

Senior Executives Association



TESTIMONY
ON
DEVELOPMENT OF A SUPPLEMENTAL
CIVIL SERVICE RETIREMENT PLAN
BEFORE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE

CHAIRMAN
WILLIAM D. FORD

BY
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Chairman and members of the House Post Office and Civil Service Committee, thank you for the opportunity to present the views of the Senior Executives Association on this important subject of the design of a new retirement system for federal employees. I would like to first thank you Chairman Ford for your concern about and careful consideration of this subject. The design of a new retirement system for federal employees is the most significant matter affecting federal employment. We appreciate your cautious consideration of this subject and urge that you continue to move carefully in this important area.

This subject is of keen interest to our members who are greatly concerned about the effectiveness, productivity and efficiency of the government. The Federal Government's attraction for potential and current employees has historically been based on a pay system comparable to that of the private sector, a fair and equitable retirement program, and a public image of service to our country. In recent years, however, all these important aspects of public service have been eroded. As one California NASA executive related to me recently, "We are doing the most exciting work in the world, and I can't hire high calibre engineers to work for us."

Pay, as compared to large corporations with which the government must compete for employees, is 20 percent below comparable private sector salaries. The image of government employees today is probably best characterized by the "bureaucrat doll", to which top government officials have

alluded, The doll, made of red tape, sits on top of paper. Contrast this to what former President Kennedy told the nation in his first State of the Union message; "Let the public service be a proud and lively career, challenging those who would cling to malicious stereotypes concerning government workers....and let every man and woman who works in any area of our national government, in any branch, at any level, be able to say with pride and honor in future years: I served the United States Government in that hour of our nation's needs."

Now even the current retirement system is being chipped away. It is essential that, for the Federal Government to be a credible employer in the eyes of its employees and prospective employees, its pay, benefits and image need a revitalization.

Consideration of the new retirement system must be viewed within this context. If the new retirement system is less attractive than the current one, then pay **must** be increased to offset the loss. Other important principles we believe must be considered in drawing up a new retirement system are as follows:

Any studies and comparisons to retirement plans in the private sector should be with large Fortune 200 companies. The Federal Government draws from the same labor pool as these large companies and its compensation and benefit packages must therefore be comparable. For example, most major corporations provide benefits that the Federal Government does not. At a minimum, they provide free medical and life insurance for their retirees.

We request that, in undertaking studies on private sector retirement plans, comparisons be made of features these plans have for executives and top management officials. Such features should be comparable for our executives and managers for the new federal retirement program.

The government must not make the mistake of allowing its current fiscal problems to dictate the design of a new retirement program. Payouts for the new system are 20-35 years off, and it would be shortsighted to adopt a new system designed to achieve short term cost savings which would damage the long term hiring ability of the government.

We would like to see a study on the change in earning needs for people when they retire. Because of the change in lifestyle and financial needs during retirement, it is generally accepted that people need a smaller income to maintain their standard of living. What this replacement income average should be is vague. It would seem that determination of this replacement income need and its relationship to Social Security would be a logical first step in designing a new federal retirement system.

We would also recommend that a non-partisian federal retirement board be established which would be responsible for the management of the retirement system. An executive director would be appointed to serve under the direction of the board. As we are all too acutely aware, the question of retirement reform and the handling and investment of retirement system funds, a difficult undertaking under any situation, has become complicated by politics.

In terms of the current Civil Service Retirement System, we strongly support continuation of the current system without any changes. We support passage of a provision requiring the Federal Government to maintain adequate funds in the trust fund to assure future payments to annuitants. I would also like to call upon responsible elected officials to stop referring to the CSRS as an "overly generous" retirement system. The current retirement system is a fair and equitable system which pays benefits comparable to those of top private sector firms. It would be portrayed in this light.

In terms of the actual design of the new system, we would like to point out what is the most common private sector pension scheme. This system might well be the best avenue for the Federal Government to follow.

Such a system has three tiers. First is Social Security. The second tier is a defined benefit plan to provide a salary replacement in the range of 70-80 percent at age 65 with 40 years of service. This replacement income would be offset by Social Security. There would be reduced benefits for early retirement, such as the current 56% at age 55 with 30 years. Similarly, there would be reduced benefits at retirement at age 60 with 10 years. Employees are vested in these systems after 5 years. These systems are fully employer funded and use private sector investment to maintain their income flow.

A voluntary investment incentive plan would be the third tier. This plan would allow tax deferred employee contributions of up to 15 percent of salary with the government matching up to a certain percent of the employee's contribution. This thrift plan should be invested in the private sector, and controlled by an independent Federal Retirement Board.

Thank you for the opportunity to testify. Again, we both appreciate and congratulate your efforts on this important issue.

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HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE

THE HONORABLE WILLIAM FORD, CHAIRMAN

DESIGN for a SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM

MARCH 13, 1984

Mr. Chairman and Members of the Committee, the members of the Federal Managers Association appreciate this opportunity to indicate to you our concern relative to the Civil Service Retirement System.

First, Mr. Chairman, I want to emphasize strongly the feeling of our federal employees, most especially our thousands of federal supervisors/managers whom we represent, as to their retirement. During my 35 years working with and for federal employees here in Washington I have never seen a more emotional, driving concern, and at all age and pay levels.

FEDERAL EMPLOYEE MORALE

During mid-February, I spoke to some 20 different groups of federal managers, representing some 3,000 people, from San Francisco to San Diego. The number one item, without a doubt, was retirement to be followed in order by: Keeping Work In House instead of use of contractors, Pay and Health Insurance.

In fact, 450 federal managers on a Saturday, February 18th, attended a

luncheon at Long Beach, California to hear Dr. Don Devine, Dir. of OPM. He timidly avoided the retirement issue. The audience wanted explanations as to the Administration's proposal to erode their Civil Service Retirement System. They are still awaiting answers to their questions. Here is a typical question by a group of federal managers for Congress, for President Reagan, for Dr. Devine, and even for the Grace Commission. "Why should a system that is self supporting, providing a retirement annuity to those who dedicated their lives to the U.S. Government, which they had no choice but to accept, be tampered with when it is adequate for all concerned?"

Mr. Reagan's proposal to erode the Civil Service Retirement System is "Sad News" to 35 million Federal employees and merely depresses even more the morale of our federal workforce.

And, the ironic aspect of all this is the fact that we at this time should be working to improve the productivity of our federal workforce. Instead, we as managers are daily faced with a workforce that feels it is being used and I mean "USED" by the Administration.

Mr. Chairman, you know and I know, that one of the soundest, fairest ways to improve our creditability, our image with the public is to show a more efficient and effective workforce.

With daily comments, reports of overpaid, underworked Civil Service personnel, just waiting for fat retirement annuities, you quickly recognize the problems of federal managers to improve productivity.

FEDERAL MANAGERS' REACTIONS

For a few moments let's hear from some federal managers on this issue of retirement.

"Our system - CSRS - is presently solvent, but it requires input from new

employees to maintain that solvency. I recommend that waste, fraud and abuse be eliminated from Social Security to save it from itself and that our retirement payments be paid into our own fund".

"It has become too easy for the federal government to take pot shots at the federal employees. We are frankly getting tired of being the first ones to pay for everyone else's mistakes".

From the Washington area, "Retirement benefits are adequate under the present system. Additional fringe benefits are not required. The emphasis should be on protection of existing benefits".

Another group of managers in Oklahoma told us: "We in the Civil Service community have not asked for expansion or increases to the retirement system. We have simply asked to leave it status quo. It became most apparent that our request was ignored when all new Civil Service employees were placed under the ailing Social Security system effective 1 January 1984. The end result of this action meant a lack of perpetuation for our previously sound retirement system. Our concern lies with the government employee with less than 10 years service. They must be wondering what retirement will offer them. To improve the confidence level of all Civil Service employees, the supplemental retirement system must be tied to the present system. Without at least some funds coming into the system it cannot survive and we would all feel that our government would simply be waiting for us to expire and relieve them of their liability."

RECOGNITION OF TWO DIFFERENT SYSTEMS

Mr. Chairman, in your opening statement, February 23rd, you stated two paramount principles in the development of a supplemental plan; namely, first, no plan which will threaten the integrity of the existing Federal

retirement system; and, secondly the supplemental plan must be compatible with existing systems".

The Federal Managers Association strongly endorses your principles. And, we too, agree with Dr. Devine that you are to be commended for starting early an analysis of the many intriguing, complex and conflicting issues relating to the Federal Government Retirement and Social Security.

As we approach these two systems we must keep solidly in mind a statement by former Virginia Congressman, Joseph Fisher; "The two systems, Federal Retirement and Social Security, were established to fill different objectives, one a retirement income or pension for government staff, the other a minimum protection for elderly persons".

Mr. Chairman, as we review the hundreds of documents analyzing every possible aspect of Social Security and a blend into Civil Service Retirement or vice versa, there is always that major difference which is underlying every move. We appear to want to submerge these basic differences between an actual retirement program and a program to guarantee a degree of fiscal existence.

ADVERSE IMPACT-SOCIAL SECURITY ON MANAGERS

May I stop here a moment and also emphasize the fact that our higher grade federal personnel are fully knowledgeable; that the more you earn under Social Security the less the return. They do not need to be reminded that with the same amount of service, now under Social Security, the lower-paid employee receives 40% of pay but the higher-paid receives 19% or less.

We are indeed glad to see that the Administration is flexible at this time - so Dr. Devine has stated - relative to the relationship of a new retirement plan and Social Security, the age range for certain special groups of Federal employees such as Firefighters and Air Traffic Controllers and

coverage.

In turn, as I stated earlier, we cannot support the Administration's current proposals; Reagan Budget for '85 as to a change in the annuity formula, high 3 years to a high 5 years, an increase in contributions or reducing the COLA.

CONFLICTING OPINIONS

As we study the OPM rationale for changes to the present Civil Service Retirement System we are both amused and disturbed. Why? Simply because there are studies and studies that support either side of these controversial arguments.

OPM officials say we have a huge unfunded liability of \$515 billion. Tomorrow's citizens will have to pay a major portion of cost of service being received from today's federal employees.

Michael Nave, former President of NARFE, has stated, "CSRS funds assets totaled in 1982, \$96.6 billion and interest on fund investments amounted to \$8.2 billion; whereas, outlays in that year were \$19.6 billion". In turn Mr. Nave shows that CSRS funds are borrowed by the government at below market rates, an actual savings to the government of billions of dollars.

Tom Tinsley, former head of Retirement and Insurance in OPM and for years in the Civil Service Commission, has often stated, "Under current operating conditions the Civil Service Retirement System is absolutely fiscally sound for the next 100 years".

In a recent statement, Mr. Nave, after reviewing the handling of CSRS disbursements against only employee contributions, without considering the government's matching contribution or interest earned from CSRS investments stated: "It seems obvious that budget cutters in the Administration and in

Congress are taking aim at federal retirement benefits, not because of funding needs, as in the case of Social Security, but as a matter of political expediency for budget purposes".

And, Mr. Chairman, as a side remark, the Grace Commission material will heat up the "political expediency".

In another area of mystism, Mr. James Cowen, Staff Director of Senator Steven's Government Affairs Subcommittee is quoted in a recent newspaper story, Federal Times, as saying: "The current system's financial condition does not depend upon new entrants. Its soundness is secured solely by continued government appropriations into the retirement trust fund".

Then Mr. Kenneth Shapiro of Hay, Huggins Inc. testified before the Committee February 23rd. "The employees hired before January 1, 1984 and annuitants are understandably concerned about the financing of the current system. The current CSRS financing was constructed in 1969 to provide enough income on a going concern bases. As long as new employees enter the system, the payments will be sufficient to cover future benefits. However, if the current system is closed, this flow of fresh money will cease and the funds will disappear before all of the promised benefits are paid".

CRUX

Right here my dear Congressmen and Congress ladies is the crux to much of the worry, the fear, of our 3.5 million federal employees. They know you are mandated to do something about the new employees coming into the federal government but they are very skeptical as to what will be the end results!

SUMMARY

Mr. Chairman, Members of the Committee, in summary the Federal Managers Association's current position on this key issue, new federal employees and

the Civil Service Retirement System is as follows: 1. Federal employee morale is at the lowest level in four decades and a significant reason relates to a fear of either losing retirement benefits which has already occurred or the Administration's current proposals. 2. The Medicare tax and then bringing new federal employees into Social Security were opposed by FMA. We regard such actions as back-door entrances for all federal employees into Social Security and/or the erosion of the Civil Service Retirement System. 3. Congress, the current Administration and the American people must recognize the basic differences between a social insurance program and a model retirement system. 4. Current information regarding Social Security and the Civil Service Retirement system can be used to justify most any position a person wishes to take. This includes funding issues, early retirement, cost-of-living adjustments and disability. 5. The Members of Federal Managers Association are adamant to retain their present retirement benefits and urge Congress to move very carefully into any supplemental system for new employees.

In final analysis, the Federal Managers Association recommends legislation to remove new federal employees from Social Security.

Mr. Chairman, Members of the Post Office and Civil Service Committee, the creation of the Civil Service Retirement System in 1920 and the gradual improvements, especially the 1969 funding concepts, reflect a significant philosophy of government during the past four decades, and I am proud to have played a minor role. We believe the federal government should be the model for the rest of America; be it state, county or local governments or the private sector in all phases of personnel management. This certainly included training, promotional criteria, compensation, leave and retirement.

It is my humble opinion that without the federal government's leadership

in these personnel management areas, state and local governments, as well as much of the private sector, would not be nearly as advanced as they are today in such areas as retirement, leave, training and classification and compensation.

This Nation's first-class leadership represents the capabilities, dedication and energies of a first-class workforce. We, you and I, owe it to them to continue a first-class personnel program which must necessarily include a fiscally sound, fair and attractive retirement program.

Our thousands of dedicated federal managers ask the simple question, "Why change"?

Ladies and Gentlemen, I too ask the same question.