THE IMPACT OF THE PRESIDENT'S FISCAL YEAR 1998 BUDGET ON FEDERAL EMPLOYEES

HEARING

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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THE IMPACT OF THE PRESIDENT'S FISCAL YEAR 1998 BUDGET ON FEDERAL EMPLOYEES

THURSDAY, FEBRUARY 13, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Pappas, Morella, Sessions, Holden, Norton, and Cummings.

Also present: Representatives Davis of Virginia and Waxman.

Staff present: George Nesterczuk, staff director; Garry Ewing, counsel; Susan Mosychuk and Ned Lynch, professional staff members; Caroline Fiel, clerk; and Cedric Hendricks, minority professional staff member.

Mr. MICA. Good morning. I would like to call this meeting of the House Government Reform and Oversight Committee, Subcommittee on the Civil Service, to order.

I welcome you to our first hearing of the new Congress, the 105th Congress. And also, I am extremely delighted today to announce the Civil Service Subcommittee appointments.

I had the honor of taking the Chair for a second term. And serving as vice chairman of our subcommittee will be Mike Pappas from New Jersey, a new Member.

Of course, one of the most experienced, knowledgeable, and capable individuals on our panel is rejoining us, Connie Morella, from Maryland. Welcome back.

We are also pleased to have Chris Cox join us as part of the leadership on our side of the aisle. He is returning to the Government Reform and Oversight Committee, but will be new to our subcommittee.

And another new Member, Pete Sessions, from Texas, will be joining us.

On the other side of the aisle, I am delighted that the minority has chosen for the ranking member someone who served very capably on our panel before and will be a great ranking member. I think that we are going to have a tremendous working relationship together. I am pleased to welcome as our ranking member, Tim Holden. Tim, welcome.

We also have Elijah Cummings on the minority side joining us. Representative Cummings, from Maryland was on the full committee. Also Eleanor Norton, who is a delegate from DC. So they will be joining Tim on the minority side.

I would like to welcome everyone, and again invite your participation in our subcommittee process. We are pleased to have many familiar faces back, some on our panel today, and others in the audience.

As is customary, I will begin today's hearing with a brief opening statement, and then yield to our ranking member and those Members who have opening statements.

So we begin today's hearing; again, welcome. This morning's first hearing of the 105th Congress of our Civil Service Subcommittee has an important topic. And I have called this hearing to provide all of us with an opportunity to discuss several issues raised in the President's fiscal year 1998 budget that may affect every Federal employee and every Federal retiree. It is an important subject.

That subject is part of balancing our Federal budget, and balancing our Federal budget is one of Congress' most important responsibilities.

Today, we face a direct national debt of more than $5.6 trillion. We also face the responsibility of meeting more than $18 trillion in unfunded liabilities from retirement accounts and from other national indebtedness.

Under the terms of the President's proposal, Federal employees and retirees would assume responsibility for $6.252 billion of cuts that he has identified to reach a balanced budget by the year 2002.

The most significant change in this section of the budget would require agencies to increase their payments to the Civil Service Retirement and Disability Fund by 1.5 percent beginning on October 1, 1997.

This increase in the agency's payments would produce $621 million the first year, and yield nearly $3 billion over 5 years. Unchecked, this proposal could strain agency coffers and require reductions in force, unscheduled reductions in force.

The President's budget also calls for Federal employees to pay a greater proportion of their pension costs. This change is delayed, unfortunately, and fails to fend off or provide retirement options. For employees enrolled in the Civil Service Retirement System or the Federal Employees Retirement System, the payroll deduction for retirement benefits will be raised by one-half of 1 percent, phased in over 3 years. Beginning in January 1999, the payroll deduction will increase 0.25 percent, an additional 0.15 percent the following year, and the final one-tenth of 1 percent will be imposed in January 2001. Last year, the general Treasury doled out $19 billion to pay current retirement benefits and $24 billion in interest on funds borrowed from the Civil Service Retirement and Disability Trust Fund. Our Civil Service Retirement System now sports an unfunded liability which exceeds $540 billion. While I have long favored some increases in employee contributions, which has not been changed since 1969, I feel that some of the proposals brought forth by the administration are particularly unfair as it relates to postal employees, who are also asked to contribute more. Right now, the postal retirement fund is one of the secure funds that we have in the Federal Government.

The remainder of the budget reductions that the President has proposed to cut from Federal retirement programs are achieved by targeting retired civilian Federal employees. And they have imposed on them a 3-month delay in the annual cost-of-living adjustments in their pension for the next 5 years. Retired Federal employees are often the least likely to be able to survive any kind of a cut. And they are singled out, I believe, in this budget proposal in an unfair manner. This slice out of the benefits of Federal retirees will result in a $278 million cut during fiscal year 1998, and nearly $1.5 billion in reduction of benefits over the next 5 years of this budget.

This part of the President's budget is identical in most respects to a plan that was proposed in the Senate, and promoted by a coalition of Federal employee unions and organizations in 1995.

The President included a similar plan in last year's budget proposal. I proposed an alternative plan. None of the previous versions of this plan have been enacted, and we stand today facing continuing budget deficits, growing unfunded liabilities, and unfortunately we still have raided trust funds, all a concern to me.

The administration has decided that balancing the budget requires Federal employees and annuitants to forego $3.3 billion in benefits over the next 5 years. Their agencies will have to reduce spending by nearly $3 billion to free up their increased share of the retirement cost. Regrettably, the administration has declined to send a representative today to respond or to provide additional insight in supporting arguments or documentation for advancing this proposal.

I presume that the administration has some compelling arguments to justify these proposed changes in funding Federal retirement programs. And we intend to continue to seek some of those answers that we will not get here today.

There are several other related issues raised in the President's budget that warrant further scrutiny. Although several witnesses today will offer comments relating to the Federal Employees Health Benefits Program, we will need to defer this discussion to a future date, when the administration will be available to testify.

There has been some discussion of a prospective change in the calculation of the Government share of the Federal Employees Health Benefit Program premium. In fiscal year 1999, the current Phantom Big 6 formula expires, and is to be replaced by the Big 5 formula. This change could have a serious impact on employees' health insurance premiums. By its silence, the budget silence, on this particular subject, I must conclude that the administration is content with Federal employees picking up a greater share of their health care premiums, and has, in fact, included it as a budget savings beyond 1999.

Another major budget issue that we must address is this administration's proposal to take over a portion of the District of Columbia's retirement liabilities. From the budget documents, it would appear that the administration is proposing to raid the current assets in some of the DC pension accounts to pay for short-term annuity obligations.

As a matter of principle, I strongly object to raiding another pension fund. It is even illegal in the private sector. And I would like to see it illegal in the Federal sector. But that appears to be the proposal. While the Federal Government right now is getting away with the raid of some of these funds, it does not make it right.

At a time when we need to be looking for ways to infuse real cash in our pension system, Social Security as well as Civil Service, the DC proposal appears headed in the wrong direction. We will come back to that issue. We are not going to discuss it at length today. In fact, Ms. Norton is not here, but I would like to consult with her and other members of the panel about a hearing on that subject, which I think is more than warranted.

I called this hearing today to review these various proposals of the administration, and to solicit the views of organizations and groups representing our Federal employees and retirees.

The Budget Committee has assigned the Committee on Government Reform and Oversight some of the responsibilities for achieving spending reductions and savings, at least comparable to the $6.252 billion proposed by the administration.

We cannot shirk that responsibility, and I ask the assistance of the Federal employees and retirees and their organizations to help us in identifying the most reasonable options for sharing that burden.

If you recall the last time we went through this exercise, those who were on the panel, we could not reach a determination in our subcommittee or a solution. It was punted to the Budget Committee, and we got something that I do not think any of us really liked as far as a proposal from that group.

So we do have an important responsibility to help guide this process and these proposals. And I do sincerely welcome and solicit your views.

We have a genuine obligation to live within the resources that the American taxpayers provide to meet the expenses of Government. And I look forward to your assistance and help, so we can achieve this goal of a balanced budget by 2002 with your help.

In just a moment, I will introduce our panel of witnesses. But I did want to conclude my opening remarks by welcoming our new Members who have joined us. I see Pete Sessions from Texas, and Elijah Cummings from Maryland. Welcome. We welcomed you before you got here, and we welcome you again.

And now I will yield for an opening statement to our ranking member.

[The prepared statement of Hon. John L. Mica follows:]

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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Opening Statement of the Honorable John L. Mica
Chairman, Civil Service Subcommittee

Hearing on the Impact of the President's Budget on Federal Employees
February 13, 1997

Good morning, and welcome to the Civil Service Subcommittee's first hearing of the 105th Congress. I called this hearing to provide an opportunity to discuss several issues raised in the President's Fiscal Year 1998 Budget that affect our federal employees and federal retirees.

Balancing the federal budget is one of this Congress' most important responsibilities. Today we face a direct national debt of more than $5.6 trillion. We also face the responsibility of meeting more than $18 trillion in unfunded liabilities from retirement accounts and other national indebtedness. Under the terms of the President's proposal, federal employees and retirees would assume responsibility for $6.252 billion of cuts that he has identified to reach a balanced budget by 2002.

The most significant change in this section of the budget would require agencies to increase their payments to the Civil Service Retirement and Disability Fund by 1.51 percent beginning October 1, 1997. This increase in the agencies' payments would produce $621 million the first year, and yield nearly $3 billion over five years. Unchecked this proposal could strain agency coffers and require reductions in force.

The President's budget also calls for federal employees to pay a greater portion of their pension costs. This change is again delayed and fails to fence off or provide retirement options. For employees enrolled in either the Civil Service Retirement System or the Federal Employees Retirement System, the payroll deduction for retirement benefits will rise by one-half of one percent, phased in over three years. Beginning in January of 1999, the payroll deduction will increase .25 percent, an additional .15 percent the following year, and the final one-tenth of one percent in January of 2001. Last year the general treasury doled out $19 billion to pay current retirement benefits and $24 billion in interest on funds borrowed from the Civil Service Retirement and Disability Trust Fund. Our civil service retirement system now sports an unfunded liability e exceeding $540 billion. Asking postal employees to contribute more is also unjustified.

The remainder of the budget reductions that the President has proposed to cut from federal retirement programs are achieved by targeting retired civilian federal employees for a three-month delay in the annual cost of living adjustment in their pension for the next five years. Retired federal employees - often those least likely to be able to survive a cut - are singled out in an unfair manner. This slice out of the benefits of federal retirees would result in a $278 million cut during FY-1998, and $1.446 billion in reduced benefits over the five years of this budget.

This part of the President's budget is identical in most respects to a plan that was proposed in the Senate and promoted by a coalition of federal employee unions and organizations in 1995. The President included a similar plan in last year's budget proposal. I proposed an alternative plan.

None of the previous versions of this plan have been enacted, and we stand today facing continuing budget deficits, growing unfunded liabilities and raided trust funds. The Administration has decided that balancing the budget requires federal employees and annuitants to forego $3.3 billion of benefits over the next five years. Their agencies will have to reduce spending by nearly $3 billion to free up their increased share of retirement costs. Regrettably, the Administration has declined to send a representative to provide additional insight and supporting arguments for advancing this proposal. I presume that the Administration has some compelling arguments to justify these proposed changes in funding federal retirement programs.

There are several other related issues raised in the President's Budget that warrant further scrutiny. Although several witnesses today will offer comments relating to the Federal Employees Health Benefits Program, we will need to defer this discussion to a future date when Administration officials might be able to testify.

There has been some discussion of a prospective change in the calculation of the government's share of the FEHBP premium. In fiscal year 1999, the current "Phantom Big 6" formula expires and is to be replaced by the Big 5 formula. This change could have a serious impact on employees' health insurance premiums. By its silence on this subject, I must conclude that the Administration is content with federal employees picking up a greater share of their health care premiums and is in fact included as a budget saving beyond 1999.

Another major budget issue we must address is the Administration's proposal to take over a portion of the District of Columbia's retirement liabilities. From the budget documents, it would appear that the Administration is proposing to raid the current assets in some of the D.C. pension accounts to pay for short-term annuity obligations. As a matter of principle I strongly object to raiding pension funds. It's illegal in the private sector. While the federal government gets away with it does not make it right.

At a time when we need to be looking for ways to infuse real cash into our pension systems -- Social Security as well as Civil Service -- the D.C. proposal appears headed in the wrong direction. We will come back to this issue at a future date.

I called this hearing to review these proposals and solicit the views of the organizations representing our federal government's employees and retirees. The Budget Committee has assigned the Committee on Government Reform and Oversight some of the responsibility for achieving spending reductions at least comparable to the $6.252 billion proposed by the Administration. We cannot shirk this responsibility, and I ask the assistance of federal employees and retirees in identifying the most reasonable options for sharing that burden. We welcome your views.

We have a genuine obligation to live within the resources that American taxpayers provide to meet the expenses of government. I look forward to your assistance in helping me to define new options to provide for the current and former employees who have served our government with dedication, while honoring our commitment to the American people to balance the budget and achieve a government that works better and costs less.

###

Mr. HOLDEN. Thank you, Mr. Chairman. And thank you for that warm welcome. It is my great pleasure to serve on the subcommittee as the ranking Democratic member, and I am pleased to be joined by two fine colleagues on the Democratic side, Elijah Cummings and Eleanor Holmes Norton.

As we begin the 105th Congress, we will face many important issues that are within the jurisdiction of this subcommittee. I look forward to working with you in a spirit of bipartisanship. And I am confident that working together, that we will be successful in making improvements that will make the Government run better and more efficiently.

Today, we will have the opportunity to hear a variety of views regarding the President's fiscal year 1998 budget proposal. It is very important for us to carefully examine how these proposed changes will affect current Federal employees and retirees.

As we all know, there will be many difficult decisions in the days ahead, as we work to balance the Federal budget. And let there be no mistake, we must balance the Federal budget. Our Nation's fiscal stability depends on it.

With that said, we turn to the most important question of how we balance the budget fairly, and with the least adverse impact on all of those affected.

I have always believed that you cannot single out any one group to balance the budget, and that we will only be successful if everybody joins in to do their part. Shared sacrifice must truly be shared.

Federal employees and retirees have been asked a number of times to do their part for a deficit reduction. The Federal Government Service Caucus has estimated that Federal employees have lost $40 billion through delays or elimination of COLAs, and another $104 billion in reductions in scheduled pay increases.

I am very concerned that these proposals will have a negative impact on the Government's ongoing efforts to recruit and maintain a highly skilled and productive workforce.

Over the last several years, Federal employees' morale has been repeatedly besieged by Government shut-downs, proposals to reduce their benefits, and failure to fully implement the Federal Employee Pay Comparability Act.

I think that those of us on this subcommittee can work together to improve the Federal workforce. I look forward to hearing this testimony, and hope that we can all work together to devise a budget, which will be fair to all interests, and while also balancing the budget in a timely manner.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

And I would like to yield now for an opening statement to Mrs. Morella.

Mrs. MORELLA. Thank you. I want to thank you, Mr. Chairman, for holding this morning's hearing. As you mentioned, this is the first hearing of the 105th Congress. And it is appropriate that we begin by looking out for Federal employees and retirees in the President's budget. I look forward to hearing from my friends on the two panels that we have assembled before us.

I want to also congratulate the newest members of this subcommittee. We do operate in a fine bipartisan fashion, and I look forward to continuing to do that.

Speaking of the President's budget, I am alarmed in the President's budget by some elements that I think would adversely impact Federal employees and retirees. And as you know, many are my constituents.

Over the past several years, Federal retirees and employees have been asked to bear a disproportionate share of deficit reduction. And in addition, the reduction of the Federal workforce by 272,900 FTEs has caused anxiety, as we know full well, among Federal employees. And it meant that fewer employees must do more work. Federal employees have performed admirably, and it is not fair to punish them in this budget.

Despite protests from Members of Congress on both sides of the aisle, President Clinton's budget contains a 3-month delay in Federal civilian retiree and Foreign Service retiree cost-of-living adjustments through 2002.

It is one thing to share the sacrifices of deficit reduction. The President's budget, however, subjects neither Social Security beneficiaries nor military retirees to this delay.

Over the last several years, Federal retirees and employees have been forced to bear a disproportionate share of deficit reduction. And for the first time in 4 years, Federal employees received their COLA in January, just like Social Security recipients and military retirees. From 1994 to 1996, Federal retirees did not receive their COLAs until April.

On February 4th of this year, I introduced H. Con. Res. 13. It states, "The sense of Congress is that cost-of-living adjustments for Federal retirees should be paid beginning in January of each year, as current law prescribes, and should not be delayed, whether it is part of budget agreement or otherwise."

Already, there are like 46 Members who have co-sponsored this resolution. I hope that all Members here today will sign on. Mr. Cummings is a co-sponsor, and Ms. Norton is a co-sponsor. And I invite other members of the subcommittee to do so.

I strongly oppose the President's proposed increase in Federal agency and employee contributions to Federal employee retirement. These are not painless spending cuts. The President's budget increases agency contributions to the Civil Service Retirement and Disability Fund by 1.51 percent for all CSRS employees.

And as you know, Federal retirement contributions are paid out of agency salaries and expenses accounts, accounts that are already constricted from past budget reductions. We know the ramifications that are possible.

So increasing agency contributions at this time, particularly outside the context of a balanced budget proposal, will further tighten agency accounts, and could lead to further reductions in force or furloughs. This increase amounts to an across-the-board spending cut that will affect every agency and program in the Federal Government. These proposals would unduly burden a small segment of society.

The President's budget would also require Federal employees to pay additional portions of their salaries to their own retirement, beginning in January 1999. An increase of 0.25 percent in 1999, 0.15 percent increase in 2000, and a 0.10 percent increase in 2001 would provide for an additional $1.829 billion in savings, savings coming from the pockets of Federal employees.

And I am also concerned about the future of the FEHB program. Beginning in 1999, the Government contribution will no longer be 60 percent of the Big 6. It will be 60 percent of the remaining Big 5. This will lead to higher cost for employees. And I intend to offer a legislative remedy to prevent this from occurring. I look forward to hearing from you about what you think should be the remedy.

I think that you all know that I strongly support a balanced budget, and members of this subcommittee do also. But balancing the budget is about making choices. And it is unconscionable to single out Federal employees and retirees to contribute more than others. For lower wages than their counterparts in the private sector, Federal employees have worked and continue to work to make our Nation strong.

I strongly hope that we will repay loyalty with loyalty, and not unduly burden Federal employees and retirees by reducing their salaries, and hamstringing their employing agencies, or delaying their COLAs.

Thank you very much, Mr. Chairman.

Mr. MICA. Thank you.

The new members will soon learn that Federal employees and retirees have——

Mrs. MORELLA. A special place in my heart.

Mr. MICA [continuing]. An incredible advocate in the person of the lady from Maryland.

I am pleased to recognize now for an opening statement, and also welcome Mr. Cummings, from Maryland. Thank you.

Mr. CUMMINGS. Thank you, Mr. Chairman.

It certainly is a pleasure to have been appointed to this committee.

Mr. Chairman, I was very pleased yesterday when you approached me and extended a hand of bipartisanship. That meant a lot to me. I think that when we are about the business, as we must be, of uplifting the lives of the people in this country and our Federal employees, I think that it must take a bipartisan effort. And I certainly am looking forward to working with you.

I also look forward to working with our ranking member, and all of the members of this subcommittee. In my district in Baltimore, we have thousands upon thousands of Federal employees and retirees. The Social Security Administration's headquarters is located in my district. And so I have a tremendous interest here.

And so I am looking forward to hearing from our witnesses this morning. I will also take a moment to pay some special recognition to my good friend, Connie Morella. We served in the Maryland House of Delegates together. And Connie has always been about the business of bipartisanship, and I really appreciate that.

And so we move forward uplifting the lives of Federal employees. So often what I think happens is that Federal employees get a bad rap. Federal employees and retirees often bear the brunt for all the faults of the Federal Government.

But I am just here to say that being from a district where I have so many retirees and Federal employees, I am very, very sensitive to those issues. And for those reasons, I am just glad to be a part of this. And I look forward to a bipartisan effort.

Mr. MICA. Thank you, Mr. Cummings, and again, welcome.

Mr. Sessions has left an opening statement with Mrs. Morella. And by unanimous consent, it will be made part of the record.

[The prepared statements of Hon. Pete Sessions and Hon. Michael Pappas follow:]

Statement of the Honorable Pete Sessions
Congressman, 5th District of Texas

House Subcommittee on Civil Service Hearing
Thursday, February 13, 1997

Thank you, Mr. Chairman.

Mr. Chairman, good morning and thank you for this opportunity to discuss the different issues that are a concern of this Civil Service Subcommittee, the Administration and the groups representing federal employees and retirees. First let me tell you what an honor it is to serve under your stewardship of this Subcommittee and how important I believe the work of this Subcommittee is. You have been kind enough to tutor me on the issues of importance to the civil service community, and I appreciate your leadership.

A signal of your dedication to holding the best and most informative hearings is the topic you've chosen to discuss today. You have convened an extraordinary panel to discuss the views of those effected by the proposed changes for federal employee compensation and pension plans. Our goal today is not to debate, but to discuss all relevant information regarding federal pay, changes in retirement benefits, increased agency contributions to the Civil Service Retirement and Disability Fund, employee contributions to offset the future costs of their pensions, COLA Delays, the four pension funds administered by the District of Columbia since the adoption of the Home Rule in 1974, and the Federal Employee Health Benefit Program. Such a wide variety of topics is sure to provide us with a blueprint for constructive oversight throughout this session of Congress.

The problems that we are asked to solve in this Subcommittee are not small. Thousands and thousands of federal employees across the country, Texas, and Texas' Fifth District will be directly affected by the budget as written by President Clinton. Mr. Chairman, the civil servants who happen to be constituents in my district are important to me and I am dedicated toward providing the best possible environment in which to make these individuals successful. It is with the civil service where our best chances of civil service reform resides. I am confident that this Civil Service Subcommittee will work together in a bipartisan manner and begin the process of solving the problems that confront us today.

Thank you, Mr. Chairman. I yield back.

Statement by Congressman Michael Pappas
Before the Government Reform and Oversight Subcommittee on Civil Service's Hearing on "The President Fiscal Year 1998 Budget: Civil Service Impacts."
February 13, 1997

Mr. Chairman - Thank you. Government employees provide an invaluable service to the American people and I look forward to developing a budget package that is fair to them and the American taxpayer.

The American people are demanding more and more service from their government agencies with greater efficiency, less expense, and greater accountability. As we attempt to reform our government to accomplish these goals, we ensure that quality of service remains a top priority. The important work of evaluating the compensation packages that all of are dedicated federal employees receive, whether it be in terms of cost of living adjustments, pensions, or the Federal Health benefit program, must be equitable and must be given with this efficiency concept in mind.

This Committee's work will no doubt play a key role in doing just that. I commend and congratulate the work that has been done by this Subcommittee and witnesses and I look forward to working with all parties involved. We must keep our eyes on the common good and work together toward that goal.

Michael Pappas

Mr. MICA. We would like to go ahead and get under way with our two panels today, and I would like to introduce our first panel of witnesses. Let the record show that this list has been compiled today in reverse alphabetical order, thus enabling witnesses who have often appeared at the end of our panels to lead off our discussions, and I notice at least that Mr. Tobias is still awake.

I am pleased to welcome to the 105th Congress again Mr. Robert Tobias, no stranger to our panel, no wilting violet, to this panel. He always have valuable testimony and very opinionated. He is national president of the National Treasury Employees Union and does a great job as their spokesperson and advocate.

We will also hear from Mr. Michael B. Styles, the president of the Federal Managers Association. We have heard from Federal managers on many occasions in the past, and we welcome you back.

Another individual who is no stranger to this subcommittee is Charles E. Jackson, the president of the National Association of Retired Federal Employees, and a tireless advocate for Federal retirees.

And Mr. James D. Cunningham, who is now the president of the National Federation of Federal Employees. And we welcome all of our panelists this morning.

As is customary for our witnesses, and this is an investigations and oversight committee and subcommittee, we do swear in our witnesses. So if you would stand and raise your right hand.

[Witnesses sworn.]

Mr. MICA. And I guess in compliance with this new House Rule XI and House Rule XII, the panelists have disclosed any receipt of Federal largesse. And I thank you for complying.

So with those comments, we will start the testimony. And as usual, and I read your statement late last night, Mr. Tobias; we ask that if you can summarize, hopefully within 5 minutes. We do not ring the bells or bring the shepherd's hook out. But that is the custom of our panel to summarize, if you can. And then we will have an opportunity to discuss the issues with the members of the panel.

So welcome, and you are recognized, Mr. Tobias.

STATEMENTS OF ROBERT E. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION; MICHAEL STYLES, PRESIDENT, FEDERAL MANAGERS ASSOCIATION; CHARLES E. JACKSON, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES; AND JAMES D. CUNNINGHAM, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. TOBIAS. Thank you very much, Mr. Chairman. I appreciate that kind introduction. I start today from the wilting violet school by asking you and all of the other members of your committee to request Chairman Kasich not to assign any reconciliation savings to the Government Reform Committee this year.

I wrote to Chairman Kasich and urged that the fiscal year 1998 budget resolution assign zero savings to you and this committee, and I ask you to do the same.

Mr. Chairman, Federal employee and retiree pay, benefits and retirement annuities have been cut by $222 billion since 1976. We have given our fair share.

Mr. Chairman, in your role as a member of the board of directors of the executive branch of our Government, you have asked Federal workers to do more, and you have asked for more accomplishment, and Federal employees have responded. We ask you, Mr. Chairman, to do the same.

Mr. Chairman, we ask that you recognize that a 2.8 percent pay increase is not adequate. It is not consistent with the law you passed in 1990, and it is not consistent with the need to attract the best workers needed to accomplish more. And it is not consistent with the fact that the Federal workforce is the same size it was in 1963, yet the population we serve has increased dramatically.

Mr. Chairman, we ask that the increased retirement contributions requested by the President from both agencies and employees be denied. The retirement plan created in 1986 is patterned after the private sector as the 1996 GAO report requested by you concluded.

And the GAO report further underscores the point that most private employers do not require employees to contribute anything to their defined benefit plans. We have a private sector plan, and we already contribute enough.

And those who are already retired deserve some stability. Singling out the Federal retiree for a COLA delay is unjust. The average Federal pension is $18,816 a year. These people are not rich. Most do not receive Social Security benefits. And unlike Social Security benefits, Federal retirement is taxed fully.

These proposals, however, pale in comparison to the 1996 budget reconciliation instructions, where this committee recommended changing the retirement annuity calculation from the high 3 to the high 5-year average, limiting the Government's contribution to the health benefit program to the rate of inflation, thereby driving even more Federal employees off the health insurance roles, increasing the Federal employee contribution to the retirement system by 2.5 percent, and the agency contribution by 11 percent.

Mr. Chairman, I say enough, no more. Please recognize what we have done. Please recognize what we are doing. And please join with us in asking Chairman Kasich to spare Federal employees in the 1998 budget. Thank you.

[The prepared statement of Mr. Tobias follows:]

Chairman Mica, Members of the Subcommittee, I am Robert Tobias, National President of the National Treasury Employees Union. On behalf of the more than 160,000 federal employees and retirees represented by NTEU, I thank you for this opportunity to share our views concerning the Fiscal Year 1998 budget.

As you know, Mr. Chairman, it has been estimated that cuts in federal employee pay and benefits since 1976 have topped the $220 billion mark. Yet, the federal budget remains unbalanced. It is difficult to imagine that additional savings from federal employee pay and retirement programs in Fiscal Year 1998 will be the answer. As I have said repeatedly in the past, I believe federal employees and retirees have already contributed more than their fair share.

Over the past several years, Congress and the Administration have repeatedly asked federal workers to accomplish more with fewer resources. Federal employees have been asked for greater productivity in spite of a declining workforce, they have been asked for greater effort, assigned more responsibilities and more complex tasks, and yet neither Congress nor the Administration have been willing to compensate federal workers adequately for the jobs they perform.

We were disappointed to learn that the President's budget proposed only a 2.8 percent pay raise for federal workers in 1998. Unlike the private sector, almost 40 percent of the federal workforce has a college degree. If the federal government is going to be able to recruit and retain some of this country's best and brightest employees, we must pay them on a par with their private sector counterparts. The federal government operates today with a federal workforce smaller than any since John F. Kennedy was President. Many who criticize the federal workforce choose to ignore the fact that while the number of federal employees has steadily shrunk, the number of Americans served by the federal government has grown steadily. Only a workforce that works harder and smarter can keep up with these demands.

When the Federal Employees Pay Comparability Act (FEPCA) was adopted by a bipartisan group of House and Senate members and signed into law by President Bush, it was envisioned that politics would be removed once and for all from the process by which federal pay was set. This has not been the case. I urge this Committee and this Congress to adhere to the FEPCA pay law. And, in particular, I urge this Subcommittee to recommend to the Appropriations Committee an adequate FY 98 pay raise for the workforce from which so much is demanded.

As you know, the President's budget also contains recommendations for a 1.51 percent increase in agency contributions toward the Civil Service Retirement System (CSRS), a .5 percent increase in federal and postal employee retirement contributions and a three month delay in the cost of living adjustment (COLA) for federal retirees.

NTEU believes that increased employee and agency retirement contributions are unnecessary. Furthermore, we continue to believe that the extensive Congressional analysis of private sector retirement practice that led to the creation of the Federal Employees Retirement System (FERS) in 1986 produced a retirement program appropriately patterned on plans used by private industry. This is no less true today than it was in 1986 and, the October 1996 GAO Report (GAO/GGD-97-1) prepared at your request underscores that fact.

This report states that from "1984 to 1993, the percentage of employers that offered only DB plans decreased from 24 to 9 percent..." The CSRS program is a DB, or defined benefit plan, and in 1986, precisely during this 1984-1993 period, the federal government adopted a new combination Defined Benefit/Defined Contribution (DB/DC) retirement plan for all new hires -- FERS. The GAO report also states that during this same 1984-1993 period, "the percentage of employers with 2,500 or more employees that sponsored both DC and DB plans increased", and that "nearly half of these employers continued to sponsor a DB plan in 1993." Moreover, the GAO report found that larger employers continued to use DB plans more extensively than smaller employers.

The GAO report further underscores a point we have made time and again -- most private employers do not require employees to contribute anything to their defined benefit plans. Therefore, they would not recommend increases in employee retirement contributions.

We oppose delaying the federal retiree COLA, especially since military and Social Security COLAs would not be delayed. If COLAs are to be delayed, they should be delayed for all who receive them.

There is nothing noteworthy about federal retirees to justify picking them out to have their cost of living adjustments delayed. The average federal employee retires after 30 years of federal service on an annual pension of $18,816. This is not an extravagant sum of money. The majority receive no Social Security benefit in addition to this and, federal retiree pensions are fully taxed -- unlike Social Security.

If the COLA delay is abandoned, as it should be, it is critical that the reconciliation number assigned to this Committee be reduced accordingly. We are not here to advocate the shifting of unfair cuts. We are here to advocate no unfair cuts at all and would ask you, Mr. Chairman, and the members of this Subcommittee to join us in asking the Budget Committee to require no savings from the Government Reform Committee's jurisdiction in its FY 98 budget.

We continue to believe that it is difficult to justify additional savings from the federal community in light of the substantial contributions toward deficit reduction already made by federal employees and retirees. I must point out, however, that the President's Fiscal 1998 proposal is the same as that which was contained in the Concurrent Resolution on the Budget for Fiscal Year 1997 which passed both the House and the Senate in the last Congress. A similar budget package consisting of a COLA delay and employee and employer increases in retirement contributions was also included in the Fiscal Year 1996 Reconciliation legislation which also passed both houses of Congress. These proposals are not new, and they are certainly not unique to the President's budget proposal.

As strongly as we may disagree with the need for, and wisdom of enacting increased employer and employee retirement contributions, and again delaying the federal retiree COLA, these proposals pale in comparison to some of the other "budget solutions" that have emerged from this Committee in the past two years.

As part of its Fiscal 1996 Budget Reconciliation instructions, this Committee recommended changing the federal annuity calculation formula from the high three to the high five years of salary. The Government Reform Committee recommended this "budget solution" despite the fact that the Senate dropped it from consideration following Senate hearings on the proposal. Those hearings showed that some of the most skilled and dedicated federal workers in key agencies would leave government service before the effective date of such a proposal.

This Committee also recommended setting the employer contribution towards Federal Employee Health Benefit (FEHB) premiums at a fixed amount and increasing those premiums in future years only by the simple rate of inflation. This type of cost shifting is wholly inappropriate and in years of high medical cost inflation could quickly put health insurance out of the reach of many federal workers and their families. It is estimated that 400,000 eligible federal workers already decline health insurance coverage, largely because they cannot afford the premiums.

If over a three year period, health care inflation were to average just 10 percent -- not unheard of at all -- and simple inflation were to remain constant at approximately 3 percent, this proposal would result in a significant shifting of FEHB premium costs to employees. Even the nonpartisan Congressional Budget Office, in its analysis of the proposal, pointed out that the "downside" of this change is that when premium rates rise faster than inflation, enrollees will pay an ever increasing share of the premiums. Furthermore, in a September, 1996 appearance before this Committee, OPM Associate Director of Retirement and Insurance Services, William E. Flynn III, aptly described the effects of this proposal by stating:

"If I were to take 9 years of experience in this program -- which would reflect some of the cyclical patterns that we have seen in the program and perhaps be more reflective of our experience in general -- I could also take that particular proposal and see the Government share going down over that period by about 37 percent, resulting in an increase, on the average, to the enrollee of about $80 a month in terms of cost."

Moreover, this proposal ignores the fact that health insurance benefits in the federal sector continue to represent an area where federal employees receive inferior benefits compared to private sector workers. A 1989 study mandated by Congress and undertaken by the Congressional Research Service (CRS) in conjunction with experts in the health care field continues to be the model on which federal vs. private health care discussions are based. (The Federal Employees Health Benefits Program, Congressional Research Service, May 24, 1989) This CRS study concluded that "a comparison of Federal benefits with those in the private sector shows that health benefits for a typical employee are worth $1,100 more in the private sector."

NTEU remains concerned about the future of the current FEHB phantom premium formula which is set to expire in 1999, however, basing future adjustments in the employer's share of premiums on the rate of simple inflation is, at best, a risky proposition and at worst, ignores the complexity of the problem and could in the long term shift health insurance costs away from the government as the employer and onto the employees. We look forward to working with this committee to extend the current FEHB formula until such time as we can work together to develop a new formula that does not result in excessive cost shifting to FEHB enrollees.

In yet another proposal advanced in the last Congress, it was suggested that federal employees should pay an additional two and one-half percent toward their retirement. It eventually became clear that these increased federal employee contributions, along with other proposed savings, would be used to offset the cost of enacting a tax cut for some of this country's wealthiest Americans.

This would have resulted in a $750 annual tax increase for the average federal employee earning $35,000 annually. For many of these middle income wage earners, this would have been the equivalent of a mortgage payment -- a mortgage payment many would no longer be able to meet.

This Committee also suggested in the last Congress increasing federal agency contributions toward CSRS retirement by an additional 11 percent. A discretionary spending reduction of this size would have devastated federal agency operations and caused widespread federal employee layoffs.

In conclusion, Mr. Chairman, NTEU looks forward to an ongoing dialogue with you on issues affecting the federal workforce. The employees represented by NTEU have dedicated their working lives to providing services to their communities and to their country. They are hard working and they deserve to be treated with respect and fairly compensated for their work. NTEU continues to believe that the public sector should serve as a yardstick for the private sector to emulate and we will continue to use every opportunity to share the facts concerning federal employee pay and benefits with this body and with the public. And, NTEU will continue to fight those budget and policy proposals that do a disservice to the federal workforce.

Thank you again for this opportunity to share NTEU's views and concerns.

NTEU

The National Treasury Employees Union

Biography of

Robert M. Tobias, National President
National Treasury Employees Union

Since August 1983, Robert M. Tobias has served as the chief officer and spokesperson of the National Treasury Employees Union (NTEU), the nation's largest independent federal sector union. He is recognized as the leading authority on issues affecting federal employees.

Tobias, 53, is a 29-year veteran of NTEU. Immediately prior to his election as national president, he was NTEU executive vice president and general counsel, supervising a staff of 45 attorneys and field representatives nationwide, as well as the litigation and negotiations staff and the NTEU training program. He also was chief spokesperson for all of NTEU's national agreements.

As NTEU president, Tobias has broken new ground in the federal sector, instituting the first negotiated alternate work schedules for employees and the first cooperative labor/management programs for on-site child care and employee monetary awards. Tobias is personally responsible for litigating the first federal union lawsuit against a United States president and for winning a case establishing federal employees' right to participate in informational picketing.

As the recognized federal sector union authority on Total Quality Organizations (TQO), Tobias has led implementation of TQO in government through NTEU's partnership with several federal agencies, including the Department of Energy, the U.S. Customs Service and the Internal Revenue Service, which is considered one of the most successful quality improvement efforts in the federal government.

Tobias is a member of President Clinton's National Partnership Council, the Federal Advisory Committee on Occupational Safety and Health and sits on the Executive Committee of the Internal Revenue Service and the Executive Improvement Team at the U.S. Customs Service.

Tobias is on the board of directors of the American Arbitration Association and is co-founder and treasurer of the Federal Employees Education and Assistance Fund (FEEA). He also advises the president of the United States as a member of the Federal Salary Council.

Tobias, a Michigan native, worked in Detroit as a labor relations specialist for General Motors. He also was a labor relations specialist for the Internal Revenue Service.

Tobias received a bachelor's degree and a master's degree in Business Administration from the University of Michigan, and he graduated from the George Washington University Law School, where he served on the adjunct faculty.

Tobias, who lives in Maryland with his wife Susan, has received the Union Leader Recognition Award from the Society of Federal Labor Relations Professionals and is listed in *Who's Who in America.*

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The National Treasury Employees Union

February 12, 1997

M E M O R A N D U M

The National Treasury Employees Union has received no federal grants or contracts during the past two years.

Robert M. Tobias
National President
National Treasury Employees Union

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Mr. MICA. Thank you, Mr. Tobias.

And I will recognize Mr. Michael Styles now.

Mr. STYLES. Thank you, Mr. Chairman.

I would like in public to thank you for attending our mid-year conference on one of those overnight flights. I appreciate that. I am sitting here in about the same state you were. I would also like to thank Congresswoman Morella for her outstanding leadership in seeking to ensure that promises made to Federal workers and retirees are promises kept.

FMA appreciates and applauds your sense of Congress resolution in support of maintaining January cost of living adjustments for Federal retirees. Thank you very much.

Since our comments are made for the record, the other night when I came home from work—I work out in California, and am still a full-time Federal employee—I happened to take a look at the Federal Times and saw Retirement Under Fire. And you would think that after all of this time that that would not bother me, but in fact it incensed me.

And I thought that my comments today to you should be a little bit more from the heart and provide you with some insight from my perspective. I thought that it was important for me to provide you with some personal insight into the effect that a continued bombardment of the Federal workforce is having.

I personally have 38 years of Federal service, and I am currently 55 years of age. I am getting ready to walk over here to my NFFE buddies. I can retire tomorrow, but I always had the dream of finishing 49 years of service to my country.

I can still remember taking my oath to my country as a young man proudly becoming a U.S. Marine. I can also quite vividly remember taking an oath to my country when I became a civil service employee at the Long Beach Naval Shipyard.

I also remember the pledge that was made to me when I became a part of this extremely dedicated strike-free workforce. That pledge was to assure that paying benefits to the Federal workforce would be comparable to the private sector.

As my career unfolded, it became obvious that Federal pay and benefits were lagging behind those of the large private sector corporations with equivalent positions. But service to country in itself was a compelling factor in remaining a Federal employee.

During the 1980's, the Federal workforce came under tremendous pressure as private sector corporations lost their competitive edge worldwide, and sought out more and more Government contracts to offset their losses in the private sector marketplace.

The premise, of course, was that the private sector was more cost effective than the public sector, a theory that more and more often became if as true competition became realistic.

You may recall that the 1980's became known as the decade of greed, because so many became rich while the Government went head over heels into debt.

In 1988, I was selected by the Department of the Navy to participate in the experience with industry program. I went to work at a large defense contractor. Having read the same newspapers that you do, I knew that the private sector was much more adept at running a business operation. I had much to learn, and had an extensive dream sheet, if you will.

What I learned, however, was that while they had a tremendously talented workforce, they had problems as well. While I was with this corporation, they were getting involved in total quality management. They were using, I would like you to understand, the public sector, North Island Naval Rework Facility, their plan for total quality management. The reverse was true.

Also, while I was there, I found a pay schedule or I was given a pay schedule that was approximately 1 year old. I can tell you quite frankly that I was depressed for more than 2 weeks, because I had figured by that time that I had thrown away much of my life. Because the private sector most certainly was paid a substantial amount more than we are.

And I would look at the 29 percent that we talk to here as being a rather good example of the disparity between the wage systems.

I returned from that experience with tremendous pride in the Federal workforce and our capabilities. Since 1990, when I became the president of the Federal Managers Association, I have had the opportunity to see the entirety of America's workforce at work, doing the things that they do for America on a daily basis.

The FAA, Social Security, Veterans Affairs, IRS, Army, Navy, Air Force, Marine Corps, Border Patrol, Agriculture, GSA, Labor, and so on. I can tell you without doubt that ours is truly the most talented and dedicated workforce assembled in the history of the world. The sad part is that the American people do not know that.

The Berlin wall did not crumble because of Gorbachev. It crumbled because of the will of the American people and the dedication of our Nation's Federal workforce, both military and civilian. Desert Storm was a success because of that same unbounded determination.

Faced with BRAC, privatization, A–76, and unrelenting downsizing, this workforce has continued to produce at even higher levels.

The Long Beach Naval Shipyard, which recently closed, did so $6 million in the black, while many private yards have gone bankrupt.

When the private sector contractors came to Kelly and McClellan Air Force Materiel Commands to start to bid on their work loads, their first impressions and comments pertained to the incredibly competent workforce. They stated that they would only take on those work loads, if they could hire the people currently doing the work.

Agency heads and senior executives who come from the private sector are always surprised at the Federal employees' competence, dedication, and loyalty, and are quick to state that fact. It is easy to see why people have a misperception about the capability and determination of the Federal employee.

Throughout every political debate, the Federal employee becomes the whipping boy. My greatest fear is that the "Pygmalion effect" or the self-fulfilling prophecy will become the reality of tomorrow.

We are creating a workforce, and we are telling everyone we have. At a recent meeting with mid-level and senior Navy Department managers, I asked him how many of them would tell their children to go to work for the Federal Government. There were 30 people in the room, and not one raised their hand. All had over 20 years of service. That is a telling message.

In providing testimony before this committee several years ago, we talked about cost savings. And we talked about total quality initiatives. And as I sit at this panel with two of my co-members of the Partnership Council, I would ask that you the panel and we the Federal employees become partners in telling America what we are really about, in providing the cost savings that we really can provide given the opportunity and the empowerment by the Congress and the agencies.

Mr. Chairman, I have always looked at this committee as the Federal workers' voice to the House and to ultimately the American people. The message that I would like to be brought forward is that ours are not nonessential employees, but quite the contrary. They are in fact the very essence of our Nation, the fiber that our beautiful flag is woven from. They touch and are part of everything that is good about America.

Now is not the time to further alienate and penalize Federal employees. Now is the time for America to stand behind the pledge that it made to its workforce when they took the same oath that I so proudly did.

I want to thank you once again for inviting FMA to present our views to the subcommittee, and I look forward to the partnership that I hope that we have created. Thank you.

[The prepared statement of Mr. Styles follows:]

Mr. Chairman and members of the Subcommittee:

My name is Michael B. Styles and I am the National President of the Federal Managers Association (FMA). On behalf of the 200,000 managers and supervisors in the federal government whose interests are represented by FMA, I would like to thank you for inviting us to present our views to the Civil Service Subcommittee on proposals contained in the President's FY'98 Budget affecting the pay and benefits of civil servants and retirees.

Before I begin, I would like to thank Congresswoman Morella for her outstanding leadership in seeking to insure that promises made to Federal workers and retirees are promises kept. FMA appreciates and applauds your sense of Congress resolution in support of maintaining January cost-of-living-adjustments for Federal retirees.

BACKGROUND

In opening, I would like to briefly highlight some facts about the Federal retirement system:

- While Federal retirement is the fourth largest mandatory spending program it is clearly a distant fourth. The three largest programs, Social Security, Medicare, and Medicaid, make up over 70% of mandatory spending. The Federal retirement program constitutes less than 5%.

- Federal retirement program spending is not contributing to increases in the Federal deficit. According to the Congressional Budget Office (CBO), Federal retirement spending is expected to hold steady at just over 2% of Federal outlays over the next 10 years.

- Federal employees and retirees have contributed more than **$220 billion** over the last twenty years toward deficit reduction through reductions in their pay and benefits. The 2.2 million Federal retirees and their dependents have contributed **$50 billion** of this amount mainly through delays or elimination of cost-of-living-adjustments (COLAs).

- In the 103rd Congress, Federal retirement benefits were singled out for the second largest cut of any mandatory spending program. The 1993 budget agreement (P.L. 103-66) reduced Federal retirement benefits by **$9.6 billion** over a 5-year period by: delaying retiree COLAs until April in 1994-1996 ($788 million); eliminating the lump sum annuity option ($8.7 billion); applying Medicare Part B limiting charges to retirees 65 or older that do not have Medicare Part B ($77 million); and by changing the deposit requirement for retirees who elect the survivor benefit after retirement ($7 million).

- After long and thorough consideration, the Federal retirement system was dramatically overhauled in 1986 with the creation of the Federal Employees Retirement System or FERS (P.L. 99-335). The FERS, which covers all employees hired after December 31, 1983, is modeled after a number of private sector retirement plans. The FERS is also carefully designed to approximate benefits available under the Civil Service Retirement System (CSRS), encourage workers to save for their own retirement and to save the government money. The minimum retirement age for FERS workers will rise to 57 by the year 2026. There are now more employees covered under the FERS than are covered under the CSRS.

THE PRESIDENT'S FY'98 BUDGET AND FEDERAL RETIREMENT BENEFITS

The package of retirement cuts contained in the President's budget are neither new nor unexpected. They are a carry over from the budget debates of the 104th Congress. The three proposals contained in the President's FY '98 budget would:

1. Increase all employee contributions to the Civil Service Retirement and Disability Fund (CSRDF) by a total of .5% with increases of .25% in '99, .15% in "00, .1% in '01. This .5%. increase would expire in 2002.
2. Increase agency contributions to the CSRDF for all CSRS workers by 1.51% for 1998-2002.
3. Delay retiree cost-of-living-adjustments for three months for 1998-2002.

This package of cuts is nearly identical to the proposals drafted by Senator Ted Stevens (R-AK) in the 104th Congress. The main difference is that the President's plan achieves $6.2 billion in savings and the Steven's-package would have achieved $10 billion in savings. This is due to differences in the number of years covered by the two proposals and their scheduled implementation. The bottom-line affect on Federal workers, however, is the same. These proposals represent a tax increase and benefit reduction for Federal workers to fund tax breaks for all other Americans. FMA is opposed to these unnecessary cuts.

FEDERAL RETIREMENT

In the name of insuring the future health of the Federal retirement system, the Administration and some Members of Congress have sought and are seeking to use the accounting method for retirement annuities of Federal workers covered under the Civil Service Retirement System (all those hired before 1984 - currently less than half of the Federal workforce) as a rationale for achieving savings in mandatory spending at the expense of employees and agencies. The effect of proposals to require employees and agencies to pay more out-of-pocket and out of existing accounts into the CSRDF is to unfairly single out Federal workers for a .5% tax increase and to hamstring agency efforts to manage workforce reductions in a manner that allows for retention of needed skilled and experienced workers.

According to the Congressional Research Service, "Under the financing arrangements set out in current law, the system is not now and never will be 'insolvent' or without adequate budget authority for payment of benefits." (CRS Memorandum 3/18/95 *Federal Civil Service Retirement: Is There a Financing or Funding Problem?*) In an April 3, 1995 letter to Congressman Steny Hoyer (D-MD) the General Accounting Office's Director of Federal Human Resource Management Issues agreed with this CRS assessment. In a May 17, 1995 letter to the editor of the *Wall Street Journal*, Office of Personnel Management Director James B. King also agreed with the CRS and GAO conclusion that the Federal retirement system is financially sound. King said, "The $540 billion unfunded liability is not an impending shortfall in the system's financing. It is a statement of payments that would come due if the government ceased to exist. However pessimistic -- or optimistic -- one may be, the government is not going to shut its doors and the unfunded liability therefore does not present a crisis or suggest that the retirement system is unsustainable. It is, in fact, on a very sound footing."

The current unfunded liability of the CSRDF is a consequence of the system's design. The Civil Service Retirement System (CSRS) has been in place since 1920 and was closed in 1986 to those entering the Federal workforce after 1984. When Congress closed the old system and created the new Federal

Employees Retirement System, it thoroughly addressed the issue of financing for both systems. The CSRS is financed in the same manner as Social Security and the Military retirement system.

THE PRESIDENT'S FY'98 BUDGET AND FEDERAL EMPLOYEE PAY ADJUSTMENTS

The Administration's FY '98 Budget provides for an average Federal employee pay adjustment of 2.8%. This is far lower than what is required to close the gap between Federal and non-Federal pay.

Federal pay policy is based on the principle that "Federal pay rates be comparable with non-Federal pay rates for the same level of work." However, since 1978 consistent use of presidential authority to set lower pay adjustments led to a average gap of 29% between Federal and non-Federal pay. The Federal Employees Pay Comparability Act of 1990 (FEPCA - P.L. 101-509) was enacted to address the Federal pay gap. FEPCA set forth a process to close the disparity between Federal and non-Federal pay over a nine-year period. Beginning in 1994, FEPCA called for two annual pay adjustments. The national pay adjustment, which based on the Employment Cost Index and is designed to keep Federal salaries comparable with non-Federal salaries, and the locality pay adjustment which is designed to close measured pay gaps within discrete local wage areas.

The President's FY 1998 Budget proposes to further derail the pay reform law. The Administration budget provides for a pay adjustment of 2.8% for 1.8 million General Schedule workers in 1998. If the FEPCA process were fully implemented, Federal workers would receive a national pay adjustment and the fifth installment of locality pay adjustments in 1998 that would be more than three times the pay adjustment provided for by the Administration. Reducing Federal pay is certainly inconsistent with the goal of producing a smaller, more highly skilled and efficient government. In order to attract and retain a competent workforce in the next century, the government must offer competitive salaries. Now is the time to put the long-awaited process of closing the **29%** gap between Federal and non-Federal pay back on track.

FMA strongly encourages the payment of both the national and locality pay adjustments called for by FEPCA. FMA further urges Congress to pass legislation similar to H.R. 1409 introduced by Delegate Eleanor Holmes Norton (D-DC) in the 104th Congress to reduce the $108 billion the Federal government spends annually on contracting out for services in order to fully fund civil service pay adjustments. In past years Congress' failure to fully fund pay adjustments, thereby requiring agencies to absorb their cost, pressured agencies to reduce personnel, resulting in a "silent RIF." Fully-funded pay adjustments will avoid silent RIFs. FMA also supports allowing the Federal Wage System for 350,000 (blue collar) workers to function as Congress intended when the program was enacted in 1972. FWS pay gaps should be closed as quickly as possible.

REFORM PAY FOR FEDERAL MANAGERS AND SUPERVISORS

In addition to full implementation of FEPCA, FMA is also concerned about pay for managers and supervisors. Current law contains financial disincentives for employees seeking management positions. One financial disincentive managers face is the restriction placed on the payment of overtime. Under current law, overtime pay for Federal workers (one and a half times the normal rate for work in excess of 40 hours per week) is limited to that given to a General Schedule level 10 step 1 employee. For many managers and supervisors, GS 10 step 1 overtime pay is less than they earn for regularly scheduled work. Agency downsizing is putting increasing pressure on managers to work overtime just to keep up with their normal duties. The success of downsizing efforts depends upon the Government's ability to develop and maintain a cadre of intelligent, highly motivated managers and supervisors. For these reasons, FMA urges Congress to establish pay and benefit initiatives for managers and supervisors at all grade levels and to amend current law to equitably compensate managers and supervisors for overtime work.

CONCLUSION

In conclusion Mr. Chairman I reemphasize the importance of viewing changes in retirement benefits in terms of their impact on the government's ability to effectively manage workforce attrition and employee morale. The retirement system is first and foremost a workforce management tool. Changes to it must take account of all the consequences.

Federal employees join the Federal workforce with the understanding that their retirement benefits are a mutually agreed upon term of employment. Reducing Federal retirement benefits represents a serious breach of faith with the men and women who have devoted their working lives to serving the American public. Changes intended to reduce retirement benefits should only apply to new hires.

I want to thank you once again for inviting FMA to present our views to the Subcommittee on proposals in the President's FY '98 affecting the pay and benefits of Federal workers. FMA looks forward to working with you this year to improve the ability of Federal managers and supervisors to cost effectively deliver goods and services to the tax-paying American public.

This concludes my prepared remarks I would be happy to answer any questions you may have.

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FEDERAL GRANTS: FMA has not received any Federal grants or contracts within the last two years.

Federal Managers Association

Michael B. Styles
National President

A member of the Federal Managers' Association (FMA) Board of Directors since 1986, Mr. Styles has served as its National President since 1990. The foremost management organization within the Federal sector, FMA represents the interests of more than 200,000 managers and supervisors throughout the varied agencies of the Federal government. With membership encompassing senior executive, middle-management, and front-line supervisory positions, FMA plays a vital role in the development and implementation of government-wide policy at all levels of the management spectrum. In his position as president, Mr. Styles works directly with the Executive and Legislative branches on such issues as Downsizing, Privatization, Partnership, Labor Relations, and Federal Personnel, Benefit, and Retirement issues.

Mr. Styles sits on the Federal Employee Thrift Advisory Council providing policy-shaping guidance in management and administration of the $25 billion Retirement Investment Fund for Federal employees. Mr. Styles is also a National Board Director for the Federal Employee Education and Assistance Fund which provides scholarships, loans, grants, and emergency assistance to Federal employees and their dependents.

Mr. Styles' wide ranging expertise in strategic planning as a consultant, coordinator, and advisor has encompassed both private and public sector projects in finance, education, and defense contractor operations. These include Total Quality Management implementation initiatives at Hughes Aircraft Company, Downey Savings and Loan, and Copper Mountain College. His long career in Tactical Systems management with the Department of the Navy has provided him the opportunity to implement far reaching Total Quality Leadership initiatives positively impacting timely systems acquisition and logistics support thus enhancing the overall readiness of the Fleet Marine Force.

With over thirty years of experience as a lecturer, facilitator, and consultant, Mr. Styles has a comprehensive background in educational theory and practice. An Adjunct professor at the National University School of Management and Technology since 1986, Mr. Styles instructs graduate and undergraduate courses such as: Organizational Behavior; Communications for Managers; Valuing and Managing Cultural Diversity; Behavioral Science; Organizational Effectiveness and Productivity; Managing Human Resources; Psychology for Managers; Information Systems Management; Government, Business, and the Public; Personal and Professional Ethics; Organizational Development; and Ethical Concerns in Business and Management.

A Fellow at Syracuse University's Maxwell Center for Advanced Public Management, Mr. Styles has a B.A. and M.A. in Management from the University of Redlands. Mr. Styles is currently the President of the Federal Management Institute.

8/95

BIOGRAPHY

Mr. MICA. Thank you.

Mr. Jackson.

Mr. JACKSON. Thank you, Mr. Chairman.

As president of the National Association of Retired Federal Employees, I appreciate the opportunity to appear before you today.

NARFE is very disappointed in the President's decision to single out civil service retirees and survivors for a COLA delay in his latest budget. We can only view this proposal as a public dismissal of the value of Government service.

NARFE is also displeased with the repeated call for increased employee contribution to the Civil Service Retirement and Disability Fund. Additionally, we believe that if agency contributions are to be used, that the corresponding increase in the discretionary spending caps are necessary to ensure that agencies can absorb this new cost without being forced to lay off more workers.

In reviewing this package of Federal retirement recommendations, we believe that two questions should be asked. First, is there a legitimate public policy reason for a Federal annuitant COLA delay, and for increased retirement fund contribution?

This is a relevant question, since the President's own director of the National Economic Council recently claimed that changes in COLAs or in the Consumer Price Index ought to be based on the facts rather than on political whim.

The answer depends on the financial well-being of the fund. If the fund were in trouble, lawmakers would have to consider increasing income, cutting benefits, or both. The President proposes that benefits be cut by delaying COLAs. And this budget is calling for increased income to the fund.

The enigma here is that there is no indication that the fund is in dire fiscal straits. The fund is on sound financial footing. During the last Congress, the GAO testified that there is an adequate balance in the fund to disburse annuities to Federal retirees and survivors on an ongoing basis.

Some say that Government contributions are not real money, but this is just plain wrong. The contributions are real income, since the funds are appropriated by Congress, and since there is an annual limit on the amount of funds that the Congress may appropriate.

It has been said that Government securities issued to the fund are not real assets, because they are non-marketable. Not true. The only difference between marketable and non-marketable securities is that the latter cannot be traded in the financial market.

U.S. savings bonds and Government securities held in the Social Security trust fund are also non-marketable. Few holders of U.S. savings bonds or other Government securities would like to hear that these investments are not real assets.

NARFE recognizes that Federal employees pay 25 percent of their retirement cost. This is far greater than the majority of employers in the private sector require. It is 97 percent of medium and large employers who pay for retirement without employee contributions.

Taxpayers as employers pay 75 percent of retirement costs for Federal employees, while most other employers pay 100 percent. This retirement obligation is not at all unreasonable. It is something that employers must do. Since our fund is in good shape, we believe that a reduction in the benefit of retirees and an increase in employee contributions are unnecessary.

Federal retirees understand that the enormous Federal debt that accrued during the 1980's stunt what our economy could be. As older Americans, we want to leave a sound economy for our grandchildren. For that reason, we believe that the goal to reduce this burden is not only commendable but essential.

But as attempts are made to balance the budget, we must ask if everyone is making a shared sacrifice toward this goal. The answer is a resounding no. Year after year, the White House and Capitol Hill have reduced our earned inflation protection while Social Security has been paid on time and in full. And we know that delays in Social Security and military retiree COLAs were never considered as options in this budget.

It is ironic that during the recent balanced budget debate, that some have said that protecting Social Security is essential, since no private sector employer would reduce employee pensions to pay off debt. But these same individuals say nothing about protecting the retirement benefits of the Government's own employees.

Federal retirees and survivors are understandably outraged by a proposal that takes away their full and timely inflation protection in 1998 after the Capitol Hill and White House allowed it to be restored in 1997.

In addition to policy considerations and equity issues, members of this subcommittee must understand what this COLA delay proposal means to your constituents who are Federal civilian annuitants. It means that the average Federal retiree will lose $726 over the next 5 years. But just as detrimental is the message it sends that civil service retirees and their survivors are less worthy than other retirees.

Unlike Social Security benefits, Federal civilian annuities are 100 percent taxable from the first dollar of payment. Although we have looked, we can find nothing in the budget which proposes a 3-month extension on the tax filing deadline for Federal retirees.

In fact, none of the bills that Federal annuitants must pay will be delayed, just because their COLA is. Inflation will not be abated while Federal retirees wait for their inflation protection to be paid.

This is a discriminatory COLA delay, because no other group of older Americans are being asked to share this burden.

As this committee develops its views and estimates for submission to the Budget Committee, NARFE urges you to reject the administration's COLA delay and contributions proposal.

We also ask you to support full and timely payment of our COLAs by cosponsoring H. Con. Res. 13 introduced by Representative Morella.

Mr. Chairman, you also asked NARFE to comment on the expiration of the FEHBP's Aetna proxy premium 2 years from now. According to OPM actuaries, the premium formula changes already required for 1997 and 1998 contract years will have an insignificant effect.

However, OPM says that if Congress fails to reauthorize the Aetna proxy premium, costs for enrollees could increase by $164 for self-only policies, and $326 for family plans in 1999.

Such a substantial increase in premiums would be difficult for many Federal retirees and survivors to absorb, and might force many enrollees out of a fee for service option. Reserving fee for service plans is particularly important to us, since older Americans require more continuity of care, as their need for medical attention increases. The importance that we place in the doctor-patient relationship of our choosing cannot be overstated.

Mr. Chairman, NARFE wants to work with you and your subcommittee this year to explore ways and means of ensuring that FEHBP enrollee costs do not skyrocket as a result of changes in the premium calculation formula.

We make ourselves available to help develop legislation that will not impose new financial burdens on enrollees or the Government. We also urge that there be no hasty or radical changes made until everyone can examine the costs and effects of alternatives.

Thank you again, Mr. Chairman, for the opportunity to present NARFE's views. I would be happy to answer questions that you or other members of the subcommittee may have.

[The prepared statement of Mr. Jackson follows:]

Mr. Chairman, I am Charles R. Jackson, President of the National Association of Retired Federal Employees (NARFE). I appreciate the opportunity to appear before you today on behalf of NARFE's 450,000 members to comment on civil service retirement proposals included in President Clinton's 1998 fiscal year (FY) budget and the expiration of the Federal Employees Health Benefits Program's (FEHBP) Aetna premium proxy in 1999.

NARFE is very disappointed in the President's decision to single out civil service retirees and survivors for a cost-of-living adjustment (COLA) delay in his latest budget. We can only view this proposal as a public dismissal of the value of government service.

NARFE is also displeased with the repeated call for increased employee contributions to the Civil Service Retirement and Disability Fund (CSRDF). Additionally, we believe that if agency contributions are to be raised, a corresponding increase in the discretionary spending caps are necessary to ensure that agencies can absorb this new cost without being forced to layoff more workers.

In reviewing this package of federal retirement recommendations, we believe two questions should be asked.

First, is there a legitimate public policy reason for a federal annuitant COLA delay and for increased retirement fund contributions? This is a relevant question since the President's own Director of the National Economic Council recently proclaimed that changes in COLAs or in the Consumer Price Index (CPI) ought to be based on the facts rather than on political whim.

The answer to that question depends on the financial well-being of the CSRDF. For example, if the fund were in trouble, lawmakers would have to consider increasing income to the fund, cutting benefits paid out of the fund, or both. The President proposes that benefits be cut by delaying payment of the COLA. And, there is no question that this budget is calling for increased income to the fund. The enigma here is that there is no indication that the CSRDF is in dire fiscal straights.

Fortunately, the fund is on sound financial footing. Indeed, during the last Congress, the General Accounting Office (GAO) testified before this subcommittee that there is an adequate balance in the CSRDF to provide the budget authority necessary to disburse annuities to federal retirees and survivors on an ongoing basis. In fact, the fund achieves surpluses each year and is expected to remain in surplus for the foreseeable future. In 1996, the CSRDF paid $39.4 billion in annuities to federal retirees and survivors. That outlay is $25.6 billion less than the $67.0 billion of income credited to the fund during the same period.

As you know, income to the CSRDF includes employee contributions, postal service payments, agency contributions, government payments for past service liabilities, and interest payments on securities held by the fund. Some would say that government contributions are not real money and so the fund runs an annual deficit, not a surplus. But claiming the contributions are not real income is just plain wrong. The contributions are real income, since the funds are appropriated by Congress, and since there is an annual limit on the total amount of funds which Congress may appropriate.

It also has been said that government securities issued to the CSRDF are not real assets and investments because they are non-marketable. Not true. The only relevant difference between marketable and non-marketable securities is that the latter cannot be traded in the financial markets. Like marketable government securities, the non-marketable variety earn interest as they are used to finance the costs of government. Upon disbursement of annuities, such securities are converted into cash for payment to participants. United States Savings Bonds and government securities held in the Social Security Trust Fund are also non-marketable. Few holders or potential buyers of U.S. Savings Bonds or other government securities would like to hear that these investments are not real assets.

NARFE also recognizes that federal employees pay 25 percent of the cost of their retirement. This contribution is far greater than the vast majority of employers in the private-sector require of their employees. Indeed, 97 percent of medium and large employers pay for retirement benefits without employee contributions according to the U.S. Department of Labor.

While taxpayers, as employers, pay 75 percent of retirement costs for federal employees, most other employers pay 100 percent of the retirement benefits of their employees in the private sector. Honoring this obligation is not unreasonable. It is something all employers must do to attract a competent, reliable and adequate workforce.

Since the CSRDF is in good shape, we believe a reduction in the benefits of retirees and an increase in employee contributions are unnecessary. In fact, we cannot understand how employees can be asked to pay more today for less retirement income security tomorrow.

Beyond policy considerations, we appreciate the need to find cost savings in the budget for deficit reduction purposes. Federal retirees understand that the enormous federal debt that accrued during the 1980s stunts what our economy could be. As older Americas, we want to leave a sound economy for our grandchildren. For that reason, NARFE believes that President Clinton's goal to reduce this burden is not only commendable, but essential.

But as attempts are made to balance the budget, we must ask if everyone is making a shared-sacrifice toward this goal? If past budgets are any indication, the answer is a resounding "no". During the previous 12 years, reductions, delays and cancellations of federal annuitant COLAs have accrued savings of some $50 billion. Year after year, the White House and Capitol Hill have reduced our earned inflation protection while Social Security COLAs have been paid on time and in full. We are disappointed that this latest budget recommends continuing that trend.

While some in the administration agreed that it is unfair to repeatedly single out federal employees and retirees, in the end, they decided that now was not the time to commit to COLA equity. We know, in fact, that delays in Social Security and military retiree COLAs were never considered as options for this budget.

It is indeed ironic that during recent balanced budget debates some have said that protecting Social Security is essential since no private-sector employer would reduce employee pensions to pay off debts. However, these same individuals say nothing about protecting the retirement benefits of the government's own employees. This is a crucial point, because it means some of those who set government employment and fiscal policy are indifferent to federal workers and retirees.

Most human resource experts today realize that employees are more productive and motivated when they sense appreciation from their employer. While the federal government is stressing modern management techniques in numerous areas, these budget recommendations seem to undermine any sense of appreciation for the workforce.

Our nation's 2.3 million federal retirees and survivors are understandably outraged by a proposal that takes away their full and timely inflation protection in 1998 after Capitol Hill and the White House finally allowed it to be restored in 1997. In 1994, 1995 and 1996, federal annuitant COLAs were not paid until April because of a COLA delay was included in the 1993 Budget Reconciliation bill.

Since Congress and the President failed to agree on budget reconciliation legislation last year (except welfare reform), our January 1 COLA payment date resumed this year in accordance with the law. That is why federal retirees cannot understand why Washington, D.C. policy makers would delay the COLA again in 1998 after restoring COLA equity in 1997.

In addition to policy considerations and equity issues, members of this subcommittee must understand what this COLA delay proposal means to your constituents who are federal civilian annuitants. It means that the average federal retiree will lose $726 over the next five years. But perhaps just as detrimental is the political message it sends which indicates that civil service retirees and their survivors are as less worthy than other retirees.

Unlike Social Security benefits, federal civilian annuities are 100 percent taxable from the first dollar of payment. Although we have looked, we can find nothing in the budget which proposes a three month extension on the tax filing deadline for federal retirees. In fact, none of the bills and obligations federal annuitants must pay will be delayed just because their COLA is. It is not as if increases in the price of gasoline, groceries, health care, housing or utilities will be abated while federal retirees wait for their inflation protection to be paid.

In sum, this is a discriminatory COLA delay. It is discriminatory because no other group of older Americans are being asked to share this burden. Indeed, civil service retirees would be penalized for no other reason than their choice of vocation.

As the Government Reform and Oversight Committee develops its "views and estimates" this month for submission to the Budget Committee, NARFE urges you to reject the administration's discriminatory and unnecessary civil service COLA delay and contribution proposals. We also ask that you show your public support for full and timely payment of the earned inflation protection of retired federal employees by cosponsoring H. Con. Res. 13, a sense of Congress resolution introduced by Representative Morella. H. Con. Res. 13 already enjoys the support of a number of members of this committee, and we hope all of its members will soon be cosponsors.

Mr. Chairman, you also asked NARFE to comment on the expiration of FEHBP's Aetna proxy premium two years from now.

As you know, the Office of Personnel Management (OPM) presently determines the government-employer contribution for FEHBP premiums by averaging the premiums of six largest plans, including: Blue Cross-Blue Shield, the two largest employee organization plans, the two HMOs with the highest number of enrollees, as well as a estimated premium for an Aetna plan that no longer exists. Sixty percent of this calculation establishes the government's annual maximum dollar contribution for FEHBP premiums. Enrollees pay for the remaining amount of their own plan cost.

Congress decided in 1989 to continue to use an approximation of the Aetna premium in its contribution calculation despite the insurance carrier's decision to withdraw from FEHBP at the end of the 1989 contract year. Since 1990, OPM has estimated the amount of the Aetna premium as if the government wide indemnity plan still existed. The product of this estimate is known as the "Aetna proxy premium."

The Omnibus Budget Reconciliation Act of 1993 (OBRA) (P.L. 103-66) extended the so-called "Big Six" formula through contract years 1997 and 1998. For both of those contract years, however, OBRA 1993 reduces the Aetna proxy premium by one percent. In addition, the 1993 law authorized the use of the Aetna premium only until the end of the 1998 contract year. The proxy premium cannot be used beyond the 1998 contract year, unless it is reauthorized by Congress.

According to OPM actuaries, formula changes required for the 1997 and 1998 contract years will have an insignificant effect on the amount of the federal government contribution for FEHBP premiums. However, OPM says that if Congress fails to reauthorize the Aetna premium -- and a "Big Five" calculation is used by default -- costs for enrollees could increase by $164 for self only polices and $326 for family plans in 1999.

Such a substantial increase in FEHBP premiums would be difficult for many federal retirees and survivors to absorb. A smaller government contribution might also force many federal employees and retirees out of fee-for-service options into managed care plans. Although many FEHBP enrollees elect the program's managed care plans, more than the majority prefer selecting their own physician through an affordable fee-for-service choice. Preserving FEHBP fee-for-service plans is particularly important to us since older Americans require more continuity of care as their need for medical attention increases. The importance that we place in the doctor-patient relationship of our choosing cannot be overstated. We must have the freedom to retain physicians who know us well and know our medical history if we are to trust them with our well-being.

Mr. Chairman, NARFE wants to work with you and your subcommittee this year to explore ways and means of ensuring that FEHBP enrollee costs do not skyrocket as a result of changes in the premium calculation formula. We make ourselves available to you to develop legislation during this transitional period that will not impose new financial burdens on enrollees or the government. NARFE also urges that there not be any hasty or radical changes made to the formula until we can examine the cost and effects of a number of alternatives.

Thank you again for this opportunity to present NARFE's views. I would be happy to answer questions you and other members of the subcommittee might have

COST OF THREE MONTH COLA DELAY TO FEDERAL ANNUITANTS FROM 1998 TO 2002

Monthly Gross Annuity 1998-2002 Without Three Month COLA Delay*

Month	Year 98	Year 99	Year 00	Year 01	Year 02	Total 98-02
January	1615	1661	1709	1758	1810	
February	1615	1661	1709	1758	1810	
March	1615	1661	1709	1758	1810	
April	1615	1661	1709	1758	1810	
May	1615	1661	1709	1758	1810	
June	1615	1661	1709	1758	1810	
July	1615	1661	1709	1758	1810	
August	1615	1661	1709	1758	1810	
September	1615	1661	1709	1758	1810	
October	1615	1661	1709	1758	1810	
November	1615	1661	1709	1758	1810	
December	1615	1661	1709	1758	1810	
Total	19380	19932	20508	21096	21720	102636

Monthly Gross Annuity 1998-2002 With Three Month COLA Delay*

Month	Year 98	Year 99	Year 00	Year 01	Year 02	Total 98-02
January	1568	1615	1661	1709	1758	
February	1568	1615	1661	1709	1758	
March	1568	1615	1661	1709	1758	
April	1615	1661	1709	1758	1810	
May	1615	1661	1709	1758	1810	
June	1615	1661	1709	1758	1810	
July	1615	1661	1709	1758	1810	
August	1615	1661	1709	1758	1810	
September	1615	1661	1709	1758	1810	
October	1615	1661	1709	1758	1810	
November	1615	1661	1709	1758	1810	
December	1615	1661	1709	1758	1810	
Total	19239	19794	20364	20949	21564	101910

*Based on Consumer Price Index: 3.0% in 1998, 2.9% in 1999, 2.9% in 2000, 2.9% in 2001 and 3.0% in 2002. Annual federal annuity of $18,816 used as starting annuity before payment of 1998 COLA.

Gross Annuity 1998-2002 Without Three Month COLA Delay:	**$102,636**
Gross Annuity 1998-2002 With Three Month COLA Delay:	**$101,910**
Total Loss to Federal Civilian Annuitants 1998-2002:	**$726**

Charles R. "Chuck" Jackson, President
National Association of Retired Federal Employees

Charles R. "Chuck" Jackson was elected President of the National Association of Retired Federal Employees (NARFE) at the Association's 1994 National Convention in St. Louis, Missouri, and re-elected in Houston, Texas in September 1996 for another two year term.

A native of Fairfield, a small town in southern Illinois, Jackson's early life work experience included the Illinois Sate Police and 5 years of military service. During his military service he served with an anti-tank company and spent four years with military intelligence.

Prior to employment with the United States Postal Service, he spent eighteen months with the United Nations Relief Agency, under the famed Mayor LaGuardia of New York City. His 23 years of service with the Post Office Department included 14 years as Training Director for Arkansas, Iowa and Missouri. Following his retirement from the government, he and his wife, Clara, remained in St. Louis where he spent several years in hotel and property management before retiring a second time.

A member of NARFE since 1973, Charles Jackson served in almost all positions of his local chapter and state federation, including chapter President, State Legislative Chairman and President of the Missouri Federation of NARFE Chapters. He also served four years as Field Vice President of NARFE's Region V, which includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota. In this position, he served as a member of NARFE's Executive Board, becoming Chairman of the Board upon his election as National President in 1994.

Strathmore's Who's Who recently accepted Mr. Jackson into their 1997-1998 *Who's Who Registry of Business Leaders.* He also serves on the Advisory Council of the Consumer Electronics Manufacturing Association and recently attended their national meeting in Las Vegas, Nevada.

FEDERAL GRANT AND CONTRACT DISCLOSURE

The National Association of Retired Federal Employees (NARFE) has not received any federal grant funds nor has it been a party to any federal contract during the past two year period.

Charles R. Jackson
President
February 13, 1997

Mr. MICA. Thank you, Mr. Jackson. And we will defer questions. We will hear now from James Cunningham.

Mr. CUNNINGHAM. Good morning, Mr. Chairman, and members of the subcommittee. My name is Jim Cunningham. And speaking for the members of the National Federation of Federal Employees, I would like to thank you for the opportunity to appear before you this morning.

Before I begin, I must say that I look forward to working closely with you, Chairman Mica, and the members of this subcommittee over the next 2 years, as you address issues of importance to the Federal Government and its workers.

At the outset, I must say that this budget is a severe disappointment to NFFE. I fear that this budget reflects that the administration, while publicly committed to working with employees, does not feel the need to adequately compensate the employees they profess to value so highly.

Each day Federal employees across this Nation serve proudly their country and their fellow citizens. These employees do not work for the Federal Government because they seek to enrich themselves, but they work for the Government because they believe that serving the public is a patriotic and noble duty.

These employees are dedicated and committed to the ideal that the Government exists to serve its citizens. Federal employees strive each day to ensure that the American public receive the services that they need and expect.

However, because Federal employees do not work for the Government because they expect high pay, they do have financial obligations that must be met. Like workers in the private sector, Federal employees must purchase goods and services, and just like private sector employees, the purchasing power of Federal employees is eroding by inflation each year.

However, Federal employees watch the value of their paychecks erode at a considerably faster pace than their private sector counterparts. For example, based on a comparison of the consumer price index and the employment cost index for 1980 through 1995, the value of private sector salaries was reduced by 5.2 percent. During that same period of time, the value of Federal employees' salary was reduced by 24.3 percent.

Obviously, this situation is intolerable. And Federal employees need and deserve pay adjustments that will not only protect the value of their salaries from further erosion by inflation, but will also correct the inequity of the past 15 years.

Unfortunately, President Clinton's fiscal year 1998 budget contains only a 2.8 percent pay adjustment for Federal employees. This is unacceptable to the members of NFFE. This small adjustment is far short of the 6.6 percent pay adjustment that employees should be receiving under the provisions of the 1990 Federal Employees Pay Comparability Act.

Not only has the failure of the administration and Congress to provide the full adjustments called for by FEPCA inflicted severe financial hardship on Federal employees, but by consistently under-funding the raises mandated by FEPCA, the administration and Congress are endangering the future ability of the Federal

Government to provide citizens with the high quality service and assistance that they have come to expect.

When it was enacted in 1990, FEPCA represented a fair bipartisan solution to eliminating the gap between public and private sector jobs. Support for FEPCA was centered on the realization that pay comparability with the private sector was necessary, if the Government wished to recruit and retain the best and the brightest employees.

As the Government continues to downsize, the duties of each employee increase both in number and in complexity. If the Federal Government hopes to maintain a civilian workforce that is capable of meeting the demands being placed on them, then Government must compensate its employees in an adequate and equitable fashion.

NFFE opposes the administration proposal to increase by 0.5 percent the amount that employees pay into the Civil Service Retirement and Disability Funds. NFFE asserts that increasing the amount that employees contribute to their retirement fund is yet one more example of the discriminatory fashion in the way that Federal employees and retirements are routinely treated by Congress and the executive branch.

This increase in retirement contributions is nothing more than a payroll tax that is being levied against only Federal employees. I would hope that this Congress with its commitment to reducing the tax burden of all Americans will not choose to inflict a new tax on Federal employees.

NFFE is also very concerned that the proposal to increase agency payments into the Civil Service Retirement Trust Fund will increase downsizing pressure at all Federal agencies. By increasing the agency payment to the trust fund without providing additional funding for this purpose, this proposal would force agencies to make the payment from their salaries and expense account.

Reducing the available pool of money for salaries will in turn place greater pressure on already tight operating accounts. It is highly probable that this pressure will force the agencies to cut positions. By forcing agencies to eliminate jobs without the benefit of a comprehensive strategic plan, this silent RIF will have a dramatic and destruction effect on the capability and effectiveness of the Federal agencies. This situation should be avoided at all costs.

NFFE also feels that to delay cost-of-living adjustments to Federal retirees is both unfair and unjust. This proposal unfairly singles out one group of retirees and punishes them for choosing to serve their fellow citizens. It is outrageous that Federal retirees are forced to suffer the erosion of their hard earned retirement benefits while the COLAs of military retirees and Social Security recipients remain untouched.

Before I conclude, I would like to address one final issue. NFFE is proud to be a member of the National Partnership Council, and has strongly supported the goals and mission of the National Performance Review. NFFE believes and is committed to the proposition that by working together in partnership that management and employees can redesign their work place in models of efficiency and quality.

However, NFFE has grown increasingly concerned over the administration's constant focus on the number of jobs that it has eliminated. For example, during the President's press conference releasing the budget, I watched with dismay as Vice President Gore trumpeted the fact that the administration was 2 years ahead of schedule in reaching its massive job elimination targets.

Little thought appears to be given to the pain that these cuts have inflicted on the targeted employees, and no mention at all is given to the ever increasing number of contractors who are being called in to do the work of separated Federal employees.

Little over 3½ years ago, Federal employees welcomed a portion of the NPR report, in which Vice President Gore declared that Federal employees are good people trapped in a bad system. For once, it was the system that was being blamed and not Federal employees.

On this basis, NFFE embraced many portions of the NPR. And we look forward to the systemic reforms that would allow them to truly create a Government that all Americans could be proud of. But if employees who have supported the NPR see that they and their coworkers are losing their jobs and being replaced by contractors, then the NPR's declaration of fixing the system and not blaming its people will be meaningless, and the NPR will be meaningless, and the NPR will be remembered as just another attempt to portray Federal employees as the problem.

It is important to remember that Federal employees support much of the NPR because they are interested in making their agencies work better. However, they do not want to see their work transferred to contractors and have their job reinvented out of existence. Federal employees are proud to work for America. We strive each day to deliver to the public the high-quality goods and services they deserve and expect. In return, we ask only that our leaders in the executive and legislative branches of Government respect the work we do and treat us with the respect we deserve. Thank you very much.

[The prepared statement of Mr. Cunningham follows:]

Good Morning, Mr. Chairman and Members of the Subcommittee:

My name is James Cunningham. Speaking for the members of the National Federation of Federal Employees, I would like to thank you for the opportunity to appear before you this morning. Before I begin, I must say that I look forward to working closely with you, Chairman Mica, and the members of the subcommittee over the next two years, as the Subcommittee addresses issues important to the federal government and its workers.

At the outset, I must say that this budget is a severe disappointment to NFFE. I fear that this budget reflects that the administration, while publicly committed to working with the employees, does not feel the need to adequately compensate the employees they profess to value so highly.

Federal Employee Pay and Inflation

Each day, federal employees across this Nation proudly serve their country and fellow citizens. These employees do not work for the federal government because they seek to enrich themselves. They work for the federal government because they believe that serving the public is a patriotic and noble duty. These employees are dedicated and committed to the ideal that the government exists to serve its citizens. Federal employees strive each day to ensure that the American public receive the services they need and expect.

However, although federal employees do not work for the government because they expect high pay, they do have financial obligations that must be met. Like workers in the private sector, federal employees must purchase goods and services; and just like private sector employees the purchasing power of federal employees is eroded by inflation each year. However, federal employees have watched the value of their paychecks be eroded at a significantly faster pace than their private sector counterparts.

For example, based on a comparison of the Consumer Price Index (CPI) and the Employment Cost Index (ECI) from 1980-1995 the value of private salaries was reduced by 5.2 percent. During that period, the value of a federal employee's salary was reduced by 24.3 percent. Obviously this situation is intolerable and federal employees need and deserve pay adjustments that will not only protect the value of their salaries from further erosion by inflation but will also correct the inequity of the past fifteen years.

The Proposed Pay Adjustment

Unfortunately, President Clinton's FY 1998 budget contains only a 2.8 percent pay adjustment for federal employees. This is unacceptable to the members of NFFE. This small adjustment is far short of the 6.6 percent pay adjustment that employees should be receiving under the provisions of the 1990 Federal Employees Pay Comparability Act (FEPCA). Not only has the failure of the Administration and Congress to provide the full pay adjustments called for by FEPCA inflicted severe financial hardship on federal employees; but by consistently under-funding the raises mandated by FEPCA, the Administration and Congress are endangering the future ability of the federal government to provide citizens with the high quality service and assistance they have come to expect.

When it was enacted in 1990, FEPCA represented a fair, bipartisan solution to eliminating the gap between public and private sector jobs. Support for FEPCA was centered on the realization that pay comparability with the private sector was necessary if the government wished to recruit and retain the best and brightest employees. As the government continues to downsize, the duties of each employee increase both in number and in complexity. If the federal government hopes to maintain a civil service workforce that is capable of meeting the demands being placed on them, then government must compensate its employees in an adequate and equitably fashion.

Increased Employee Retirement Contributions

NFFE opposes the Administration proposal to increase by .5 percent the amount employees pay into the Civil Service Retirement and Disability Funds (CSRDF). NFFE asserts that increasing the amount that employees contribute to their retirement fund is yet one more example of the discriminatory fashion in the way federal employees and retirees are routinely treated by both Congress and the executive branch. This increase in retirement contributions is nothing more than a payroll tax that is being levied against only federal employees. I would hope that this Congress, with its commitment to reducing the tax burden of all Americans, will not choose to inflict a new tax on federal employees.

However, I must stress that although NFFE opposes the retirement proposals contained in the Administration's proposed budget for FY 1998, they are more acceptable than the outrageous 2.5 percent increase in retirement contributions that was included in the House Budget Resolution in 1995.

Increase in Agency Contribution Levels

NFFE is also very concerned that the proposal to increase agency payments into the civil service retirement trust fund will increase downsizing pressure at federal agencies. By increasing the agency payment to the CSRDF without providing additional funding for this purpose, this proposal would force agencies the make the payment from their salaries and expenses account. Reducing the available pool of money for salaries will in turn place greater pressure on already tight operating accounts. It is highly probable that this pressure will force the agencies to cut positions. This "silent RIF" could have a dramatic and destructive effect on the capability and effectiveness of federal agencies.

By forcing Agencies to eliminate jobs without the benefit of a comprehensive strategic plan will no doubt leave agencies with a poor skill mix in their workforce, thereby reducing the ability of agencies to fulfill their missions and serve the public. This situation should be avoided at all costs.

Three-Month COLA Delay

NFFE also feels that to delay cost of living adjustments to federal retirees is both unfair and unjust. This proposal unfairly singles out one group of retirees and punishes them for serving their fellow citizens. It is outrageous that federal retirees are forced to suffer the erosion of their hard earned retirement benefits while the COLA's of military retirees and social security recipients remain untouched.

Federal Employees Health Benefits Plan Financing

The Subcommittee requested NFFE's opinion on the approaching expiration of the "phantom formula." At this time, NFFE is still reviewing the various options available to address this problem. However, I can tell you that NFFE does not support any plan that would base the government's contribution on an inflation adjusted voucher or fixed dollar approach. Currently, the government contribution is based on an average of the premiums of the largest plan in FEHBP. To base the government contributions on the average government contribution in a baseline year and then tie increases in that contribution to the growth of the CPI is severely flawed. In any year where the growth of premium costs exceeds the rate of growth in the CPI, the government's share of the premium costs would fall. In fact, the Congressional Budget Office has estimated that using this formula would reduce the government's average contribution from the current 72 percent to just 55 percent in seven years. For the federal government to shift the burden for health care inflation solely onto employees is both unfair and unacceptable.

Furthermore, it appears that certain legislative forces are ready to attack the CPI formula and rewrite it to the disadvantage of working people and the elderly. A Senate Advisory Commission claims that the index runs 1.1 percentage points above the real inflation rate. Although Wall Street and certain anti-worker legislators are treating this report as gospel, NFFE believes that any "technical" fix of the index has less to do with accurate tracking of inflation than it does with creating a back-door way to cut the budget deficit. NFFE will be happy to expound on our objections to changing the CPI at subsequent hearings if requested.

The NPR, Partnership and Downsizing

Before I conclude, I would like address one final issue. NFFE is proud to be a member of the National Partnership Council and has strongly supported the goals and mission of the National Performance Review. NFFE believes, and is committed, to the proposition that by working together in partnership, management and employees can redesign their workplace into models of efficiency and quality.

However, NFFE has grown increasingly concerned over the Administration's constant focus on the number of jobs it has eliminated. For example, during the President's press conference releasing the budget, I watched with dismay as Vice-President Gore trumpeted the fact that the Administration was two years ahead of its massive job elimination targets. Little thought is given to the pain these cuts have inflicted on the targeted employees and no mention at all is giving to the ever increasing number of contractors that are being called in to do the work of separated employees.

A little over three and a half years ago, federal employees welcomed the portion of the NPR report in which Vice President Gore declared that "federal employees are good people trapped in a bad system." For once, it was the system that was being blamed and not federal employees. On this basis, NFFE and federal employees embraced many portions of the NPR and looked forward to the systemic reforms that would allow them to truly create a government that all Americans could be proud of.

But, if employees who have supported the NPR see that they and their coworkers are losing their jobs and being replaced by contractors, then the NPR's declaration of fixing the system and not blaming its people will be meaningless and the NPR will be remembered as just another attempt to portray federal employees as the problem. It is important to remember that Federal employees support much of the NPR because they are interested in making their agencies work better. However, they do not want to see their work transferred to contractors and have their job "reinvented" out of existence.

Federal employees are proud to work for America. We strive each day to deliver to the public the high quality goods and services they deserve and expect. In return, we ask only that our leaders in the executive and legislative branches of government respect the work we do and treat us with the respect that we deserve.

This concludes my testimony. I will be pleased to answer any questions you may have.

National Federation of Federal Employees

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James Cunningham
National President

Born	February 11, 1953 at DeKalb, Texas Seventh generation Texan
Family	Wife, Suki; son, Jim Jr. (22); daughter, Kimberly Michelle (18).
Military	U.S. Army (1971-1974), Specialist (4th Class)
Employment	Aviation Troop Command Center, St. Louis, Missouri, (1988-1996) • Quality Assurance Ammunition Maintenance • Inventory Management Specialist Red River Army Depot, (1975-1987) • Rubber Worker • Packer • Department of Defense Police Officer • Depot Shop Worker • Ammunition Worker
Union	National President, National Federation of Federal Employees • Elected at Fort Smith, Arkansas, September 12, 1996 • Effective November 1, 1996 for a two year term President, NFFE Army Material Command Council (1994-1996) President, NFFE Local 405 (1993-1996) Executive Vice President, NFFE Local 405 (1991-1993) Benefits Coordinator, NFFE Local 405 (1991) Steward, ATCOM, NFFE Local 405 (1990) Steward, Red River Army Depot (1982-1985)
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The National Federation of Federal Employees has not received any grants or contracts from the U.S. Government

James R. Cunningham Sr.

Mr. MICA. Thank you, Mr. Cunningham. We have also been joined by another member of the full panel and Chair of the DC Subcommittee, Mr. Davis, from Virginia. Did you have an opening statement or comment?

Mr. DAVIS. Mr. Chairman, first of all, thank you very much for allowing me to be here and for allowing this panel to come forward and, I think, express what are my concerns about some of the changes that have been suggested in compensation this year. And I would ask unanimous consent that my full statement be included in the record.

Mr. MICA. Without objection, so ordered.

Mr. DAVIS. Let me just make a couple of comments, if I can. I have just come out from speaking to a business group in northern Virginia, and every one of them will tell you that their major asset today is no longer their computers and machinery or equipment or buildings; it is their people. And they invest in their people, they keep them happy, and then they do not have to go out and rehire and retrain constantly.

In every business organization the world seems to understand that except for the Federal Government, where constantly when you look for cuts, the first place we look is at our people. And I think you all have expressed that very eloquently today. We need to get smart about that if we want to have a Government and to recruit and train the best and the brightest of people who are willing to give their lives to making Government a better place.

But I think the most invidious form of discrimination I can see is in this COLA inequity. It is talked about in this year's budget, where if you work for somebody else, you are on Social Security or you are a active military, you get your COLA on time; only if you work for the Federal Government are we going to delay you. What an awful message that sends.

No business organization would do that. Nobody who understands how you handle people and what makes an organization run would do that, and they are just not getting it, and I think all of you have put forward today very eloquently the concerns in our business organizations and among employees just asking to be treated fairly. That is all we want to do.

If we do that, there may have to be cuts here and there or something, but to just be treated fairly along the way, it is in the taxpayers' interest, and it is in this Government's interest to make that work, and I appreciate all of you being here today and sharing your statements. Thank you, Mr. Chairman.

[The prepared statement of Hon. Thomas M. Davis follows:]

THOMAS M. DAVIS
11TH DISTRICT, VIRGINIA

COMMITTEE ON
GOVERNMENT REFORM AND OVERSIGHT
CHAIRMAN,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

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STATEMENT OF CONGRESSMAN TOM DAVIS OF VIRGINIA ON THE EFFECTS OF THE PRESIDENT'S BUDGET ON FEDERAL EMPLOYEES

Civil Service Subcommittee Hearing

February 13, 1997

I would like to thank Chairman Mica for holding this hearing. The Subcommittee is providing an invaluable service to the thousands of federal employees and retirees across our nation by supplying a forum in which their concerns about the President's FY 1998 budget may be heard. I appreciate your allowing me to be a part of this hearing because, as you know, this issue can potentially impact thousands of my constituents.

The President's budget raises several proposals of dubious merit including continuing to scale back raises owed federal workers, requiring federal employees to pay more for their pensions, and delaying COLAs for federal retirees for another five years. The federal government must stop asking federal employees and retirees to pay a disproportionately large amount for budget savings that should be borne equitably by all Americans. If this was the first time that federal employees and retirees were asked to tighten their belt on behalf of our nation, I have no doubt that the President's budget would be considered in good faith. However, this is not the first time that federal employees and retirees have been "singled out" for punitive treatment when looking for ways to balance the budget.

We all recognize that the last few years have been a perilous period for federal employees and retirees. From the federal shutdowns to the repeated and inequitable focus on federal employees and retirees for budget savings, the federal workplace has taken unfair hits from both sides of the aisle, and both ends of Pennsylvania Avenue. During this period, federal employees and retirees have lost more than $170 billion in the form of pay and benefit cuts. Delayed and diminished COLAs have resulted in approximately $40 billion in lost earnings for federal retirees and their dependents.

In fact, the 1993 Omnibus Budget Reconciliation Act alone has cost federal retirees $12 billion in the form of delayed COLAs, elimination of lump-sum payments for new retirees, and

Rep. Thomas M. Davis
Page 2

modification of health insurance premiums. And the Administration's current FY 1998 budget would cost federal employees and retirees approximately an additional $6.225 billion over the next five years.

I am strongly supportive of balancing the federal budget. I believe that it is our duty to future generations not to leave them with our legacy of unpaid bills. But I am equally supportive in my beliefs that balancing the budget must be accomplished in an equitable manner, and it is unconscionable to repeatedly single out one group by asking them to contribute more than others.

Federal employees are patriotic Americans committed to serving their neighbors and their government. Every problem may not simply be attributed to so-called nameless, faceless bureaucrats. Federal employees and retirees are your friends and your family members. They are called to public service out of a sense of duty to their community and their nation. We owe it to federal employees and retirees to treat them with fairness and dignity. It is the least that they should expect from their government during this period of deficit reduction.

Mr. MICA. Thank you, Mr. Davis. We will now start the round of questioning here, and I will open with a couple of comments and questions. We have sort of a variety of recommendations here. Mr. Tobias, well, I think they are pretty unanimous in their conclusion. It is sort of no, no, no, and no, all three as far as additional contributions or cuts, but we really have to face, I guess, some of the political reality of this.

When the President recommends \$6½ billion being taken out of these accounts, how can we do something to assist in his effort and our effort, too, in balancing the budget? Now, I have proposed in the past a number of ways we could take some pressure off and some expenses off.

We had proposed a Medical Savings Account. We asked you all to look at that as one option, and the experience we had in the hearings that we conducted showed that both the employee and the employer, in many instances public entities, paid lower premiums on both parts. It is true that they had not been tried on as wide a number of folks that we deal with, but I propose that as one idea.

Retirement options that we need to be looking at, giving some opportunity for some other avenues to take some pressure off of the current system. I also advocated if we increased employee contribution, that we fence off the funds. I do not think the Federal employees mind contributing more; the problem is they continue to get less, and they have had all of the assets taken out of a trust fund. We are now paying—it was \$24 billion out of the budget a year or so ago, and I think that is escalating and gets up to an incredible amount if we keep letting that fund mushroom, the deficit.

And other options. We looked at the "high three" versus the "high five." Actually, most of the proposals that came out did not do much to deal with the unfunded liability except for the "high three" versus the "high five."

Now, you know the way this place operates, and Mr. Tobias, you have said, "just say no," but we are going to have to come back with some proposal. The President has said \$6.5 billion. Do you have any suggestions where we can save some funds? Are you willing to look at any of these? Do you have any other alternatives for helping us reduce this cost without hurting the benefits, without hurting the pay? Can you offer that to the subcommittee? And I will ask all of you, starting with Mr. Tobias.

Mr. TOBIAS. Well, Mr. Mica, I guess I start by asking you to, indeed, consider the political context and the history of this subcommittee. Recommending zero cuts would not be new to this committee. There have been times in the past when this committee has recommended zero savings, and I would ask that this committee serve as an educational force as opposed to reacting to what others might say.

I would hope that this committee would take its responsibility as the board of directors of the congressional branch and educate Members as to what impact their decisions have on the Federal workforce. Now, you said, Mr. Chairman, that Federal employees do not mind if they contribute more. I really disagree with that. They do mind if they contribute more to their retirement.

Mr. MICA. I think, Mr. Tobias, I said if their funds were fenced off.

Mr. TOBIAS. Well, I understand that. They do mind if they contribute more because it constitutes money out of their pocket, and I do not believe that there is anyone who would say, “I would like to contribute more.” And when we look at what Federal employees are doing, what they are asked to do, and the comparison of their benefits with the private sector, we are behind.

So I would hope that you would, indeed, share my views, and I will be happy to give you this letter that I sent to Chairman Kasich.

Mr. MICA. Thank you, and without objection, we will make this a part of the record.

[The information referred to follows:]

The National Treasury Employees Union

February 12, 1997

The Honorable John Kasich
Chairman
House Budget Committee
U. S. House of Representatives
Washington, D. C. 20515

Dear Chairman Kasich:

As your Committee prepares its Fiscal Year 1998 Budget Resolution, I ask that you refrain from assigning reconciliation savings to the Government Reform Committee this year.

As you know, it has been estimated that cuts in federal employee pay and benefits since 1976 have topped the $220 billion mark. Over the past several years, Congress and the Administration have asked federal employees to do more with fewer resources. They have asked federal employees for greater productivity and have assigned greater responsibilities in spite of a declining workforce. I believe we have reached the point where further cuts in federal pay, benefits and retirement will have a negative effect on the ability of the federal government to continue to hire the best and the brightest and on the federal workforce's ability to deliver needed services to their communities and to our country.

Therefore, I respectfully ask that the Budget Committee be mindful of these concerns as it develops its FY 98 Budget Resolution and seriously consider assigning no savings to the Government Reform Committee. Thank you for your consideration of this critical issue.

Sincerely,

Robert M. Tobias
National President

Mr. MICA. Well, I thank you for this, but, again, I am looking for some positive areas where we can work together to bring down costs, and I am not talking just about costs to the Federal Government; I am talking about health care costs to Federal employees, other opportunities for Federal employees for retirement, for increasing their potential savings and their return when they retire. So if you do have any suggestions, I welcome them. If you do not have any today and your statement is "just say no," I appreciate it. Mr. Styles, any ideas?

Mr. STYLES. Well, yes, sir. I have to echo my colleagues' remarks about the impact that these continued assaults on the Federal employees' benefits and retirement packages have, and that is why I brought out my comments here today in a more emotional, insightful way, because even after 38 years of Federal service, to see that headline really had a tremendous impact upon me.

And in going around the country and seeing people who, without doubts, have been working for 19 to 35 percent less than comparable wages in the private sector, I think that that impact that we have is creating what I mentioned is the "Pygmalion effect." We are creating the workforce we are telling the American public we have. It does not exist just yet, but it is moving in that direction, and I think what we have to do if we are talking about cost savings is, once again, go to the point of empowering the employees of the Federal Government.

It is amazing how resourceful our employees are, and in every challenge that has been put forward to them, they have responded and provided you more and more with less. I also believe, and I mentioned that in my comment, I look to you as partnership. I look to you as the voice to the Congress and the American people to represent us in the true vision of what we perform in every day work.

I would say to you that we are saving money. I would say that the partnership effort that we have brought forward at the national level is moving closer and closer down to the agency levels, and it is a remarkable thing to go around the country and hear reports that are made to us about the tremendous savings that are being brought forward. I think that is the type of collective effort we have to bring to the table, if you will, to bring about the savings that Mr. Kasich is looking for. And I think we can do that, and we have proven ourselves over time.

Mr. MICA. Well, again, gentlemen, I am looking for some solid proposals that may not be $6.5 billion that the President has recommended. But he has already set the bar and we have got to come back and respond in some fashion that is fair to Federal employees. And I know you are saying "no," but I am looking for positive steps that we can take.

There are some things, I think, that have been proposed that are grossly unfair. The picking out solely of Federal retirees. Everyone looks for fairness. If it had been proposed for everyone, maybe that is another question, but here they have singled these folks out, postals, who actually have an imbalanced retirement fund.

So we have got to find some areas that we can go back to Mr. Kasich and deal with the administration and say that we are meeting some of these net reductions in spending or cost. Mr. Styles.

Mr. STYLES. I have another comment, sir. We, as Federal employees, have been listening to the debate about how big the tax cut should be for the American people and what sector it should hit. I think too often we, as Federal employees, feel that we are not a part of that conversation. In fact, we are the answer to some of the solutions to provide those tax cuts for other Americans, and I think that we feel unjustly put upon because of that.

Mr. MICA. Thank you. Mr. Jackson.

Mr. JACKSON. This is one of my points. When you talk about seeking the avenues for recommending to the budget, one of the things that I think that this committee also needs to take a look at is if the taxes are not cut, then the need to reduce the Federal retirement benefits decreases.

So, when you are talking about some of the ways of what you do, and although I have been in Washington only 3 years as the president of NARFE, I do know that for the past 10 years, when NARFE has appeared before this committee or the committee dealing with civil service and we have testified contrary to what the recommendations were, we still ended up with $50 million in cuts, delays in COLAs.

Mr. Styles recommended or talked about his years with the Federal Government. I have been retired for over 25 years, and I was forced into a reduction in force as a part of the Federal Government, and I can tell you that when you are forced into a reduction in force at the age of 50, it is not a pleasant experience for anyone.

And many of the people today that are faced with this, of having to go out and find other jobs because they have been reduced, I think that sometimes we lose sight of the pain that is being inflicted on some of those people also. But they were a part of the Federal Government, and they thought they spent 25 or 30 years in the position that they thought that they were doing something and that they were contributing to the country, and now suddenly they find that they are no longer a part of that.

When you were talking about, and I know, having talked with you previously, I know how you feel about the Medical Savings Account. And we have also talked, and you know that I am not totally opposed to this, but I want to remind you that under the Kennedy-Kassebaum bill there is a pilot under that and also that the Congressional Budget Office, in their report last year, in their report they said that the MSAs cost money, not save it.

So if you are planning on the MSAs for the Federal community, particularly for retirees, I would ask that we be very careful on that, because there is no history at this particular time on retirees going into such a plan, and I would hope that this would be seriously considered, that you think that there is a lot of savings, that we be very careful that perhaps there is not.

Mr. MICA. Thank you, Mr. Jackson. Mr. Cunningham.

Mr. CUNNINGHAM. Oh, I have been champing at the bit over here. I will tell you what. I have not been to town long. I was elected at the last convention, and I took office November 1st, and the reason I ran was because I am a Federal employee, proud of it. I will have my 25th year coming up in June, and I am the son of a retired Federal employee, and I am very proud of that.

And I was sitting home, and I am seeing all these cuts that are coming by, and not only as a Federal employee, but as a citizen of this great country, I know what we do for America every single day, and I am thinking, wait a minute. If we get rid of the best workers we have, we are going to be in really bad shape as a country.

So I say, well, what can we do? Let me look at this problem. I am a very simple man from east Texas. Let me start off there. So I look at things very simply. Now, if you want to know what it costs to employ Federal employees, that information is handy. It is very available.

Now, when I came to town here, I asked my staff to find out what we pay for contractors, what does it cost us. Now, I have got some really bright people, let me tell you, but we had a real hard time getting that information, but we did get a New York Times article that I wanted to share with you today.

And in this article, and it is March 18, 1996, Monday late edition, and in here they have a John Koskinen quote, and he says that the Government spent $103 billion in salary for Federal employees in 1995. And then over here he made a quote. It says: "Overall, Mr. Koskinen acknowledged the government does not know how many private workers it is paying for. 'You can use any number you want,'" he said, "but whatever it is, it is a lot of people."

Now, I just want to know what we are paying these folks. And do they take an oath? No, sir, they do not. They come and they go and there has been plenty of evidence provided to this Congress or to past Congresses that says that Government employees are a bargain at any price.

So if you want to save money, $6.6 billion, that is a drop in the bucket. We can find that for you, sir. I can assure you, give us an opportunity, and there is one thing that my colleague said over here. With these partnerships that we have set up now, some of them are working very well.

There are other cost savings. So if we are talking about $6.6 billion, that is a piece of cake. We can show you how to find that money.

[The information referred to follows:]

7TH STORY of Level 1 printed in FULL format.

The New York Times

March 18, 1996, Monday, Late Edition - Final

SECTION: Section A; Page 1; Column 6; National Desk

LENGTH: 1165 words

HEADLINE: As Payroll Shrinks, Government's Costs For Contracts Rise

BYLINE: By JEFF GERTH

DATELINE: WASHINGTON, March 17

BODY:

Even as President Clinton and Congressional Republicans race to take credit for shrinking the Federal payroll, the Government's costs for outside, or contract, employees keep rising.

No one argues that the two sets of data are directly correlated, but critics of Federal contracting policies contend that pronouncements crediting the shrinking of the Federal work force with bringing savings to taxpayers are overstated. And they say there are other drawbacks that cannot be measured monetarily.

The Government spent $103 billion in salary and expenses for its employees in 1995, said John A. Koskinen, the deputy director for management at the Office of Management and Budget. That is a very slight decline, about $1 billion, from its payroll costs in 1993 and 1994.

But the dollar value of Federal service contracts with private companies has risen more than 3.5 percent a year since 1993, to $114 billion last year.

Senator David Pryor, an Arkansas Democrat who has long been a critic of Federal contracting policies, said, "The whole philosophy of beating our chest and saying how fewer employees we have but never in the same breath saying look at how much larger we are getting in the use of private contractors is not an honest portrayal of what's going on with tax dollars."

President Clinton refers frequently to the elimination of more than 200,000 Federal positions -- about 10 percent of the Federal work force -- during his tenure, an indication that "the era of big government is over," as he said in his State of the Union Message. Most of that decrease has been in civilian jobs at the Pentagon.

But while those jobs have vanished on paper, many of the responsibilities are being fulfilled by outside contractors. Supporters cite cost effectiveness as one reason to use outside workers, but demonstrating widespread savings has proved difficult.

For example, officials of the General Accounting Office, the accounting arm of Congress, testified last year that they could not measure whether having the work of 20,000 to 30,000 employees of the General Services Administration done instead by contractors' employees was saving the Government any money.

The New York Times, March 18, 1996

The Administration nevertheless is going forward with plans to allow laid-off workers at another department, the Pentagon, to do the same work for contractors, after an independent commission recommended closing military depots in California and Texas last year.

Over all, Mr. Koskinen acknowledged, the Government does not know how many private workers it is paying for. "You can use any number you want," he said, "but whatever it is it is a lot of people."

He said, however, that he did not think the replacement of Federal workers with private workers was widespread.

For critics, some of the new Federal contracting bears too much resemblance to earlier practices that led to trouble. They are concerned about the use of agreements, known as cost-plus contracts, that pay for the costs incurred by contractors, with no limits.

The administrator of the White House office that formulates contracting policy, Steven J. Kelman, said the Administration had overhauled its procurement rules in the last 17 months, saving some money and getting better results by expanding the use of contracts that emphasize performance standards. The Administration is also moving away from cost-plus contracts, toward ones in which the costs are fixed.

"Going to the outside for service functions is just smart government if it's done smartly," Mr. Kelman said, adding that he wished the Administration had made more use of fixed-price contracts.

Indeed, a Government analysis of the last five fiscal years shows that the percentage of all service contracts that are cost-plus has increased slightly.

Senator Pryor said the urge to privatize stemmed in part from the "anti-government mood in the country that's been building over the years." Advocates of increased privatization also cite ineffectiveness by the Government.

"The Government gets an F for its efforts on debt collection," said Representative Steve Horn, the California Republican who is chairman of the Government Reform and Oversight subcommittee on management. "A few in the Government want to have the Government do all the collecting. I'll give them first crack, but then I want to turn it over to professionals."

Mr. Horn is sponsoring a bill that would expand the use of private contractors to collect Government debts.

Supporters and opponents of outside contracting both use the example of Newark Air Force Base in Ohio to bolster their arguments. Last December, the Air Force awarded $283 million in cost-plus contracts to two companies to do the maintenance work at the base. "The privatization of Newark indicates that privatization can work," the Air Force said in announcing the award.

"It allows workers reduced from Government payrolls to be employed by contractors," said Col. Mike Collings, the chief of the Air Force privatization division.

But it is uncertain that the program will save money. Colonel Collings said the "initial estimate of cost savings is $5 million per year, but we can't give a final estimate" because of the uncertainty surrounding the cost-plus contract.

These cost estimates and the Pentagon's failure to ask for more competitive bidding before awarding the Newark contract were questioned in a report released this month by the General Accounting Office.

"Under a cost-plus contract, a lot of costs may be passed on to the contractor, who won't object and will then pass it along to the Government as part of the cost of the contract," said James F. Wiggins, the associate director for national security at the General Accounting Office. He said his office would soon issue a more complete report "raising a lot of cost-risk issues" about the Administration's privatization efforts in the military.

Already, the accounting office has found that the Pentagon's general oversight of contractors' costs is so deficient that it constitutes a "high risk."

Critics say the Administration's plan to give contracts to private companies to maintain aircraft and tanks for bases that will be closed is an example of placing sensitive duties in the hands of outsiders, and they suggest that may be too risky.

"The Government needs to maintain control over that kind of function," said Representative Saxby Chambliss, a Republican who generally supports privatization in the name of efficiency. Mr. Chambliss's Georgia district is home to an Air Force base that could pick up surplus work from closed bases.

Eliminating Federal jobs and giving them to private contractors is a trend not only at rapidly shrinking agencies, like the Pentagon, but at departments that are still growing, like the Justice Department. There, the Administration plans to cede broad new law-enforcement responsibilities to private contractors, who will run most new Federal prisons but will not be subject to Federal rules.

GRAPHIC: Graphs: "KEEPING TRACK: Fewer Government Jobs" shows the dollar value of Federal service contracts with private companies and the Government's spending on salary and expenses for civiian emplyees. (Sourc: house Committe on Government Reform and Oversight) (pg. A13)

LANGUAGE: ENGLISH

LOAD-DATE: March 18, 1996

Mr. MICA. Thank you, Mr. Cunningham, and I appreciate your suggestion. That is a new suggestion. I know we have talked about contract employees before, but we would welcome—if you could find $6.6 billion, we will not only welcome it; we will hold a dinner in your honor here.

Mr. TOBIAS. Mr. Chairman.

Mr. MICA. I am not joking, but I sincerely welcome any suggestions and concrete proposals that you have. Yes, very briefly, Mr. Tobias. I want to give everybody a chance.

Mr. TOBIAS. Mr. Chairman, the President is proposing $899 million savings in the first year, $6.2 billion over 5 years. The people I represent in the Internal Revenue Service in 1995 increased the amount of revenue that they collected by $833 million. Now, Congress then decided in 1996 to eliminate all of those folks who had made that increased contribution.

I believe that we have to look at Federal employee pay and contributions in that context, and if this committee wants to just look at its $6.2 billion and whacking at Federal employees, that is one thing, but a solution to this problem would be to tell the people that I represent that we want $833 million more, and I can tell you, we can get that and a heck of a lot more and solve this problem and allow Federal employees to be paid what they ought to be paid.

Mr. MICA. Well, again, I thank you. What I would like to do is give Mr. Holden an opportunity to question, and maybe you can relay some of your additional comments, but still I am very sincere about hearing your recommendations. Mr. Holden, you are recognized.

Mr. HOLDEN. Thank you, Mr. Chairman. I want to thank the panel for their testimony today.

A couple of you have testified that the Federal employees and retirees have contributed more than $220 billion over the last 20 years toward deficit reduction through cuts in their pay and benefits. I believe, Mr. Tobias, you gave a few examples. I am just wondering if you could give me a detailed explanation of the actions taken by the Congress or past or present administrations to produce that result.

Mr. TOBIAS. The $220 billion is based on a GAO report updated by the Federal Employee Task Force. It is a very, very detailed amount, and I will be happy to submit it to you and submit it for the record.

Mr. HOLDEN. I would appreciate that. What evidence is there that the lack of pay comparability has hampered our efforts to recruit and maintain a competent workforce?

Mr. TOBIAS. The evidence is quite ample. I think that Mr. Styles mentioned the fact that do you recommend Federal employment to your children, and the answer is, no, you do not. And when you ask people, when you look at the people who go to colleges and you ask college students, “Are you going to apply to the Federal Government for a job?” the answer is no. When you look at the age of the workforce, you see it aging every year. New people are not attracted to the Federal workforce.

So I think that all the objective evidence shows that the Federal Government is not competitive.

Mr. HOLDEN. Anyone else?

Mr. STYLES. Yes, sir. In fact, he gave me another thought as I was coming across this one here. One is the hollow workforce that we are creating, quite frankly. You are losing people at the top. You are down sizing in such a dramatic fashion that you are forcing people out at the bottom. So the average age of the Federal workforce is rising over time. And not to belabor that, but what this does to our workforce is as that again workforce leaves, you have nobody with the experience and knowledge to take their place. OK? You have not had that ability to train people over time to take the higher positions.

A second part that you talked about, you mentioned schools. One of the things that we have done in our organization is we have tried to get out and get involved in the communities so that we can show the communities, especially the colleges, that we are a viable workforce and we are a career to be chosen by students in colleges.

The Federal Managers Association itself has given to scholarship programs. We have been part of the building of universities themselves and give plaques, even a plaque to say "The Federal Managers Association" to represent all of us in the Federal Government. That is how bad things are. People do not look to the Federal Government as an employer; only as a last resort of employment.

Mr. HOLDEN. Mr. Cunningham, anything to add?

Mr. CUNNINGHAM. Well, the only thing that comes to my mind, Congressman, is I was president of a St. Louis local, and we experienced a BRAC action there, and as president, the local news media there in St. Louis came to the house, and they were interviewing my family and I and trying to get, you know, our reaction to the bad news, and they started with me, you know, and we would go through all this.

And they get to my 22-year-old son, and they say, well, your dad says he loves his job, although he is going through all these problems, and his father, or your grandfather, is a retired Federal employee. Do you plan on following in his footsteps? And he said, not unless my dad can clean it up.

And that is basically the way he and his sister, my daughter, feel. There is an honorable thing about coming in and serving your country as a civilian, but the way that we treat our own workers today, it makes people take a second look at it, absolutely.

Mr. HOLDEN. Mr. Cunningham, you made a reference to "silent RIFs" that would likely result from increasing agency retirement contributions. RIFs are already occurring at agencies as a consequence of planned down sizing. What, if any, special problems would be caused by these silent RIFs?

Mr. STYLES. I can jump at that, if you would like.

Mr. CUNNINGHAM. Please do.

Mr. STYLES. OK. Silent RIF. I have to say this. I am very proud of the term because I think I invented it. I was sitting on the base one day with my colonel, and the colonel was starting to look at his FTEs and the dollars and all this kind of stuff, and how am I going to pay these people. They have given me the slots, but they have not given me the money to pay the people.

Now, if the agency is not funded fully for the mission requirements, there is no way they can pay their people, so when you talk about an additional funding from the agencies, if it is not allocated to them in the first place, they have to look elsewhere for the savings; and what they do is force people out, not with a stated RIF, but if you want to call it "management to payroll," we can call it that, if you will.

But that is what the silent RIF is about, not being funded at the level your mission requires you being funded.

Mr. CUNNINGHAM. Now, one of the biggest outgrowths you are going to get from this is whenever they go in, they cross-level an agency, you leave a lot of holes in your department-wide, from department to department. It leaves an agency handicapped in that sense for your skills mix.

Mr. HOLDEN. Mr. Jackson, you made reference to how much money the color of the label costs the average retiree. Did you say $700—what did you say, sir, $700——

Mr. JACKSON. Over a 5-year period.

Mr. HOLDEN. $700-and-some over a 5-year period. How much money will the increased employee contribution take out of the pocket of the average Federal employee?

Mr. TOBIAS. Well, the average Federal employee is about $42,000, so 1.5 percent times that times five. I am not quick enough to answer your question.

Mr. STYLES. I would believe, though, that we could find out that information for you and provide it to you, sir.

Mr. HOLDEN. OK. Thank you, Mr. Chairman.

Mr. STYLES. If I might, I wanted to answer one of the questions earlier, and it was, how are we going to find some savings? And the $108 billion in contracting out came up—Mr. Cunningham brought it up—and it is also in my testimony that I proposed, not what I gave from the floor here. But H.R. 1409, which was introduced by Delegate Eleanor Holmes-Norton in the 104th Congress, was to reduce the $108 billion the Federal Government spends annually on contracting out for services in order to fully fund civil service pay adjustments.

Now, I would point to this $108 billion in the way that Mr. Cunningham did. We do not know how much money we spend on contracting out. We do not know how many people work for the Federal Government. And I say this to you, it might sound strange to say. We could say that there are 2 million people working for the Federal Government, but, in fact, everyone who is a contractor works for the Federal Government, and they are paid by the Federal Government and out of the taxpayer's pocket.

There are anywhere from 8 million on up Federal employees, if you will. The people that work for Hughes Aircraft, General Dynamics, all of these corporations that work for the Federal Government through contracts are paid by the American people; and every time we talk about moving things from the public sector to the private sector, we give the impression to the American people that we are shrinking the size of Government when, in fact, we are moving it across to the other sector being paid out of the same pot.

The Federal Government has not shrunk. We may have lost more Federal employees on the one side, but we have gained them on the private sector side. And one of the things that really bothers us, the folks sitting at this table, is the fact that invariably we have seen people underbid to get our jobs and then escalate the costs, and there is nobody tracking those costs. And we have come many times before Congress and asked to put some mechanism in place to track the costs of contracting out and to see where escalation is.

There is a good place to save some money, I do believe.

Mr. MICA. Well, thank you, Mr. Holden. All right. Gentlemen of the panel and the organizations you represent and others that are out there, I am still going to challenge you and ask you to come forward with some ways in which we can provide better benefits to our Federal employees, health care benefits, retirement benefits, and to come up with some other ideas of savings. Now, Mr. Cunningham has recommended one in looking at contracts, but I think we have got to look at some of these fundamental problems.

Two years ago, I proposed an alternative relating to capping the amount of Federal payment at the 1995 level adjusted for inflation in FEHBP. And I asked Jim King, the director, to calculate what that would have done, my original proposal. And I will give each of you a letter that I received January 10, 1997 that said, we would have saved $820 million in health-premium benefits during the past 2 years, and this would have put $200 back into the pockets of FEHBP enrollees. So this is the kind of suggestion that I am looking for that result in some benefit to our employees and some benefit to the employer, which is the Federal Government.

The second area that we are facing a crisis in, and I keep bringing this up before us, and this is not just a hearing on this issue, but it is one we have to face. And I will provide each of you with this cash-flow of CSRDF, which was presented to me, this latest cash-flow. And it shows, in 1977—and I should correct my opening statement. The $24 billion net outlay from the Treasury was in 1992. In 1997, that grossed $37 billion. That is net outlay. The total outlay is $41 billion in 1997, and the amount of employee contribution is $4.8 billion. The agency contribution is $11 billion.

Now, to tell you how bad this problem gets and that we need to be anticipating it, this year it is only $30 billion anticipated in net outlays. And I know we can look at CSRS, they can come back and tell me that there is no problem with funding as long as the Federal Government continues pouring money out of the general treasury into it. In 20 years, this amount grows to the net outlay of $107 billion. That is equal to the entire deficit that we ran up last year.

And the figures get even worse beyond that. We have Federal retirees living longer. We have fewer contributing. You testified we have a smaller force, so this is going to create a problem. There are no funds in the trust fund that can be invested in what I consider alternative methods, which would provide, or could provide, a better retirement benefit. We do not have enough options, in my opinion, at this point for our Federal retirees.

So we have a couple of areas we could look at. I solicit, within the next few weeks, your hard, concrete proposals. I cannot go to Mr. Kasich and just say no. We have done that. We tried that before, and we have punted from the subcommittee, and the results were not what I like. So, I am asking you all to work with us and the members of the subcommittee to come up with any positive improvements that we can make. And I know they are there, and I know you know some of them. Mr. Tobias.

Mr. TOBIAS. I was just going to say, Mr. Chairman, I am very concerned about this idea of saving $800 million over the last 2 years because over the last 9 years, if we had the proposal which would limit increases to inflation, it would have cost 37 percent, or $80 a month, over the last 9 years. I think that we may have had over the last 2 years significant savings, but people who come to the Federal Government as a career are not looking at 2 years; they are looking at a life time, and so over the last 9 years it would have been significantly more costly to have that kind of a system.

And, second, I would say that when we calculate the numbers that you cite, $30 billion and $107 billion, and so forth, I think it somewhat masks the fact that we have two systems in the Federal Government: the CSRS system, where the workforce is aging and the system is going out of business; and the FERS system, which is a private-sector plan which is virtually self-funding.

So the idea that the ever-increasing numbers of FERS participants would be required through increased contributions to be funding the CSRS system I think is contrary to what Congress promised in 1986 and contrary to what makes good sense for the FERS employees. So I am certainly sympathetic to what you say about trying to find savings, but I would hope that the statements about bipartisanship would, in fact, yield a bipartisan just say no, because last year there was not any agreement on the committee, and the full Budget Committee acted.

If there could be agreement on this committee, I think that it would be seen in a quite different light than what occurred last year.

Mr. MICA. Thank you. Mr. Styles, did you want to comment?

Mr. STYLES. The comment I would like, perhaps if we are getting ready to close, is this. I thank you for your challenge, and I thank you and the committee for your real dedication to solving this problem. I do believe that we have problems that exist, and we are not going to get around it. We have to work together to solve them, and our association, and I am sure the folks at this table, will work in partnership with you to do exactly that. Thank you.

Mr. MICA. Mr. Jackson.

Mr. JACKSON. Mr. Chairman, we want to work with you in the committee, but I can tell you that it is very, very difficult to make a recommendation to a committee when we, in effect, are the only single group, that we are being asked to contribute $1.5 billion to this, and we are the only group of senior citizens that are singled out. And yet this committee, or you, would suggest that we come forward in helping you in solving this problem.

If we are going to contribute $1.5 billion, I think we have helped solve the problem. I do not agree with the problem, and I certainly take exception to it, and I can tell you that probably in the 3 years that I have been sitting at my desk, I have received, since this proposal was submitted by the President, more vicious language crossing my desk over this proposal than anything that has happened in my administration.

The members, the people that devoted their lives to the Federal Government, they not only dislike it, that it is discrimination, but they are angry, and I mean they are really angry.

So we certainly will help you in any way that we can, but I think that every time, as I said before, every time in the past 10 years that we have come before the committee and made recommendations or attempted to work, we still ended up with the cuts, and that is hard to take. If you make a recommendation in sincerity, then somewhere along the line we have to be considered also.

Mr. MICA. Thank you, Mr. Jackson. As I said in my opening statement, I think two of these proposals are blatantly unfair. One is singling out Federal retirees. The other that I cannot find a justification for is imposing this additional contribution on postal folks; and we are going to hear from them in a few minutes here. But, again, our charge is to look at what the President and this administration has proposed today, and then if we can work with the Budget Committee and try to achieve something that protects our Federal employees. And if there is not a justification for them to contribute additionally to retirement, or that cannot be fenced off, as I have advocated, then we will just say no.

But if I can come forward with any positive suggestions that you have it will help us with both the Budget Committee and the administration.

Finally, Mr. Cunningham.

Mr. CUNNINGHAM. Also, NFFE looks forward to offering some proposals for you to consider. We will get to work on that just as soon as we leave here.

Mr. MICA. Well, I was going to dismiss you all. I understand Mr. Waxman wanted to ask a question, and he is on his way over here, so I want to extend that courtesy to him. In the meantime, I do want to thank you again.

The way we ran the subcommittee the past 2 years is to try to seek input from all organizations and individuals. Today, I will also leave the record open for at least 2 weeks, so that if you have additional comments, suggestions, recommendations, whether you are on the panel or outside the panel, we will welcome them and make them a part of the record. I want to now give an opportunity to the ranking member of the full committee to offer some questions. We have Mr. Tobias, Mr. Styles, Mr. Jackson, Mr. Cunningham representing these organizations. Mr. Waxman, you are recognized, sir.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I want to commend you for holding this hearing. It is important that we look at the various budget alternatives. We are all trying to figure out how to balance the budget, but it is my belief that Federal employees have done enough in terms of balancing this budget.

I think we ought to look at eliminating a lot of the corporate welfare that still exists, we should eliminate waste, fraud, and abuse where they may exist, and take on some of the bigger issues where our budget is out of control. I do not think it is fair to go to the public employees, who have already sacrificed, and ask them to sacrifice more. I certainly do not think it is fair to ask them to be treated differently in terms of their COLA increases than those who are on Social Security or those who are on any other program.

I am sorry that I was not here for the testimony that you have given orally and will not be able to stay here, but I have had a chance to review it. I think the testimony you have given us in this hearing is a point of view that I strongly want to identify myself with.

Thank you very much, Mr. Chairman.

Mr. MICA. Thank you. Thank you for joining us, Mr. Waxman. I look forward to working with you in a bipartisan fashion. Some of the individuals on the panel have expressed similar comments today, and they have all indicated a willingness to work together in the months ahead, particularly as we tackle some of these tough budget questions. Do you have something else?

Mr. WAXMAN. I did want to add the fact that our committee has a number of subcommittees meeting at the very same time. I am right now participating in a hearing on the Superfund issue, so I am going to have to excuse myself. I did want to come in here and make this comment. And to you, Mr. Chairman, I want to pledge to work with you in a bipartisan way, so that we can deal with the matters before us.

Mr. MICA. Thank you, and I look forward to joining you on the Superfund panel shortly.

Well, I do want to thank you for participating. This is an open panel, and if you have got positive suggestions, we will work with you in the best interests of our Federal employees and our Federal retirees. Thank you, and you are excused.

I would like to call our next panel. We have two witnesses, Hugh Bates, who is president of the National Association of Postmasters of the United States; and Mr. William Brennan, president of the National League of Postmasters. We have asked them to join us today and talk about the impact of the President's budget on their employees. And, gentlemen, as you know, this is an investigation. It is an oversight subcommittee. It is our custom to swear in our witnesses, so if you would stand and raise your right hand.

[Witnesses sworn.]

Mr. MICA. And I think the witnesses have also complied with the House Rule XI and Committee Rule 12, and I would like to welcome you today. Also, I think you heard the instructions that we will submit lengthy testimony for the record and hope that you can summarize your comments so we will have an opportunity for questions. We have had people coming and going, as you have heard today. There are some simultaneously conducted hearings this morning.

Welcome, Mr. Bates. You are recognized.

STATEMENTS OF HUGH BATES, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS; AND WILLIAM BRENNAN, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. BATES. Thank you, Mr. Chairman. My name is Hugh Bates. I am permanently assigned as Postmaster at Clanton, AL. That is a community of about 8,000 people in central Alabama.

At the present time, I am on leave of absence from the Postal Service, serving here in the Washington, DC, area as national president of the National Association of Postmasters. I represent approximately 24,000 active Postmasters and 20,000 retired Postmasters, which makes up our Association.

Before I entered into the Postal Service some 32 years ago, I also gave 4 years of my life that I was proud to do with the United States Marines and fought with those in Korea, so I have quite a long record in Government service, and I am proud of every day of it. I thought I could get by without my glasses. I am not going to make it.

Mr. MICA. Go right ahead.

Mr. BATES. Mr. Chairman, the National Association of Postmasters, first of all, we want to commend President Clinton for submitting to Congress the 1998 budget that boldly and responsibly addresses the needs of the American people while projecting a balanced Federal budget over the next 5 years.

Let me assure you, the 44,000 people that I represent, we commend it, we commend this Congress, and we hope that you are able to balance the budget because we believe in it. We do not think that our children and our grandchildren should be burdened with debts that we incur and the interest that we have to pay, that they should have to pay those. So we hope that you are able and hope that we can help you some way to do it.

We think in the Postal Service we have done our part. In 1995, we operated very efficiently and came out with a project of $1.8 billion-plus in the black. Last year, in 1996, we operated and come out in the black with $1.5 billion. I do not know of any other Federal agency that can say that. Maybe there is, but I have not heard of it. But I think we are on the right track to doing what we need to be doing. Not that I agree with everything that we do. However, we are on the right track.

However, our organization, NAPUS, which is an acronym for the National Association of Postmasters, we cannot support a plan that will delay until April 1 of each year, from 1988 through 2002, the COLA payments to Federal and postal retirees and no delayed payment to individuals who receive Social Security with their military retirement benefits.

NAPUS also believes it is wrong for the Federal Government to single out one group of Americans to contribute more in budget savings than others.

The argument advanced by some that Federal and postal retirees can more easily afford the COLA delay than workers on Social Security is unfounded. While it is true that earned annuities of retired Federal and postal employees are generally larger than Social Security or military retirement benefits, it must be remembered that Federal employees currently pay 7 percent of every dollar they earn toward their Civil Service Retirement or their FERS retirement, while Social Security recipients pay for the calendar year, according to my estimation, on their first $65,400.

The Fund for Assuring an Independent Retirement, with the acronym of "FAIR," an organization of which NAPUS is a member, sent a letter to President Clinton on January 15, 1997, urging President Clinton not to include any further reductions in the earned compensation of our civil servants, our postal workers, and retirees in his 1988 budget recommendations. According to FAIR, during the previous 20 years, employee and retirement compensation had been reduced by $200 billion for deficit reduction.

The proposed delay in COLA payments would cost Federal and postal retirees an estimated $14.2 billion over 5 years. If Congress accepts the report of a special commission that the Consumer Price Index overstates inflation by as much as 1.1 percent, Federal and postal retirees would have their COLA further reduced. How long can we expect the Federal Government to be balanced on the back of its dedicated and loyal workforce?

Mr. Chairman, NAPUS respectfully urges the Congress to support the sense-of-Congress resolution sponsored by Representative Connie Morella of Maryland that says the effective date for retiree COLAs should remain January 1 of each year.

In addition, Mr. Chairman, NAPUS has received no Federal grants, and no contracts have been awarded to this organization in the past 2 years. I would also like to say that the Federal Government or the Postal Service receives no contributions from Congress other than that for blind people, schools, and libraries, revenue foregone. Other than that, we receive no contribution from Congress, and we are paying our own way at the present time.

Thank you for inviting NAPUS to share its views on how the President's fiscal-year budget would impact Federal and postal employees and retirees. We urge you to remember our concern that the administration's budget plan moves through Congress.

This concludes my remarks, but I will be glad to answer any questions that I might. Thank you.

[The prepared statement of Mr. Bates follows:]

Mr. Chairman and Members of the Subcommittee, I am Hugh Bates, President of the National Association of Postmasters of the United States (NAPUS). I represent more than 43,000 active and retired postmasters throughout the country. Thank you for allowing me to submit this testimony concerning the annual cost-of-living adjustments to retirees.

Mr. Chairman, the National Association of Postmasters commends President Clinton for submitting to Congress a 1998 budget that boldly and responsibly addresses the needs of the American people, while projecting a balanced federal budget over five years.

NAPUS cannot, however, support a plan that would delay until April 1 of each year from 1998 through 2002 the COLA payments to federal and postal retirees, and no delay of payments to individuals who receive Social Security and military retirement benefits. NAPUS believes it is wrong for the federal government to single out one group of Americans to contribute more in budget savings than others.

The argument advanced by some that federal and postal retirees can more easily afford the COLA delay than workers on Social Security is unfounded. While it is true that the earned annuities of retired federal and postal employees are generally larger than Social Security or military retirement benefits, it must be remembered that federal employees currently pay 7 percent of every dollar they earn toward their CSRS or FERS retirements, while Social Security recipients pay, for calendar year 1997, on the first $65,400 in income.

The Fund for Assuring an Independent Retirement (FAIR), an organization of which NAPUS is a member, sent a letter to President Clinton on January 15, 1997, urging President Clinton "not to include any further reductions in the earned compensation of our civil servants, postal workers and retirees in your FY-98 budget recommendations." During the previous 20 years, FAIR stated, employee and retiree compensation has been reduced by $200 billion for deficit reduction.

The proposed delay in COLA payments would cost federal and postal retirees an estimated $14.2 billion over five years. If Congress accepts the report of a special commission that the Consumer Price Index (CPI) overstates inflation by as much as 1.1 percent, federal and postal retirees will have their COLA further reduced. How long can we expect the federal government to be balanced on the backs of its dedicated and loyal workforce?

Mr. Chairman, NAPUS respectfully urges the Congress to support the sense-of-Congress resolution sponsored by Rep. Connie Morella (R-MD) that says the effective date for retiree COLAs should remain January 1 of each year.

For the record, NAPUS ~~supports~~ opposes the increase of 0.5 percent, phased in over the next three years, in increased contributions by individuals toward their CSRS or FERS retirements. It has been estimated this increased contribution rate will yield approximately $1.8 billion.

In addition, Mr. Chairman, NAPUS has received no federal grants and no contracts have been awarded to this organization in the past two years.

Thank your for inviting NAPUS to share its views on how the President's fiscal year 1998 budget would impact federal and postal employees and retirees. We urge you to remember our concerns as the administrations' budget plan moves through Congress.

This Concludes my remarks and I will be glad to answer any questions you may have.

HUGH BATES

NATIONAL PRESIDENT

NATIONAL ASSOCIATION OF POSTMASTERS

OF THE UNITED STATES

Hugh Bates, Postmaster of Clanton, Alabama, since 1965, was elected president of the National Association of Postmasters of the United States on August 22, 1995, during the organization's annual national convention in Chicago. He is serving a two year term of office.

Hugh previously served as NAPUS president in 1986 and 1987, during which time he ably championed many causes on behalf of the nation's postmasters. He is only the second Postmaster in the 98 year history of the organization to serve a second, non-consecutive term as president.

During his previous administration, NAPUS prevailed in securing Merit System Protection Board rights for Postmasters, reversal of the residency requirement, and retention of the title of Postmaster, among many other accomplishments.

Hugh is a decorated Marine Corps veteran, who was awarded the Bronze Star for valor in combat and three Purple Hearts for wounds received in action for his country. He is member of numerous civic and fraternal groups, serves on the Board of Directors of the Peoples Bank of Clanton, and is a director and former chief financial officer of the NAPUS Federal Credit Union.

Mr. Bates is married to the former Janie Wade, they have three children and six grandchildren.

Mr. MICA. Thank you, Mr. Bates. I would like to welcome William Brennan. Mr. Brennan, you are recognized.

Mr. BRENNAN. Thank you, Mr. Chairman. I am Bill Brennan, president of the National League of Postmasters. On behalf of America's active and retired Postmasters and other postal managers and Federal employees whose interests are represented by the National League of Postmasters, I thank you for inviting me here to comment on that portion of the President's budget proposal which includes the Civil Service Retirement benefits.

I believe these proposals are fairly identical to those proposed last year by the Senate and the administration. Our Postmasters serve in every corner of this country on every day of the week. While their jobs can be very demanding, they are proud of the work they do and of their important role in providing public service. I believe that it is time for elected officials on both ends of Pennsylvania Avenue to acknowledge the contribution of these civil servants and to stop using them as a possible source of funds for every new budget-balancing effort.

While most of the compensation package for Postmasters is determined through consultation with the Postal Service rather than being set by Congress, as is the case for most other agencies, our retirement and health benefits remain part of the same program serving all Federal civil servants.

It has become an annual exercise here in Washington to suggest using Federal retirement programs as a way to help balance the budget. Postal employees and other civil servants may tire of this exercise, by they have come to expect it.

So as we begin another budget-making session, I want to be very clear that the League continues to oppose the singling out of civil servants to carry the load. We continue to oppose attempts to modify the Civil Service Retirement System and FERS, which would result in reduced benefits. We believe that the current Federal retirement plans are as much a part of the employee's compensation package as the agreed-upon wages, and we concur that the Supreme Court decision that defined Federal retirement as a form of deferred compensation for service was, in fact, appropriate.

We go on record opposing the various proposals to reduce the retirement benefit in the name of deficit reductions or for other reasons. Those proposals that would mean going from the "high three" to the "high five," raising the retirement age, increasing the employee contribution, and, of course, reducing or delaying retirees' COLA.

It is my understanding, and it has been said here many times this morning, that there are no similar proposals to delay COLAs for Social Security recipients or military retirees. Delayed COLAs are proposed for Federal postal civilian retirees only, and I ask why.

In the past, various OBRAs required COLA delays in the name of reducing the deficit, and yet, after all of this sacrifice on the part of these people, the deficit still remains, and our elected officials want to again return to this group of retirees for more sacrifices.

I would urge every member of the Government Reform and Oversight Committee to co-sponsor House Concurrent Resolution 13 that Congresswoman Morella has introduced. I think this is very appropriate, and I do commend her for introducing this.

Now, asking for an increased contribution is much the same as creating a special tax on civil servants, but to seek an increased contribution from postal employees would be an even greater tax because it would place an extra burden on employees of an agency which has already made a contribution per person that is larger than any other Government agency.

It is hard to use the usual excuse of the unfunded liability when asking for more money from the Postal Service. Asking more from us is selective taxation, and I guess in this case we would prefer not to be among the selected.

Postal retirements do not contribute to the national debt. The Postal Service is required by law to make additional contributions which are not required of other agencies. Since 1974, the Postal Service has been required to pay over a 30-year period amounts to amortize any increase in the deferred liability resulting from an increase in pay on which retirement benefits and contributions are based.

Also, the OBRA of 1990 requires Postal Service funding of the cost-of-living adjustment paid to all former employees of the Postal Service who retired since July 1, 1971, and their survivors. Because of these contributions, there are no unfunded liabilities for retirees of the Postal Service, and, therefore, no reason for the Postal Service employees to be included in this proposal.

The League was disappointed to learn the executive branch had chosen to include proposals to delay COLAs and increase employee contributions in its recently released budget. We had requested that that section affecting Federal benefits be removed. Unfortunately, we were not heard. However, the League is willing to continue working with the administration to correct this inequity.

Now, we are appealing to both political parties, to both Houses in the legislative branch to resist the temptation to place a special tax on Federal civil servants for the purpose of balancing the Federal budget. If sacrifices are required, all Americans should be asked to give in an equitable manner.

You also requested a comment about the change in the health premiums, effective fiscal year 1999. I have asked our administrator of the health plan which we oversee, the Postmasters Benefit Plan, to give me some data on what he saw the impact to be. Mr. Chairman, he said that had that been in effect in 1996, he would expect that there would have been a 10 percent increase in the employees' contribution toward their health insurance. Now, if that number remains consistent, we would anticipate that that also would be the status we would find when we reach 1999.

We view this as improper and unfair and would ask that some action be taken to negate the impact of that change that is coming up.

Mr. Chairman, I thank you for this opportunity to present our position on the important issues. As always, I look forward to working with you and your staff, and your committee, to find solutions to these problems. With that, I would entertain any questions that you may have.

[The prepared statement of Mr. Brennan follows:]

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES
1023 North Royal Street, Alexandria, VA 22314-1569 • Telephone—(703) 548-5922 • FAX—(703) 836-8937

Testimony of

William P. Brennan,
President
National League of Postmasters

before the

House Committee on Government Reform and Oversight
Civil Service Subcommittee

February 13, 1997

Chairman Mica and members of the Civil Service Subcommittee, I am Bill Brennan, president of the National League of Postmasters. On behalf of America's 28,000 active Postmasters and OICs, all retired Postmasters, and all Postal managers, whose interests are represented by the League, I wish to thank you for inviting me here today to comment on budget proposals, which involve civil service retirement benefits. Not coincidentally, I suppose, the most recent proposal is identical to those proposed by the Senate and the Administration during the last Congress

The League represents all of America's Postmasters, active and retired. Postmasters serve in every corner of this country every day. Our job may be demanding, but we are proud of the work we do and of our important role of service. We believe that it is time for all elected officials on both ends of Pennsylvania Avenue to acknowledge the contributions of civil servants and to stop using us as a source of funds available for every budget effort.

While most of the compensation for Postmasters is determined through consultation with the US Postal Service, rather than being set by Congress or the White House, our retirement and health benefits remain part of the same programs serving all federal civil servants.

Budget Continues to Hit Retirement

It has become an annual exercise here in Washington, to suggest using the federal retirement programs as a way to help balance the budget. Postal employees and other civil servants may tire of this exercise, but have come to expect this assault, not only on their promised and earned benefits, but on their professionalism and worth.

So as we begin another budget—making season, let me be very clear about this: The League opposes singling out civil servants to carry the load.

We continue to oppose attempts to modify CSRS and FERS which would result in reduced benefits. The federal retirement plans are as much a part of the employee's compensation package as the agreed upon wage is. In fact, the Supreme Court has defined federal retirement as a form of "deferred compensation for service" (Davis v. Michigan, Department of Treasury, US Supreme Court, No. 87-1020, March 28, 1989). The postal and federal civil servant earns retirement as part of an agreement for services and contributes to the annuity through payroll deductions.

Let me go on record opposing the various proposals to reduce the retirement benefit in the name of deficit reduction or for any reason.. Those proposals include changing from the "high-3" to a "high-5," raising the retirement age, increasing the employee contribution and reducing or delaying retiree COLAs.

What Good is COLA Delay?

The League not only opposes delaying the retiree COLA but questions what long-term benefit such a delay is anyway.

It is my understanding that there are no proposals to delay COLAs for Social Security recipients or military retirees. Delayed COLAs are proposed for federal/postal civilian retirees only. Why the double standard?

OBRAs (Omnibus Budget Reconciliation Acts) of 1982, 1984, 1985, and 1993 required COLA delays and reductions resulting in a collective loss to retirees of $40 billion, all in the name of reducing the deficit. Yet after all this sacrifice, the deficit still remains and our elected officials continue to turn to this group of retirees for more sacrifices.

The League urges every member of the Government Reform and Oversight Committee to cosponsor House Concurrent Resolution 13, a Sense of the Congress Resolution that states "...it is the Sense of Congress that federal civilian retiree COLAs should remain effective January 1, as current law prescribes, and not be delayed in any budget agreement." We also thank Representative Connie Morella for introducing this resolution.

Increased Employee Contribution

Asking for an increased contribution is no more than creating a special tax on Civil Servants.

However, seeking an increased contribution from Postal Employees is twice as ridiculous, because it would place an extra burden on employees of an organization which has already made a larger contribution per person than other government agencies.

In fact, it is hard to concoct a hidden agenda or to use the usual excuse of the unfunded liability when asking for more money from postal employees. This action belies logic. The only reason to take more from Postal Employees is that they are easy to reach. Asking more of us is selective taxation pure and simple. We would rather not be among the select in this case.

Postal retirements do not contribute to the National Debt. The Postal Service is required by law to make additional contributions which are not required of other agencies.. "Since 1974, the Postal Service has been required to pay over a 30-year period amounts to amortize any increase in the CSRS deferred liability resulting from an increase in pay on which retirement benefits and contributions are based. Also, the OBRA of 1990 requires Postal Service funding of the cost of living adjustments paid to all former employees of the Postal Service who retired since July 1, 1971, and their survivors." Because of this contribution, there is no unfunded liability for retirees of the US Postal Service.

Therefore, there is no reason Postal employees should be included in this unfair mix.

Give Equitable Treatment

It is time that all elected officials took pride in the service of civil servants and presented them in a positive light across the country. It is also time to quit viewing us as a compliant cash cow.

The League was disappointed to learn that the Executive Branch chose to tax federal civil servants through the use of delayed COLAs and increased contributions as proposed in its recently released Budget. We had requested that the section affecting federal benefits be removed. Unfortunately, we were not heard. The League is willing to continue working with the Administration to correct this inequity.

Now we appeal to both political parties and both Houses in the Legislative Branch to resist the temptation to place a special tax on federal civil servants for the purpose of balancing the federal budget. If sacrifices are required, all Americans should be asked to give in an equitable manner.

The maximum dollar amount of the government's portion of each enrollee's premium paid to FEHBP (Federal Employees Health Benefit Program) is equal to 60% of the average of the high option premiums for what are called the "Big Six" plans. Included in the "Big Six" is a proxy premium based on an update of Aetna's 1989 premium. When Aetna withdrew from FEHBP, this proxy or "phantom" plan was established in order to avoid transferring premium expense from the government to the enrollee. Based on 1996 figures, we estimate that if the "phantom" plan were not included in the calculations, the enrollee's portion of the total premium would increase significantly. Specifically, we estimate that the government will transfer over ten percent (10%) of its premium expense to the federal employee. Once again, the federal government is increasing the burden on civil servants. We view this as improper and unfair.

Thank you for this opportunity to present our position on these important issue. I look forward to working with you and your staff to correct these problems.

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LEAGUE FAX

TO: Ned Lynch, Civil Service subcommittee

FROM: National League of Postmasters
contact: Penny Dimler

SUBJECT: Tomorrow's hearing

DATE: February 12, 1997

Addendum to testimony by William P. Brennan, president of the National League of Postmasters, before the Government Reform and Oversight Committee subcommittee on Civil Service.

The National League of Postmasters receives no federal grants or contracts.

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Addendum

Please amend the statement accompanying the testimony of William P. Brennan, president of the National League of Postmasters, presented to the House Government Reform and Oversight Committee Subcommittee on Civil Service, February 13, 1997. The National League of Postmasters has one contract with the federal government in that it sponsors the Postmasters Benefit Plan under FEHBP.

Mr. MICA. Thank you, Mr. Brennan and Mr. Bates. I just told the staff we have had all male witnesses today. We ought to be able to find some female witnesses from these organizations, so I am going to make a specific request in the future, there has got to be some equity in this. But, Mr. Brennan and Mr. Bates, I agree with you that there is no real reason to require a postal community to contribute more to the retirement fund.

I have held up here for the former panel this chart that shows the cash-flow into the retirement fund, and it, in fact, shows that these OPM figures show that in fiscal year 1997 the postal community will contribute 54 percent of that cash-flow. By 2015, that will increase to 81 percent. More importantly, these contributions equal the full normal cost of retirement as computed by OPM actuaries. Together, the postal workers and the Postal Service are already paying, in my opinion, and according to these tables, their fair share.

[The information referred to follows:]

CSRDF - Cash Flows & Contributions (Dollars in Millions)

YEAR	SHORTFALL	ANNUITIES	CSRS ANNUITIES	FERS ANNUITIES	EMPLOYEE CONTRIBUTION	AGENCY CONTRIBUTION	30-YEAR PAYMENT	POSTAL 15-YR PAYMENT	CASH RECEIPTS	POSTAL EMPLOYE E CONTRIBU TIONS	POSTAL AGENCY CONTRIBU TIONS
1960	$135	$893	$893		$758	$758			$758		
1961	$106	$951	$951		$845	$845			$845		
1962	$197	$1,060	$1,060		$863	$863			$863		
1963	$245	$1,178	$1,178		$933	$933			$933		
1964	$328	$1,320	$1,320		$992	$992			$992		
1965	$376	$1,440	$1,440		$1,064	$1,064			$1,064		
1966	$576	$1,687	$1,687		$1,111	$1,111			$1,111		
1967	$760	$1,962	$1,962		$1,202	$1,202			$1,202		
1968	$802	$2,136	$2,136		$1,334	$1,334			$1,334		
1969	$977	$2,403	$2,403		$1,426	$1,426			$1,426		
1970	$1,011	$2,746	$2,746		$1,735	$1,735			$1,735		
1971	$1,312	$3,228	$3,228		$1,916	$1,916			$1,916		
1972	$1,261	$3,772	$3,772		$2,058	$2,058			$2,511		
1973	$1,897	$4,515	$4,515		$2,146	$2,146			$2,618		
1974	$2,853	$5,661	$5,661		$2,302	$2,302			$2,808		
1975	$3,982	$7,048	$7,048		$2,513	$2,513			$3,066		
1976	$4,900	$8,267	$8,267		$2,760	$2,760			$3,367		
1977	$5,975	$9,531	$9,531		$2,915	$2,915			$3,556		
1978	$6,995	$10,867	$10,867		$3,174	$3,174			$3,872		
1979	$7,770	$12,600	$12,600		$3,400	$3,400	$3,100	$0	$4,830		
1980	$9,738	$15,000	$15,000		$3,700	$3,600	$3,500	$0	$5,262		
1981	$12,062	$17,800	$17,800		$4,000	$3,900	$4,000	$0	$5,738		
1982	$13,608	$19,700	$19,700		$4,200	$4,100	$4,500	$0	$6,092		
1983	$14,376	$20,900	$20,900		$4,500	$4,300	$4,900	$0	$6,524		
1984	$15,266	$22,000	$22,000		$4,600	$4,600	$5,100	$0	$6,734		
1985	$15,739	$23,200	$23,200		$5,000	$4,800	$5,800	$0	$7,461	$1,021	$1,106
1986	$16,962	$24,700	$24,700		$5,200	$5,100	$5,800	$0	$7,738	$1,036	$1,185
1987	$18,212	$25,800	$25,700	$0	$4,800	$5,900	$6,000	$0	$7,588	$1,031	$1,435
1988	$20,445	$28,300	$28,100	$0	$4,500	$6,700	$6,300	$0	$7,855	$1,099	$1,736
1989	$21,799	$29,700	$29,500	$200	$4,500	$7,300	$6,500	$0	$7,901	$1,032	$1,784
1990	$23,396	$31,400	$31,200	$200	$4,500	$7,900	$6,800	$0	$8,004	$1,000	$1,845
1991	$24,207	$33,200	$33,000	$300	$4,600	$8,500	$7,500	$711	$8,993	$978	$1,930
1992	$23,797	$33,200	$32,900	$300	$4,700	$9,300	$8,000	$757	$9,403	$1,013	$2,028
1993	$25,647	$35,100	$34,800	$300	$4,700	$9,700	$9,000	$867	$9,453	$900	$1,948
1994	$26,422	$36,200	$35,800	$400	$4,700	$10,000	$9,100	$1,036	$9,778	$906	$2,082
1995	$27,469	$37,600	$37,100	$500	$4,700	$9,900	$9,600	$1,160	$10,131	$931	$2,138
1996	$29,122	$39,200	$38,600	$600	$4,700	$10,600	$10,300	$1,000	$10,078	$990	$2,222
1997	$30,824	$41,300	$40,600	$700	$4,800	$11,300	$11,100	$1,100	$10,476	$990	$2,332
1998	$32,370	$43,200	$42,300	$800	$4,900	$12,100	$11,900	$1,200	$10,830	$990	$2,420
1999	$34,316	$45,200	$44,200	$1,000	$4,900	$13,000	$12,800	$1,100	$10,884	$968	$2,508
2000	$36,506	$47,800	$46,600	$1,200	$5,000	$13,800	$13,400	$1,300	$11,294	$946	$2,596
2001	$38,930	$50,600	$49,200	$1,400	$5,000	$14,600	$14,100	$1,500	$11,670	$946	$2,750

CSRDF - Cash Flows & Contributions (Dollars in Millions)

2002	$41,688	$53,700	$52,100	$1,600	$4,900	$15,500	$14,600	$1,700	$12,012	$946	$2,904
2003	$44,842	$57,200	$55,200	$2,000	$4,900	$16,400	$15,100	$1,900	$12,358	$924	$3,080
2004	$48,282	$61,000	$58,600	$2,300	$4,800	$17,400	$15,600	$2,200	$12,718	$924	$3,278
2005	$51,990	$65,000	$62,200	$2,800	$4,700	$18,400	$15,900	$2,500	$13,010	$880	$3,454
2006	$56,098	$69,200	$65,800	$3,400	$4,500	$19,400	$16,100	$2,700	$13,102	$858	$3,652
2007	$60,069	$73,600	$69,600	$4,000	$4,400	$20,500	$16,400	$3,100	$13,531	$836	$3,872
2008	$64,682	$78,433	$73,533	$4,933	$4,233	$21,700	$16,500	$3,400	$13,751	$814	$4,070
2009	$69,164	$83,267	$77,467	$5,867	$4,067	$22,900	$16,600	$3,800	$14,102	$781	$4,301
2010	$73,548	$88,100	$81,400	$6,800	$3,900	$24,100	$16,700	$4,200	$14,552	$748	$4,532
2011	$78,430	$93,400	$85,060	$8,440	$3,740	$25,480	$16,540	$4,660	$14,970	$717	$4,796
2012	$83,312	$98,700	$88,720	$10,080	$3,580	$26,860	$16,380	$5,120	$15,388	$686	$5,060
2013	$88,194	$104,000	$92,380	$11,720	$3,420	$28,240	$16,220	$5,580	$15,806	$656	$5,324
2014	$93,076	$109,300	$96,040	$13,360	$3,260	$29,620	$16,060	$6,040	$16,224	$625	$5,588
2015	$97,958	$114,600	$99,700	$15,000	$3,100	$31,000	$15,900	$6,500	$16,642	$594	$5,852
2016	$102,530	$119,800	$101,840	$18,060	$3,100	$32,660	$15,740	$6,940	$17,270	$594	$6,169
2017	$107,102	$125,000	$103,980	$21,120	$3,100	$34,320	$15,580	$7,380	$17,898	$594	$6,486
2018	$111,675	$130,200	$106,120	$24,180	$3,100	$35,980	$15,420	$7,820	$18,525	$594	$6,802
2019	$116,247	$135,400	$108,260	$27,240	$3,100	$37,640	$15,260	$8,260	$19,153	$594	$7,119
2020	$120,819	$140,600	$110,400	$30,300	$3,100	$39,300	$15,100	$8,700	$19,781	$594	$7,436
2021	$125,270	$145,720	$111,000	$34,800	$3,200	$41,300	$14,620	$9,000	$20,450	$612	$7,814
2022	$129,720	$150,840	$111,600	$39,300	$3,300	$43,300	$14,140	$9,300	$21,120	$629	$8,193
2023	$134,171	$155,960	$112,200	$43,800	$3,400	$45,300	$13,660	$9,600	$21,789	$647	$8,571
2024	$138,621	$161,080	$112,800	$48,300	$3,500	$47,300	$13,180	$9,900	$22,459	$664	$8,950
2025	$143,072	$166,200	$113,400	$52,800	$3,600	$49,300	$12,700	$10,200	$23,128	$682	$9,328
2026	$147,417	$171,260	$112,580	$58,680	$3,780	$51,780	$11,900	$10,260	$23,843	$717	$9,803
2027	$151,762	$176,320	$111,760	$64,560	$3,960	$54,260	$11,100	$10,320	$24,558	$752	$10,278
2028	$156,106	$181,380	$110,940	$70,440	$4,140	$56,740	$10,300	$10,380	$25,274	$788	$10,754
2029	$160,451	$186,440	$110,120	$76,320	$4,320	$59,220	$9,500	$10,440	$25,989	$823	$11,229
2030	$164,796	$191,500	$109,300	$82,200	$4,500	$61,700	$8,700	$10,500	$26,704	$858	$11,704
2031	$169,551	$196,900	$106,960	$89,940	$4,720	$64,760	$7,960	$10,340	$27,349	$898	$12,289
2032	$174,306	$202,300	$104,620	$97,680	$4,940	$67,820	$7,220	$10,180	$27,994	$937	$12,874
2033	$179,060	$207,700	$102,280	$105,420	$5,160	$70,880	$6,480	$10,020	$28,640	$977	$13,460
2034	$183,815	$213,100	$99,940	$113,160	$5,380	$73,940	$5,740	$9,860	$29,285	$1,016	$14,045
2035	$188,570	$218,500	$97,600	$120,900	$5,600	$77,000	$5,000	$9,700	$29,930	$1,056	$14,630
2036	$193,877	$224,480	$93,800	$130,680	$5,880	$80,760	$4,440	$9,380	$30,603	$1,109	$15,343
2037	$199,184	$230,460	$90,000	$140,460	$6,160	$84,520	$3,880	$9,060	$31,276	$1,162	$16,056
2038	$204,492	$236,440	$86,200	$150,240	$6,440	$88,280	$3,320	$8,740	$31,948	$1,214	$16,768
2039	$209,799	$242,420	$82,400	$160,020	$6,720	$92,040	$2,760	$8,420	$32,621	$1,267	$17,481
2040	$215,106	$248,400	$78,600	$169,800	$7,000	$95,800	$2,200	$8,100	$33,294	$1,320	$18,194
2041	$221,422	$255,560	$73,980	$181,600	$7,340	$100,460	$1,900	$7,720	$34,138	$1,386	$19,078
2042	$227,737	$262,720	$69,360	$193,400	$7,680	$105,120	$1,600	$7,340	$34,983	$1,452	$19,963
2043	$234,053	$269,880	$64,740	$205,200	$8,020	$109,780	$1,300	$6,960	$35,827	$1,518	$20,847
2044	$240,368	$277,040	$60,120	$217,000	$8,360	$114,440	$1,000	$6,580	$36,672	$1,584	$21,732
2045	$246,684	$284,200	$55,500	$228,800	$8,700	$119,100	$700	$6,200	$37,516	$1,650	$22,616

26 Feb 97

Figures taken from Civil Service Retirement & Disability Fund, 1994 Annual Report (Revised May 1995 edition)*

Mr. MICA. This is why, in the last Congress, as you will recall, I steadfastly opposed increasing the contributions from postal workers, and I am pleased to see that Moe Biller, the head of the American Postal Workers Union, recognized it in his statement for the record, and let me quote him: “In fact, in the tax-cut bill of the 104th Congress, postal workers were specifically excluded from the proposal to increase contributions to the retirement system.”

[The prepared statement of Mr. Biller follows:]

Mr. Chairman, and members of the committee, my name is Moe Biller, and I am president of the American Postal Workers Union, AFL-CIO. The APWU is the largest postal union is world, representing more than 360,000 members and retirees.

APWU members are on the front line of reorganization and change in governmental services to the public. Last year our members processed over 182 billion pieces of mail a year touching every citizen nearly every day. The year before the number was over 177 billion pieces. This is a rapidly changing country with a tremendous ability to adapt and modernize for the future. APWU members are willing and ready to be part of the communications system for the 21st Century, and we need your support to accomplish these changes.

The provision of universal mail services at low cost is, and will remain, the major way to bind the commerce and the citizens of this country together.

To be successful at delivering mail in the 21st Century, however, we need your support to retain a decent, comparable, total compensation package for postal workers. APWU bargains over wages, working conditions and health benefits with the Postal Service in a process separate from political interference -- but our retirement benefits are the same as federal employees. Total compensation has been determined in the collective bargaining process in which federal retirement is part of the total package.

To change the employee's compensation package after the agreement has been reached would be improper.

We haven't come to Congress asking additional benefits we were unable to achieve in collective bargaining, and also wouldn't expect to lose benefits through congressional intervention, either.

As the source of their livelihood, the federal government has special responsibilities to postal and federal workers as their employer. As members of the committee of jurisdiction, you have a responsibility in Congress to uphold the federal government's obligations as employer.

For some reason, however, we are in a constant defensive posture. Each year it seems there are new, and more often, recycled ways to bash the postal/federal employee. The fact that an idea is rejected in one Congress seems to guarantee only one thing -- that it will again be introduced with the next Congress. We are hopeful that Members of the 105th Congress will again reject proposals to reduce the promised -- and hard-earned -- retirement benefits of our members and move on. Only then can postal and federal workers and their families plan for their future.

Congresswoman Connie Morella, (R-MD) in a letter of February 6, 1997 wrote, "Over the last several years, federal retirees and employees have been forced to bear a disproportionate share of deficit reduction. "

We agree, wholeheartedly. As a friend and champion of postal and federal workers, Representative Morella is aware of the many attempts to reduce their retirement and take-home pay. We are hopeful that her colleagues heed her "Dear Colleague" letter and oppose further cuts to these dedicated civil servants and retirees.

We appreciate the invitation to appear before the committee this morning and to present the views of the members of our union.

Provisions of President's Budget

The President's budget proposes achieving savings from federal civilian retirement programs of $6.2 billion. The savings are achieved as follows:

- Imposing a 3-month delay for Cost of Living Adjustments (COLAs) on civilian retirement benefits from fiscal year 1998 through 2002, saving $1.4 billion over 5 years.

- Increasing Federal employee contributions to the Civil Service Retirement and Disability Trust Fund by one half of one percentage point phased in over a 3-year period, with the total increase maintained until fiscal year 2002. The contribution amounts would be raised by 0.25 percentage points in fiscal year 1999, 0.15 percentage points in Fiscal Year 2000, and 0.10 percentage points in fiscal year 2001. The increase would apply to all participants in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). This proposal increases federal receipts by $1.8 billion between fiscal year 1999 and fiscal year 2002.

- Increasing the contributions agencies make to the Civil Service Retirement and Disability Trust Fund on behalf of their CSRS participating employees by 1.51 percentage points, beginning October 1, 1997.

- In the absence of an increase in discretionary spending caps, this policy achieves mandatory savings of $2.9 billion over 5 years.

- The President also again proposes to terminate payments to the Postal Service for pre-1971 workers compensation benefits. This policy, which saves $159 million over 5 years, would have the Postal Service assume responsibility for paying those benefits.

Employees Not the Enemy

As I said earlier, there is another thing that is certain -- attempts will be made to reduce the benefits due postal and federal workers. It is nearly as certain as death and taxes. These proposals, while opposed by members of the APWU, are less bothersome than some that were circulated during the 104th Congress, which called for even higher employee contributions and more reductions in the employee's annuity. The idea that the employee is the enemy and should be treated unfairly is, and will always be, puzzling to us.

Advocates of increasing employee contributions for CSRS and FERS have used scare tactics to argue that there is a funding crisis in the trust fund for paying CSRS and FERS benefits. The truth is that there is no problem.

Total annual benefit costs for current Federal retirees and survivors were about $36 billion in FY 1994.[1]

About $9.7 billion in receipts were credited to the retirement trust fund account of the Treasury from payroll withholding from current workers along with payments from the U.S. Postal Service and the Government of the District of Columbia. These cash receipts are converted to Federal securities and are deposited in the one retirement trust fund that finances both CSRS and FERS. Other annual trusts fund receipts in the form of Federal securities total about $53.8 billion and are deposited according to formulas established in law to prefund partially future retirement benefits and to pay interest on the securities in the fund. In total, the trust fund received $63.5 billion in FY 1994 and spent about $36 billion for benefits. The deposit of securities in the trust fund is an "intragovernmental transfer" between accounts of the Treasury; it does not constitute an outlay from the Treasury and has no effect on the budget deficit. Benefit payments and administrative costs are the only expenditures of the Treasury for

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[1] Federal Civil Service Retirement: Is There a Financing or Funding Problem? CRS

the retirement system. Because the trust fund receives more income each year than is debited for benefits, its balance continues to grow.

When Members of Congress wrote the new FERS law in 1986, they understood that there would have to be a financial transition from CSRS to FERS in the next century, and they wrote the law to provide for that transition. First, the law provides for one trust fund in which CSRS and FERS assets are combined. *Therefore, there is no separate CSRS trust fund that will be depleted.* Second, Congress established a system whereby benefit payments under the CSRS will be authorized by FERS trust fund securities as needed until there are no more CSRS benefits to be paid.

Thus, the securities that are building up for FERS, and that are in excess of the amount needed to authorize FERS payments for some time, will be reduced each year by the amount by which CSRS benefits exceed CSRS assets. This will cause an increase in the FERS liability, but that liability will be "paid off" through a series of 30-year amortization payments. Using a 75-year projection period, OPM estimates that the total value of securities in the trust fund will grow throughout the projection period, ultimately reaching about 4.2 times payroll or nearly 18 times the amount needed to pay benefits. This means that in the next century the trust fund will reach an ongoing steady state in which it will have a balance sufficient to authorize 18 years of benefit payments.

In summary, by definition, under the financing arrangements set out in current law, the system is not now and never will be "insolvent" or without adequate budget authority for payment of benefits.

Again, because the budget cost of the systems can never exceed the cost of monthly benefits to living annuitants, the cash required from the Treasury or taxpayers will never exceed the cost of those monthly payments.

There is no funding shortfall for FERS participants. Increasing the amount of contributions to the retirement system for participants in the FERS retirement system only serves to reduce the take-home pay of employees. For postal employees it is particularly faulty. The amount paid by the employees and the U.S. Postal Service fully funds the retirement system for postal workers. This proposal would actually create an overfunding of postal CSRS retirement. In fact, in the Tax Cut bill of the 104th Congress, postal workers were specifically excluded from the proposal to increase contributions to the retirement system.

We also question logic of increasing the agency contribution for CSRS employees. For CSRS enrollees, non-postal employing agencies currently match the employee share (normally 7%). The Postal Service, however, pays approximately 18.14% for each CSRS enrollee. When added to the enrollee contribution of 7.0%, these payments already total 25.14% -- the total cost of the program.

Time and again the USPS has the "cash cow" in the name of deficit reduction. The Postal Service can't continue to improve services to the American citizen while Congress snatches the money needed to provide those services.

The proposal to delay retiree COLAs is equally troubling. While so many argue that the pensions of federal and private sector employees should be similar, 87 percent of private sector firms do not require contributions to a retirement system other than social security. Social security participants pay only 6.2% of their salary, yet they are exempt from the delay in COLA.

Members of this committee, and Members of this Congress should know: postal and federal workers are just as patriotic and just as committed to balancing the budget as any other sector of American society. We only ask that it be done fairly, with no segment suffering any greater burden than any other. A review of the record, and the proposal to delay the COLA, will prove that this has not been the case.

How can any rational person argue that retirees in the private sector are entitled to receive COLAs in January, while those in postal and federal service are not?

The Uncertain Future

In closing, we realize that this is the beginning of a long process, and the provisions we discuss today might change, be substituted, or made more onerous before the process is completed. We urge you, during your deliberations, to consider the impact a conscious decision to renege on promises made to postal and federal employees could have on the morale of the employees, as well as the ability to recruit the best and brightest of our citizens for federal service.

Again, Mr. Chairman, we thank you for holding these hearings, and for allowing the American Postal Workers Union, AFL-CIO, to offer our opinion on these issues. We look forward to continuing to work with you and your staff during the 105th Congress.

Mr. MICA. Mr. Brennan and Mr. Bates, perhaps one of you can answer a question that has puzzled me for some time. Why did the postal unions and employee groups agree to have their members saddled with the unnecessary hikes that were proposed as part of the Stevens plan, if you will recall, in negotiations with the Senate? Mr. Bates.

Mr. BATES. My understanding was that at that time there was a proposal to increase our retirement years from the "high five" to the "high three" and to budget out or to balance out or whatever you want to call it that it was agreed by many that if we would take a one-half-percent raise, then it would stay at the "high three" rather than the "high five," and it was felt like that while we were working, if we had a choice between the two, that we could afford to pay the one-half of 1 percent while we were working so that it would not affect our retirement and make it much less when we did retire. That is about the only reason I can give on it.

Mr. MICA. Mr. Brennan.

Mr. BRENNAN. I would concur with that, that similar to what you said to the earlier panel today, that you are looking for $6.5 billion, and it has to come from somebody, so it came down to a point last year, what is the least offensive option? If something has to happen, what is the least offensive? Given our druthers, no, of course not, they would not want to be involved. But it is like saying, which of your children do you—if you have to get rid of one, which one do you get rid of? Tough choices, hopefully choices no one will ever have to make.

Mr. MICA. Well, I am hoping that we do not have to get rid of any of our children this time around.

I offer to you the same suggestions and opportunity that I offered the previous panel, if you have any recommendations for savings. I think, Mr. Bates, in your testimony, you pointed out how the Postal Service is running surpluses and in a positive vein.

Unfortunately, in the President's proposal, you get hit twice unfairly, once in the increased employee contributions, for which there is no basis because your plan is funded, and we do have some tangible assets there. You are not part of the problem, and you should not be asked to pay for the problem.

The second great disparity is that with Federal retirees, and you are also lumped into that with all other Federal retirees for a delay, which I view as totally unfair in singling out Federal employees, whether they be postal or other Federal employees. But, again, I will ask you, do you have any other recommendations that could come from within our jurisdiction?

Now, you know, we can talk about corporate welfare and we can talk about the tax cuts and we can talk about all those other things, but is there anything you can recommend to the committee—and it does not have to be now; you can submit it later to us—that we can present to Mr. Kasich and the Budget Committee or the administration to counter their proposals? Recomendations that say, these are some things that we can do to increase benefits, to bring down costs for our employees, and costs for the government. Do you have any suggestions today, Mr. Bates or Mr. Brennan? Mr. Bates.

Mr. BATES. Today, I do not; and I think I could have in the next 2 weeks because I have 900 Postmasters coming into Washington starting Saturday. They will be here for a week, what we call our Annual Leadership Conference. It is our leaders from across all 50 States. I am sure that some of those people are going to be able to give me something that I can bring back to you; but, today, no, I do not have any.

Mr. MICA. OK. Mr. Brennan.

Mr. BRENNAN. The followup that has been suggested earlier, and it is one of the things on my proposed list, is the contracting-out costs. They are running wild every place, including in the Postal Service. It is a way to transfer a cost from an employee cost over to another line. Yet, the total cost is there.

Other things perhaps might be to combine some of the jurisdictions for Federal retirement, military retirement, and Social Security instead of treating each one totally separate, each committee or subcommittee addressing each of these things totally independent, try to make some commonality in how you approach things such as deferred-COLA increase, whatever it happens to be.

It is tough to provide better benefits and still come up with a savings. It is tough to even maintain benefits and come up with a savings. And given the fact that particularly in the Civil Service Retirement System, as that base of people paying in dries up and in less than 50 percent of the Federal employees now, the income to that program is going to continue to drop. And, yes, for some out years the expenses of that will continue up. But at some point in time, then it will cycle back down as people have left that system permanently.

But we will also look at things. We have people coming in for our legislative conference the week after Mr. Bates' group, and some of them will be calling on you and your members, as I believe you will all be back in session; and, hopefully, we will have some thoughts for you.

Mr. MICA. Thank you. Just for the record, and I think you alluded to it in your testimony, our calculations indicate, in fact, that the additional contribution imposed on postal employees would result in an overfunding of that account or that those funds would be used to offset some of the costs for other Federal employees. Is that your basic take on this, Mr. Brennan?

Mr. BRENNAN. Yes. I think that every imaginable way of determining that the Postal Service has had a shortfall in funding retirements has been computed and assessed and paid. Now, unless there is something else out there that is going to come down the pike in the next year or so, I would think that we have our bill paid in full and perhaps even an advance payment.

Mr. MICA. Mr. Bates.

Mr. BATES. No, sir, I do not have anything else.

Mr. MICA. The other area that is of interest to me is bringing down the cost of health care, both for postal workers and all Federal employees. The cost to the Federal Government or the Postal Service and the cost of the premium payer. I would welcome any suggestions or recommendations you have. I have thrown out several suggestions. One, I felt, at least for the 2 years since I have been here, is reduce some of the payments and premiums for our

Federal employees. Another is looking at some options, MSAs and other avenues.

So if you have any recommendations in that regard or any other alternatives to encourage individual retirement savings and opportunities, I would like to hear from you on that. Do you have any comment, Mr. Brennan?

Mr. BRENNAN. Your position on the Medical Savings Accounts is well known to me, at least, and I am not sure that I totally agree with it. I think that the real answer is to control the costs that the providers of our medical benefits charge each and every one of us. In doing so, you would tend to drive down the rates.

In trying to reduce the Government cost, if that is the proper term to use, in terms of payments to the employees for their medical insurance, the thing that we fear is that the young, healthy employee will use that like a savings account or a bank account, and he or she will not bother to provide themselves with the real medical insurance that they might need. You know, when you are young, you are invincible and nothing is ever going to happen to you, and as you get older, you find all these things start to happen to you.

So we find that perhaps those people will not take a very healthy level of insurance and that the plans out there will be unduly burdened with a disproportionate number of folks who have higher medical needs, which in turn will drive their premium up. How you get around that, I do not know.

Mr. MICA. The hearing that we held and the testimony that we took in indicated just the opposite: that, in fact, young people—who are healthier and have less disposable income—tend to ignore covering themselves with insurance because the premiums are high; and if they had options where there was a lower premium and some catastrophic coverage, they, in fact, are more likely to pick up both. That comes from the private sector and public sector experience that we looked at.

But high premiums are forcing young people out of the market and hurting folks, and there is no indication that there is a cherry-picking that we can see from the experience. Of course, we will see from some of these demonstration projects how that works on a broader scale, but I am open to other suggestions and other retirement options or opportunities for our folks and welcome them.

Mr. Bates, did you have anything?

Mr. BATES. No, sir.

Mr. MICA. Well, I want to thank both of you gentlemen for testifying today. I am hoping that the postal community, and you represent some folks who are Federal postal employees, does not cave to some of the President's proposals at this juncture. I think that there is some inequity proposed. We are all trying to get to the same point, a balanced budget, but I think that we need to look for the most effective way we can do it without hurting our employees and, particularly, the retirees who this will probably impact the most.

But I appreciate your testimony, and I look forward to any other comments and suggestions that you have in the coming weeks. And, as I said, the record will remain open.

If there is no further business to come before the subcommittee this morning, I will adjourn this meeting. Thank you.

[Whereupon, at 11:25 a.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

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ALEXANDRIA, VA 22314-2753
(703) 836-9660

February 19, 1997

The Honorable John Mica
Chairman, Civil Service Subcommittee
US House of Representatives
Washington, DC 20515

Mr. Chairman:

Even though the National Association of Postal Supervisors was not invited to submit a statement or to testify in person on the impact of the President's 1998 budget proposal on federal and postal employees and retirees, we respectfully wish to be on the record in this matter.

NAPS' major concern with the proposed budget is that it would again impose a three-month delay in the cost of living adjustments (COLAs) of federal and postal retirees, without also delaying COLAs to individuals who receive social security and military retirement benefits. This would be a gross inequity, Mr. Chairman. I believe you agree with NAPS when we say that COLA is a part of retirees' earned income and, therefore, should be paid in a timely fashion.

As the subcommittee members are well aware, January 1997 was the first since January 1993 that federal and postal retirees received their COLA payments on time. Over the past 12 years, federal and postal retirees have lost $50 billion in deferred, delayed and canceled COLAs, while those receiving social security COLAs have been protected. To perpetuate this inequity from 1998 through 2002, as the President's budget proposes, would be a travesty.

Beyond all this, NAPS is concerned about the potential impact on COLAs of the recommendations of a special commission that recently reviewed the Consumer Price Index (CPI). The commission concluded that the CPI overstates inflation by as much as 1.1 percent, a finding that could be used to cap adjustments linked to the CPI, including civil service retirement.

NAPS adamantly opposes the half-percent increase over three years in federal and postal employees' contributions to their CSRS or FERS retirement. Contributions from postal employees and the Postal Service already fully cover the costs of their retirements.

To increase federal employees' contributions toward their retirements would, of course, reduce their take-home pay. Such a development would be especially distressing in view of the Bureau of Labor Statistics' recent report that federal employee's salaries are, on average, 30 percent less than those paid to equivalent workers in the private sector.

Representing supervisors in the United States Postal Service

In conclusion, Mr. Chairman, NAPS fully understands the pressure on the Administration and Congress to raise the needed revenue to balance the federal budget by as early as 2002. We do not believe, however, that the budget should be balanced at the expense of the nation's loyal and hardworking postal and federal employees and retirees.

We respectfully point out to the subcommittee that, over the past 20 years, employee and retiree compensation has been reduced by $220 billion in the name of deficit reduction. It is time for the difficult and often painful sacrifices in any deficit-reduction effort to be borne equally by all members of the workforce -- federal, civilian and military.

Thank you, Mr. Chairman, for permitting NAPS to submit this statement for the record.

Sincerely,

Vince Palladino
President

Statement of the Professional Managers Association
for the House Civil Service Subcommittee **February 13, 1997**

Mr. Chairman and Members of the Subcommittee:

Thank you Mr. Chairman, and Members of the Subcommittee, for the opportunity to comment on the impact of President Clinton's Fiscal 1998 Budget on federal employee and retiree benefits.

The Professional Managers Association is a national membership organization which represents the interests of career managers, management officials, and professional employees throughout the federal government. Our members are the men and women who are developing and carrying out many of the "reinventing government" initiatives heralded by the Administration despite the reduction of 240,000 positions during the past three years. These are the same men and women who are faced with the task of implementing any deficit reduction package that is enacted.

We are writing today, Mr. Chairman, to discuss three proposals contained in the President's FY1998 Budget which will negatively impact the compensation and benefits of federal employees and retirees.

First, Mr. Chairman, the President's FY1998 Budget proposes to increase agency and employee contributions to the Civil Service Retirement and Disability Fund. While we strongly support responsible government spending, we also recognize that federal retirement spending is not contributing to increases in the federal deficit. In fact, federal employees and retirees have contributed more than $220 billion over the last twenty years towards deficit reduction; yet, the federal budget remains unbalanced.

According to the Congressional Research Service, "Current and projected Trust Fund balances are fully adequate to back up all current and future liabilities without any effect on the budget or the deficit, and without a need for additional tax revenues." (Congressional Research Service, *Federal Employee Pensions and Private Employee Pensions*, October 1994) In a March 1995 memorandum, the Congressional Research Service also reported, "The deposit of securities in the Trust Fund is an 'intergovernmental transfer' between accounts of the Treasury; it does not constitute an outlay from the Treasury and has no effect on the budget deficit."

We are greatly troubled that the Administration proposes to arbitrarily raise agency and employee contributions to the retirement fund without any corresponding increase in benefits. Furthermore, we are disconcerted by the Administration's practice of praising the hard work and dedication of federal employees on the one hand, and on the other hand, inequitably attacking their pay and benefits. Instead of patronizing federal employees, the Administration should be rewarding them for accomplishing more despite a smaller workforce, greater responsibilities, and increasingly complex tasks.

Second, Mr. Chairman, the President's FY1998 Budget proposes only an average 2.8 percent pay adjustment. This adjustment is considerably below the 6.6 percent pay adjustment that employees should receive under the 1990 Federal Employees Pay Comparability Act (FEPCA - P.L. 101-509). Instead of rewarding our nation's civil service employees for their perseverance and dedication, the Administration and Congress consistently allot pay increases far below what is necessary to keep pace with salaries in the private sector. According to the most recent Bureau of Labor Statistics' analysis of federal pay, federal employee salaries on average trail those of their private sector counterparts by almost 30 percent. In addition, if the federal government is to effectively modernize its operations and to deliver quality services to the American people, it must maintain a highly-skilled and experienced workforce. Federal salaries must be restored to competitive levels to prevent serious recruitment and retention problems.

Third, Mr. Chairman, the President's FY1998 Budget proposes to delay federal civilian retiree cost-of-living adjustments for three months from 1998-2002. We find it unconscionable that federal retirees are being singled out again to bear a disproportionate cut while no such reductions are being proposed for Military retirees or Social Security recipients. After years of serving this nation with the expectation that the benefits they have earned will be fully paid under existing law, we strongly believe that it is unfair to break this longstanding contract.

Few groups, Mr. Chairman, have made greater contributions to reducing the deficit than federal retirees. By themselves, the 2.2 million federal retirees and their dependents have sacrificed more than $50 billion in inflation protection during the last 12 years. From FY1994-FY1996 alone, federal retirees contributed $778 million to deficit reduction through delayed COLAs while Social Security COLAs were fully protected. Now, the proposed delay in federal retiree COLAs would cost the average annuitant another $726 over the next five years. We are extremely disappointed that the Administration is proposing to continue this trend.

As you know, there are no justifiable reasons to single out federal retirees for reduced COLAs. The average federal civilian retiree retires after 30 years of service on a modest annual pension of $18,816, and unlike Social Security, federal civilian annuities are 100 percent taxable from the first dollar of payment. We think you would agree that federal retirement benefits do not result in an extravagant lifestyle. Far from it!

We recommend, Mr. Chairman, that instead of attacking federal employee and retiree benefits the Congress should explore the $108 billion "shadow government" (contractors) for budget savings. PMA further urges Congress to pass legislation similar to HR 1409 introduced by Delegate Eleanor Holmes Norton (D-DC) in the 104th Congress to reduce the enormous amount the federal government spends annually on contracting out in order to fully fund civil service pay adjustments.

In closing, Mr. Chairman, we want to reemphasize our strong opposition to the three proposals in the President's FY1998 Budget that will negatively impact the compensation and benefits of federal employees and retirees. Enactment of these devastating proposals will not only lower employee morale, but severely hinder the government's ability to recruit and retain the best and brightest for our crucial missions. After fifteen years of reductions, the time has come to start reinvesting in the federal workforce.

Thank you for the opportunity to comment on these important matters and we look forward to working with you in the near future. Thank you.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEPUTY DIRECTOR
FOR MANAGEMENT

1 1997

The Honorable John L. Mica
Chairman
Subcommittee on Civil Service
Committee on Government Reform & Oversight
Washington, DC 20515-6143

Dear Mr. Chairman:

Enclosed are answers to the questions that you submitted to this office on February 18, 1997.

I hope that you find this information useful. If you need additional information, please feel free to contact me.

Sincerely,

John A. Koskinen

Enclosures

Administration Responses to Questions from Chairman Mica

1. The Subcommittee recognizes that the Postal Service already pays into the Civil Service Retirement and Disability Fund revenues sufficient to provide the full normal cost of its employees' retirement benefits. Please provide the Administration's justification for including employees of the U.S. Postal Service among those whose payroll deduction and matching agency payment would be increased to support pension benefits.

During the FY 1997 budget talks, it was agreed that agencies, employees, and retirees should share in the deficit reduction effort by contributing more toward Federal civilian retirement benefits. A temporary increase in the retirement contributions paid by all Federal employees, including Postal Service employees and other Federal employees whose retirement benefits are fully funded (e.g., those employees covered under the Federal Employees Retirement System), was considered to be appropriate. The FY 1998 Budget proposes a similar increase in the retirement contributions of all Federal employees.

Inasmuch as other Federal employees whose retirement benefits are fully funded would be required to pay the increased contribution, the Administration could not justify excluding the Postal Service employees. This is consistent with the President's policy of balancing the budget so that, whenever possible, the burden is equitably shared.

2. The Subcommittee heard testimony that it is inequitable to treat federal civilian retirees different from military retirees and Social Security beneficiaries. Please provide the Administration's justification for delaying annual cost of living adjustments only to federal civilian retirees.

During the FY 1997 budget talks, it was also agreed to delay temporarily the cost-of-living adjustment (COLA) for Federal civilian retirees. No other COLA delays were agreed upon.

3. The Subcommittee heard testimony opposing any increase in the amount deducted from employees pay and the increased payment required of agencies to support the Civil Service Retirement and Disability Fund. What was the rationale for the increased payments recommended in the Administration's budget?

During the FY 1997 budget talks, it was agreed to increase the agency contribution to the retirement fund for workers covered under the Civil Service Retirement System, in addition to increasing employee contributions and delaying the COLA. We note that the FY 1998 Budget proposal is virtually identical to a provision in the 1995 Balanced Budget Act, as passed by the House and Senate.

4. In its FY 1997 Budget, the Administration committed to submit a 40-year amortization plan to amortize the CSRDF's unfunded liability. We have found no such plan outlined in the Budget. Does the Administration have a 40-year amortization plan for this issue? If yes, please provide it for our record. If no, what measures would the Administration propose to address this funding need?

The 40-year amortization language, as proposed in the FY 1996 Budget, was a provision of the draft bill, "To provide for accrual accounting of retirement cost for Federal civilian employees, and for other purposes," that the Office of Personnel Management transmitted to Congress on November 1, 1995. The proposal was referred to your committee on November 6, 1995. The Administration recognizes that the FY 1998 proposal to increase agency retirement contributions will not fully finance the unfunded liability. Nonetheless, that proposal, together with the annual General Fund payment to the Civil Service Retirement and Disability Fund, will reduce a portion of the liability.

5. The Subcommittee heard testimony that the 2.8 percent pay increase for federal employees contained in the President's Budget is not in compliance with the Federal Employees Pay Comparability Act. The President has recommended annual pay raises in each Budget that are less than authorized by FEPCA. What methods were used to arrive at the pay figure that the President recommended? Will the Administration recommend alternative methodology for achieving pay comparability that would be more consistent with its recommendations?

The Administration's objective is to provide for a Federal employee pay raise that is fair to employees, while maintaining competitive rates of pay that fit within the tight ceiling on discretionary spending and continuing efforts to restructure and downsize the Federal workforce. The Administration believes the 2.8 percent increase proposed for Federal employees, which is equal to the change in the Employment Cost Index minus 0.5 percent, fulfills this objective. At 2.8 percent, the pay raise generally reflects wage increases and inflation in the economy at large, is only slightly less than the 3.0 percent increase in 1997, and is equal to the 2.8 percent pay raise proposed for military personnel.

The Administration is always interested in possibilities for improving the pay-setting process and methodology. We continually monitor pay practices and trends in the private sector, review reports on pay issued by the General Accounting Office, Congressional Budget Office, and others, and discuss pay-setting issues with employee unions and other interested parties. Should this review process indicate that reforms to the pay-setting methodology are required, we will then propose changes.

6. The President's Budget proposes to assume both the assets and liabilities of the District of Columbia's pension programs covering police, firefighters, judges, and teachers. During the five years covered by this budget, this action is presented as revenue-neutral. Please describe for the Subcommittee the President's plan for assuming the assets and revolving the liabilities associated with these pension plans. Please provide, too, the methods by which this plan was developed, and a description of alternative proposals to address any problems identified in developing this plan.

DESCRIPTION OF PRESIDENTS PENSION PROPOSAL

What the Pension Proposal Would Do. Beginning in FY 1998, the Federal Government would assume both financial and administrative responsibility for a major share of the benefits payable under the District's retirement programs for police and firefighters, teachers, and judges. Upon enactment of legislation providing for the transfer, and the District establishing replacement plans as specified in the Memorandum of Understanding, the Federal Government would take responsibility for virtually all pension benefits accrued under the plans for all active and retired employees, as of the date the legislation is introduced. Assets of the retirement plans will be transferred to the Federal Government. The Federal Government would pledge its full faith and credit to meet its responsibilities to the beneficiaries.

The Federal Government would make full benefit payments to current retirees and beneficiaries and would pay virtually all benefits of current employees. It would "freeze" benefits payable to current employees based on service earned as of the date the legislation is introduced, and would pay their future retirement, death and some of their disability benefits to the extent they are earned based on the frozen service. Under the current proposal, current employees would be able to count future service with the District toward vesting and eligibility for retirement benefits, but not for the amount of the benefits. While the Federal Government, therefore, would not be responsible for benefits earned during future years of service by members of the current retirement programs, these members would get the benefit of pay increases on the frozen benefits. Frozen benefits would continue to be subject to cost-of-living adjustments under the terms of the existing programs.

Employees hired after the freeze date would belong to the new District plans, not to the plans taken over by the Federal Government. Employee contributions subsequent to the freeze date would be made to the new District plans. For those employees covered by the new plans, their contributions will be paid into those plans.

A third-party Trustee would be appointed by the Federal Government to administer the plan and invest pension assets. The benefits would be backed by the full faith and credit of the Federal Government.

The existing assets would be liquidated as needed and used to make payments to beneficiaries. Federal outlays would be needed only after the existing assets are exhausted.

What Would the District Have to Do to Make the Plan Work? The District would sign a Memorandum of Understanding with the Federal Government in which it agrees to establish and properly fund replacement plans, transfer books and records and assets to the Trustee, and make certain reforms in the retirement programs.

PROCESS FOR DEVELOPING THE PLAN & ALTERNATIVE PROPOSALS

Since the spring of 1996, the Administration has worked with District stakeholders to consider various proposals regarding the District's pension system. The President proposed in his FY 1997 Budget to provide the District an additional $52 million toward its unfunded pension liability in 1997, and a growing stream of payments in subsequent years (with a present value of about $3 billion) -- a proposal that was not enacted into law. Subsequently, the Administration reviewed the proposal put forward by District Delegate Eleanor Holmes Norton. We have also assessed the recommendations of the D.C. Appleseed Foundation to have the Federal Government assume the assets and liabilities associated with the pension systems of teachers, police and firefighters, and judges.

A Federal Government working group composed of the Departments of Labor and Treasury, Office of Management and Budget, National Economic Council, and the Pension Benefit Guaranty Corporation has been developing the details of the framework presented by OMB Director Franklin D. Raines. The working group is also drafting a Memorandum of Understanding which will be shared with the District shortly.

As with the other elements of the President's Plan, we are working with the District Government and Financial Authority to use common actuarial and budget numbers -- based on analysis by the D.C. Actuary -- to finalize costs, savings, liability, and cash flows associated with the pension proposal.

7. The President's Budget contains no proposal to address projected increases in costs of health coverage for federal employees and retirees. The Subcommittee noted that members of some FEHBP Plans had experienced premium increases of as much as 30 percent this year. With the change from the "Phantom Big Six" to a Big Five base for calculating the government's costs (as an employer) for health insurance, one estimate showed, on average, a 10 percent increase in employees' premiums. Rep. Mica has proposed fixing the federal payment to these programs at the dollar amount, adjusted for inflation, that it was in 1995. OPM Director King wrote the Chairman a letter indicating that, if such a program had been in place for the past two years, federal employees could have saved more than $800 million in health insurance costs. This proposal would have addressed favorably the move from the "Phantom Big Six" to the Big Five formula. What measures would the President recommend to control escalation in health insurance costs for federal employees and retirees?

From 1989 through 1997, Federal Employees Health Benefits Program (FEHBP) premiums have increased at an annual rate of 3.7 percent. This rate is lower than the annual rate for the private sector. Private sector data (available only through 1995) show a 7.9 percent increase in premiums. The lower rate of increase for FEHBP was due, in large part, to the efforts of the Office of Personnel Management (OPM). For the past several years, OPM has sought to control costs by emphasizing managed care and implementing cost saving programs. Given OPM's continued success, the Administration has not proposed any further measures to control costs.

We note that, while the premiums of nearly 17 percent of FEHBP enrollees increased by more than 20 percent in 1997, 64 percent of the FEHBP enrollees saw their share of premiums either stay the same or actually decrease.

The proposal to fix the Government's contribution at the 1995 dollar amount, adjusted annually for inflation, would not generate savings for either the Government or the enrollees, but would effectively shift a percentage of the premium costs from the Government to the enrollees. Because the medical inflation rate typically increases at a higher rate than the general rate of inflation, we anticipate that the Government's indexed contribution, as a percentage of the total premium, would decrease, thereby shifting future premium increases onto the enrollees.

We note that OPM's estimate for the Chairman's proposal is based on data for only contract years (CY) 1996 and 1997, as specifically requested by Chairman Mica. As Director King noted in his response, the medical inflation rate for CY 1996 and 1997 increased at a rate significantly lower than the general rate of inflation. These two years are an anomaly, and projections that are based exclusively on data from just those two years are misleading. As the response pointed out, had the proposal been enacted in 1988 and stayed in effect during the time when the medical inflation rate was greater than the general rate of inflation, the Government's present share would be only 44 percent of total premiums, as opposed to 71 percent.

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-0001

OFFICE OF THE DIRECTOR

APR 11 1997

Honorable John L. Mica
Chairman
Subcommittee on Civil Service
Committee on Government Reform
and Oversight
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Mr. Chairman:

Thank you for your letter dated February 14, 1997, forwarding questions about proposals in the President's Fiscal Year 1998 Budget affecting the pay and benefits of Federal employees and retirees.

As you know, these same questions were included in a letter sent to the Office of Management and Budget. Since the questions flow from Presidential decisions forming the basis for the Administration's budget request for FY 1998, their answers of necessity reflect the official Administration position on the matters you raised. Responses to your questions were prepared by staff at the Office of Management and Budget and were included in Mr. Koskinen's recent letter to you. We have incorporated those responses in this letter.

I hope you find this information useful.

Sincerely,

James B. King
Director

Enclosure

1. **The Subcommittee recognizes that the Postal Service already pays into the Civil Service Retirement and Disability Fund revenues sufficient to provide the full normal cost of its employees' retirement benefits. Please provide the Administration's justification for including employees of the U.S. Postal Service among those whose payroll deduction and matching agency payment would be increased to support pension benefits.**

   During the FY 1997 budget talks, it was agreed that agencies, employees, and retirees should share in the deficit reduction effort by contributing more toward Federal civilian retirement benefits. A temporary increase in the retirement contributions paid by all Federal employees, including Postal Service employees and other Federal employees whose retirement benefits are fully funded (e.g. those employees covered under the Federal Employees Retirement System), was considered to be appropriate. The FY 1998 Budget proposes a similar increase in the retirement contributions of all Federal employees.

   Inasmuch as other Federal employees whose retirement benefits are fully funded would be required to pay the increased contribution, the Administration could not justify excluding the Postal Service employees. This is consistent with the President's policy of balancing the budget so that, whenever possible, the burden is equitably shared.

2. **The Subcommittee heard testimony opposing any increase in the amount deducted from employees pay and the increased payment required of agencies to support the Civil Service Retirement and Disability Fund. What was the rationale for the increased payments recommended in the Administration's budget?**

   During the FY 1997 budget talks, it was agreed to increase the agency contribution to the retirement fund for workers covered under the Civil Service Retirement System, in addition to increasing employee contributions and delaying the COLA. We note that the FY 1998 Budget proposal is virtually identical to a provision in the 1995 Balanced Budget Act, as passed by the House and Senate.

3. **In its FY 1997 Budget, the Administration committed to submit a 40-year amortization plan to amortize the CSRDF's unfunded liability. We have found no such plan outlined in the Budget. What measures would you propose to address this funding need?**

   The 40-year amortization language was a provision of the draft bill, "To provide for accrual accounting of retirement costs for Federal civilian employees, and for other purposes," that the Office of Personnel Management transmitted to Congress on November 1, 1995. The proposal was referred to your committee on November 6, 1995. The Administration recognizes that the FY 1998 proposal to increase agency retirement contributions will not fully finance the unfunded liability. Nonetheless, that proposal, together with the annual General Fund payment to the Civil Service Retirement and Disability Fund, will reduce a portion of the liability.

4. **The Subcommittee heard testimony that the 2.8 percent pay increase for federal employees contained in the President's Budget is not in compliance with the Federal Employees Pay Comparability Act. The President has recommended annual pay raises in each Budget that are less than authorized by FEPCA. What methods were used to arrive at the pay raise figure that the President recommended? Will you recommend alternative methodology for achieving pay comparability that would be more consistent with its recommendations?**

The Administration's objective is to provide for a Federal employee pay raise that is fair to employees, while maintaining competitive rates of pay that fit within the tight ceiling on discretionary spending and continuing efforts to restructure and downsize the Federal workforce. The Administration believes the 2.8 percent increase proposed for Federal employees, which is equal to the change in the Employment Cost Index minus 0.5 percent, fulfills this objective. At 2.8 percent, the pay raise generally reflects wage increases and inflation in the economy at large, is only slightly less than the 3.0 percent increase in 1997, and is equal to the 2.8 percent pay raise proposed for military personnel.

The Administration is always interested in possibilities for improving the pay-setting process and methodology. We continually monitor pay practices and trends in the private sector, review reports on pay issued by the General Accounting Office, Congressional Budget Office, and others, and discuss pay-setting issues with employee unions and other interested parties. Should the review process indicate that reforms to the pay-setting methodology are required, we will then propose changes.

5. **The President's Budget contains no proposal to address proposed increases in costs of health coverage for federal employees and retirees. The Subcommittee noted that members of some FEHB plans had experienced premium increases of as much as 30 percent this year. With the change from the "Phantom Big Six" to a Big Five base for calculating the government's costs (as an employer) for health insurance, one estimate showed, on average, a 10 percent increase in employees' premiums. Rep. Mica had proposed fixing the federal payment to these programs at the dollar amount, adjusted for inflation, that it was in 1995. OPM Director King wrote the Chairman a letter indicating that, if such a program had been in place for the past two years, federal employees could have saved more than $800 million in health insurance costs. This proposal would have addressed**

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