



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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JULY 12, 1979

The Honorable David Pryor
Chairman, Subcommittee on Civil Service
and General Services
Committee on Governmental Affairs
United States Senate



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Dear Mr. Chairman:

Your letter of March 19, 1979, referred to our December 29, 1978, report entitled "Need for Overall Policy and Coordinated Management of Federal Retirement Systems" (FPCD-78-49) and asked if we had any additional comments on legislation which was introduced in the 94th and 95th Congresses, H.R. 2660 and H.R. 5181, respectively, regarding civil service retirement credit for employees of nonappropriated fund instrumentalities (NAFI). You expressed particular interest in a constituent's suggestion that former NAFI employees be allowed to buy into the civil service retirement fund for years of NAFI service.

NAFI personnel meet the general criteria used to define Federal employees but are excluded by law (5 U.S.C. 2105) from civil service retirement coverage. The law stipulates that employees paid from nonappropriated funds of certain Department of Defense and Coast Guard instrumentalities are not subject to certain laws administered by the former Civil Service Commission (now the Office of Personnel Management), including the civil service retirement system. The exceptions were made in response to a Defense request so that NAFIs could establish personnel management systems competitive in cost and flexibility with those of private, commercial retail operations and recreation activities.

Defense has six separate NAFI retirement plans--Army; Air Force; Navy; and Marine Corps; plus the two major military exchange systems, the Navy Resale System Office and the Army and Air Force Exchange Service (AAFES). The first plan was established in 1946 for AAFES and the most recent plan in 1976 for the Air Force. The Coast Guard also has a retirement plan for its NAFI employees.

Letter Report

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The independent creation of NAFI retirement systems has created many inequities and inconsistencies, among which is the lack of transfer rights of service credits to and from the civil service retirement system. H.R. 2660 and H.R. 5181 would have amended the law to permit certain periods of service by NAFI employees in special services recreation and morale programs of the Armed Forces to be included as creditable service under the civil service retirement system.

We cannot support the changes proposed by the bills. They would only continue the piecemeal development of Federal retirement systems and compound their inconsistencies and inequities. We can see no justification for covering certain types of NAFI employment under the civil service system while continuing to exclude others.

As we concluded in our December 29, 1978, report, a primary reason for the proliferation of retirement programs in the Government is the lack of definitive criteria for participation in a Federal retirement system. For example, NAFIs were excluded from civil service retirement coverage basically because they operated with nonappropriated funds. Yet, the civil service system covers many other employee groups paid with nonappropriated funds. Also, employees in military commissaries, whose jobs are similar to those of NAFI employees, participate in the civil service system because they are paid with appropriated funds.

Because the participation criteria now used are inconsistent, confusing, and often conflicting, we believe the Congress should establish definitive criteria as part of an overall Federal retirement policy rather than make piecemeal changes like those proposed in H.R. 2660 and H.R. 5181.

Your constituent's suggestion that NAFI employees be allowed to buy into the civil service retirement fund to cover NAFI service would appear to have merit from an equity standpoint. While we have no statistics, undoubtedly many former NAFI personnel now work in civil service jobs but cannot have credit for their prior NAFI service under the civil service retirement system. The legislation which excluded NAFI employment from civil service coverage was intended to allow NAFIs to design compensation programs independently from the rest of the Government so they could be competitive with private enterprise. As applied, however, the law prohibits civil service system credit for NAFI service even after an individual has left NAFI employment for other Federal service.

In general, the civil service system grants credit for previous service under other Federal retirement systems such as the uniformed services, Foreign Service, Federal Reserve, and Tennessee Valley Authority. Thus, extending such credits to former NAFI employees would be consistent with these practices.

However, allowing former NAFI employees to buy into the civil service system would not be free of complications. The costs of such credits would be substantial and, unless the entire costs were paid, the already tremendous unfunded liability of the civil service system would increase even more.

Under the civil service system, most employees and their agencies contribute 7 percent of pay each into the retirement fund. These rates are determined actuarially and represent the amount of funds which, if accumulated annually and invested over covered employees' careers, would be sufficient to pay their future benefits. Without interest earnings, the contribution rates would be much higher. Moreover, as we pointed out in our report, these contributions and interest earnings fall far short of covering the full cost of benefits accruing under the system. The Office of Management and Budget estimates that the cost of accruing benefits is actually 27.4 percent of pay when more realistic assumptions are made in the cost calculations. (The 14-percent combined contribution rate does not account for the significant impact that employee pay increases and retiree cost-of-living adjustments have on retirement benefits.)

NAFI employees are covered by social security, to which they and their employers contribute, in addition to the NAFI retirement plans. In most of the NAFI plans, employees are required to contribute 7 percent of pay, less their contributions to social security. The employers pay all remaining costs which in 1976 ranged from about 6 percent paid by the Air Force to about 12 percent paid by AAFES. Since much of the employees' contributions goes to social security, comparatively few funds could be transferred to the civil service fund if such transfers were allowed. The available funds would not even approximate the 7 percent of pay that employees would have contributed to the civil service system, and interest earnings, if NAFI employment were covered. Requiring NAFIs to contribute toward the cost of such transfers would seem to negate the reasoning used for excluding NAFI personnel from the civil service system. At the same time, it would not seem

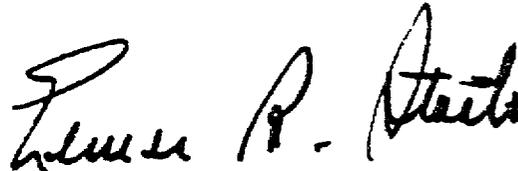
appropriate to require the Federal agency to which the employee transferred to pay for the cost of such credits. These problems must be resolved before such transfers could be effectively accomplished.

Probably the most common situation in which service credits are transferred from one Federal retirement system to another concerns former military personnel who become covered under the civil service system. Military service credits are granted at no cost to former military personnel or to the uniformed services. Each year the Department of Treasury transfers the necessary funds to the civil service system to cover the retirement outlays attributable to military service credits. We are not endorsing this approach or suggesting that it should be used for NAFI service credits, but it is one way credits have been transferred. In others, such as transfers from the civil service system to the Foreign Service system, only employee contributions are transferred. Employer contributions and interest earnings on employer and employee contributions remain in the civil service fund, thereby creating unfunded liabilities for the Foreign Service system. This is another area which needs overall Federal policy.

Another point that should be mentioned is that allowing former NAFI personnel to receive civil service credit for their NAFI service could result in employees receiving credit for both civil service retirement and social security for the same periods of service--a circumstance that is not allowed for employees covered by the civil service system.

In summary, it is very difficult to adequately evaluate suggested changes in policies of individual retirement systems when there is no overall policy to govern the many systems. The problems we've discussed here are the types of problems that result when each system is developed independently and on a piecemeal basis.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Louise R. Starks". The signature is written in a cursive, flowing style.

Comptroller General
of the United States