service and final pay, regardless of the degree to which each was subjected to hazardous and arduous duty during his military career.

Q. What changes does PPSS propose to the MRS?

A. In addition to changes already discussed, the system proposed by PPSS would replace 39% of Basic Military Compensation (BMC) after 30 years of service versus approximately 56% replaced under the current system. Also, COLA adjustments for those under 62 would be limited to the lower of the CPI or military salary increases. For those over 62, COLA adjustments would be equivalent to those received in the private sector, currently 33% of changes in the CPI.

In addition to the issues discussed above, PPSS reviewed the military's policy of allowing personnel to receive payment of base pay for accumulated unused annual leave, up to a maximum of 60 days, upon separation or retirement from military service. Simultaneous payment of accumulated unused leave and initial pension payments results in duplicate compensation to the retiring member for a period equal to the length of the unused leave. In general, private sector pension plans prohibit such duplicate payments. PPSS recommended that the effective date for the commencement of retirement pay be moved forward from the active duty termination date by the number of days of accumulated unused leave. Savings of $126 million over three years can be achieved if this recommendation is implemented.

As noted earlier in this section, PPSS reviewed four of the more than 50 retirement systems in the Federal Government. Provisions of one of these systems, the Foreign Service Retirement System (FSRS), were compared with the CSRS, and the FSRS was found to be much more liberal in the benefits it provides. Since the CSRS is much more liberal in its benefits than the best private sector plans, the FSRS is a <u>very</u> liberal program.

The cost of the Foreign Service Retirement System is increasing both in dollars and as a percent of pay. The Government's estimated budgeted cost of the system equaled 87% of pay in FY 1983. In contrast, the Government's cost for the U.S. Civil Service Retirement System, which covers most Federal civilian employees, is 30% of pay.

Q. How are FSRS benefits more liberal than those in CSRS?

A. Under the Foreign Service Retirement System, the normal retirement age (the age at which an employee may first retire on an unreduced pension) is 50 with 20 years of service, or 60 with 5 years of service, compared to CSRS provisions of age 55 with 30 years of service or age 60 with 20 years of service.

Foreign Service employees can retire at comparable or earlier ages than Civil Service employees. PPSS is not aware of any requirement of the Foreign Service that renders employees unable to perform their duties at age 50 or 60.

The Foreign Service Retirement System provides larger benefits than are provided under the Civil Service Retirement System for employees with equal records of service and salary for all except a small number of very long service employees. For an employee retiring after 20 years of service the Foreign Service System provides a benefit which is 10.3% greater than the Civil Service Retirement System would provide. The liberal provisions of the FSRS attempt to compensate for the hardships experienced by some Foreign Service officers during their careers. Foreign Service officers, and their families, typically live much or all of their working lives away from their own country. Some assignments are in desirable places like Paris, others in Moscow, where a normal life is nearly impossible. As is the case in the Military Retirement System, the same retirement pay goes to all Foreign Service officers of the same pay grade and years of service, regardless of the conditions under which the retiree spent his working years.

Q. What changes does PPSS propose?

A. The FSRS should be made equivalent to the CSRS. Proposed changes to the CSRS should, therefore, be incorporated into the FSRS. Further, most other Federal retirement plans are patterned after either the CSRS or MRS. Revisions to these minor pension programs of the Government (including the FSRS) should be made so they conform with the PPSS-proposed revisions to the CSRS and MRS.

The Railroad Retirement Board administers the railroad industry's retirement system, Medicare, disability, unemployment, and medical insurance. The system currently affects about 450,000 active and one million retired railroad workers.

The RRB is essentially insolvent. At current benefit and tax levels the system was expected to run out of money in FY 1984. Declining employment has created a system where there are two retired employees for every active employee. The unfunded liability of RRB as of December 1980 was about $30 billion.

Q. How did this situation develop?

A. The history of railroad retirement is quite consistent. Benefits are periodically increased by Congress without adequate funding until a financial crisis occurs. Then Federal assistance is sought by the railroad community as part of a legislated package of benefits and funding.

Pension benefits to railroad retirees are among the most liberal in the nation. They include full retirement at age 60 for 30-year employees and payment of benefits to non-working spouses. Virtually all benefits are tax free. A 1981 Congressional Budget Office study on benefits and financing showed after-tax wages which are replaced in retirement as a percent of final salary (Replacement Rate) for railroad and other private sector pension plans as follows:

Retirement Benefit After-Tax Replacement Rates

		(1)	(2)
		Final Gross Salary(a)	
	Married	$22,000	$30,000
(1)	RRB	129%	105%
(2)	All Industries	97	76
(3)	RRB as Multiple of All Industries	1.3X	1.4X
	Single		
(4)	RRB	96%	79%
(5)	All Industries	83	66
(6)	RRB as Multiple of All Industries	1.2X	1.2X

(a) Gross salaries are shown for comparative purposes; replacement rates are for net, or after-tax, wages.

As shown above, RRB pensions are 1.2-1.4 times as generous as other private sector pensions. The present railroad retirement system has been exempted from Employee Retirement Income Security Act (ERISA) funding standards. Because RRB is a pay-as-you-go system, there are no financial reserves to cover future pension benefits already earned.

The 1981 tax increases and borrowing provisions, billed as a permanent solution to funding the RRB, have succeeded only in delaying insolvency into the mid-1980s. Again, labor and management are seeking ways of injecting more Federal money into the system.

Q. What changes does PPSS propose to the RRB?

A. PPSS proposes the following:

- o All railroad workers and retirees should be brought into the Social Security system. The administration of the Social Security equivalent portion of railroad retirement should be turned over to SSA.

- o The industry pension portion of railroad retirement should be turned into a private multi-employer pension plan.

- o The Federal Government should provide financial security for the private pension fund without Federal subsidies by enacting a payroll tax on railroads.

- o The tax-free status of RRB pension benefits should be changed. The benefits should be taxed on the same basis as all other private pension systems.

- o This system should be turned into one which is run, managed, and financed by the industry and labor groups affected.

In summary, PPSS recommended major changes to Federal pension systems, involving almost $61 billion in savings over three years.

It is difficult to look at a pension system and say, "let's cut back on benefits." There are overtones of taking money away from employees at a time when regular paychecks stop and of breaking clear and longstanding agreements between employers and employees.

Federal retirement systems were originally intended to compensate for lower salaries and as mechanisms to help manage the work force. Although liberal pensions have never been a particularly effective tool for work force management, there was some logic to the system.

Since these pension plans were established, however, drastic changes have taken place:

- o Salaries have increased to the extent that they are now comparable to those in the private sector (see previous section on Compensation).

- Costly benefits such as COLAs have been added to the plans.
- The number of retirees has increased, as have their lifespans.

PPSS is committed to the principle that Federal pensions should be "fair and equitable." These are the key words. PPSS recommendations will not leave Federal retirees deprived. <u>Federal pension plans are so generous and so costly that, after the changes proposed above are implemented, Federal pension plans will still be better than the plans covering the vast majority of American taxpayers</u>.

American taxpayers are the people paying for Federal pensions. Is it fair to ask them to pay for systems offering benefits 3 to 6 times as great as the best they can expect to receive?

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $60.895 billion -- equal to the three-year taxes of 9.2 million median income families.

Health and Other Fringe Benefits

The Federal Government spent approximately $45.5 billion on fringe benefits for Executive Branch civilian personnel in 1982, 68.2% of total payroll costs. By 1987, fringe benefits are projected at 70.6% of total payroll. PPSS compared Federal fringe benefit costs and controls with standard private sector practices and concluded that mismanagement, inefficiencies, and abuse have led to excessive costs. In addition, the health benefit, vacation and sick pay policies of the Federal Government are more liberal than comparable private sector standards. Further, procedures and controls to detect fraud and abuse in disability benefits are inadequate. Regarding military health benefits and the military health care system, efficiencies need to be introduced to eliminate excess capacity, introduce cost containment measures, and coordinate health resources planning.

PPSS recommendations are intended to reduce Federal fringe benefit costs by eliminating benefits which exceed prevailing private sector practices, introducing cost containment provisions in health plans, and de-liberalizing vacation and sick pay provisions. Military health benefit costs can be reduced by central coordination of health care systems and limiting access to non-military hospitals, increasing utilization of military health care facilities.

In FY 1983, the Government spent $26.3 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $149.1 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $112.3 billion in 2000, a saving of $36.8 billion, or 24.7%.

Fringe benefit costs for the Executive Branch civilian work force are enormous -- approximately $45.5 billion in 1982 (68.2% of total payroll) for 2.8 million employees, projected by PPSS to increase by $23.2 billion, or 51%, to $68.7 billion in 1987 (70.6% of total payroll).

Fringe benefits can be separated into two categories. First are those generally included as a payroll cost to the employer and paid to the employee -- e.g., vacation and holiday pay, sick leave, administrative leave, work breaks, and cash awards. Second are those benefits which the employer generally does not pay to employees as salary -- e.g., retirement pay, workmen's compensation, and health benefits.

Following is a breakdown of fringe benefits for FY 1979 and 1982, and as projected for 1987:

Fringe Benefit Costs (a),
Executive Branch Civilian Employees
($ Billions)

		(1)	(2)	(3)
	Fiscal Year	Payroll Related (b)	Non-Payroll Related (c)	Total Fringe Benefits
(1)	1979	$ 9.5	$20.9	$30.4
(2)	1982	12.1	33.4	45.5
(3)	1987E	17.6	51.1	68.7
(4)	1982 as % of 1979	127.4%	159.8% in 3 years	149.7%
	Avg. Ann. % Inc./(Dec.)			
(5)	1979-1982	8.4%	16.9%	14.4%
(6)	1982-1987E	7.8	8.9	8.6

(a) Cash basis.
(b) Fringe benefits generally included as a payroll cost to the employer and pay to the employee.
(c) Fringe benefits generally excluded as a payroll cost to the employer and pay to the employee.

Fringe benefit costs to the Government of $45.5 billion in 1982 were $15.1 billion, or about 50%, more than in 1979. From 1979-1982, fringe benefits increased at an average annual rate of 14.4%, the rapid growth resulting primarily from the 16.9% average annual increase in non-payroll related items. Over the five years, 1982-1987E, non-payroll related fringe benefits are expected to increase from $33.4 billion to $51.1 billion.

As shown below, in 1982, fringe benefit costs accounted for 68.2% of total payroll costs (payroll and payroll related fringe benefits), an increase of 10.5% points from 1979.

[Table on following page]

Total Personnel Costs
Executive Branch Civilian Employees (a)
($ Billions)

	Fiscal Year	(1) Payroll: Including Payroll Related Fringe Benefits(b)	(2) Payroll: Excluding Payroll Related Fringe Benefits(b)	(3) Total Fringe Benefits	(4) Fringe Benefits as % of Payroll, Including Payroll Related Fringe Benefits	Memo: Total Personnel Costs
(1)	1979	$52.7	$43.2	$30.4	57.7%	$ 73.6
(2)	1982	66.7	54.6	45.5	68.2	100.1
(3)	1987E	97.3	79.7	68.7	70.6	148.4
(4)	1982 as % of 1979	126.6%	126.4%	149.7%	118.2%	136.0%
	Avg. Ann. % Inc./(Dec.)					
(5)	1979-1982	8.2%	8.1%	14.4%	3.5% pts.	10.8%
(6)	1982-1987E	7.8	7.9	8.6	0.5	8.2

(a) Cash basis.
(b) Payroll related fringe benefits are those included as a payroll cost to the employer and pay to the employee. Non-payroll related fringe benefits are excluded as a payroll cost to the employer and not included as pay to the employee.

From 1979 to 1982, fringe benefit costs increased 1.8 times as rapidly as total payroll costs, a 14.4% average annual increase as compared to 8.2%.

For perspective, the following shows the components of payroll-related and nonpayroll-related fringe benefits for 1979, 1982, and as projected for 1987:

[Table on following page]

Fringe Benefits
(% of Total Payroll)

		(1)	(2)	(3)	(4)
		1979	1982	1987E	Percent Inc./(Dec.) 1979-1987E
	Payroll-Related:				
(1)	Vacation	7.3%	7.1%	7.1%	(2.7)%
(2)	Work Breaks	4.0	4.0	4.0	-
(3)	Sick Leave Used	3.1	3.4	3.4	9.7
(4)	Holidays	3.0	2.9	2.9	(3.3)
(5)	Administrative Leave	0.6	0.6	0.6	-
(6)	Cash Awards	0.1	0.1	0.1	-
(7)	Total Payroll-Related	18.1%	18.1%	18.1%	-
	Nonpayroll-Related:				
(8)	Retirement Benefits	32.4%	39.7%	41.3%	27.5%
(9)	Health Benefits	3.6	4.2	8.1	125.0
(10)	Workmen's Compensation (FECA)	1.9	1.3	1.5	(21.1)
(11)	Cash Allowances	1.0	0.8	0.9	(10.0)
(12)	All Other	0.7	0.7	0.7	-
(13)	Total Non-Payroll-Related	39.6%	46.7%	52.5%	32.6%
(14)	Total Fringe Benefits	57.7%	64.8%	70.6%	22.4%

Nonpayroll-related fringe benefits are projected to increase as a percent of payroll from 39.6% in 1979 to 52.5% in 1987, with increases in health benefit (up 125.0%) and retirement (up 27.5%) costs offset somewhat by decreases in workmen's compensation (down 21.1%) and cash allowances (down 10.0%).

As in the areas of compensation and retirement, PPSS compared Federal fringe benefit costs and controls with standard private sector practices and concluded that mismanagement, inefficiencies, overly liberal benefits, and abuse are costing taxpayers over $4 billion annually. A comparison of Federal and private costs for fringe benefits follows:

[Table on following page]