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U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 a.m.
TUESDAY, FEBRUARY 26, 1980

STATEMENT OF
H. L. KRIEGER, DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

HSE02908

ON

[CIVIL SERVICE DISABILITY RETIREMENT]

MADAM CHAIR AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to be here to discuss the findings in our November 30, 1979, report entitled, "Minimum Benefit Provision of the Civil Service Disability Retirement Program Should Be Changed."

I should like to preface my remarks by emphasizing that we fully acknowledge that disability provisions are a necessary and integral part of any responsible employer's compensation program. Employees who suffer physical or mental impairments causing a partial or complete loss of income need the financial support that disability programs provide.

As you know, we have become quite concerned with the growing costs of the civil service disability retirement

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program. At the end of fiscal year 1978, approximately 323,000, or about 28 percent, of all retirees under the system were retired on disability and receiving annuities totaling about \$2.2 billion annually. By the end of fiscal year 1979, these numbers had increased to 333,000 disability retirees receiving annual benefits of \$2.5 billion.

We have issued several reports showing the need for reform of the disability retirement program. Reforms are needed not only to reduce the growing costs but to insure that benefits are paid only to the truly disabled.

Our most recent report in the disability area, which is the subject of today's hearing, concerns the minimum benefits that are guaranteed to all disability retirees under the system. These provisions were adopted by the Congress in 1956 in recognition of the fact that the regular formula used to calculate benefit amounts would provide a very limited income to employees who became disabled early in their Federal careers. For example, employees becoming disabled after 5 years of service would receive a benefit of only 7.5 percent of their high-3 year average salary under the regular formula; 10 years' service would mean only 16.25 percent. The 1956 amendment provided that disabled employees would receive at least the smaller of (1) 40 percent of their high-3 average salary or (2) the benefits that would have been earned under the regular formula had the employees

worked to age 60. ~~In our opinion,~~ This congressional action filled a definite need and can only be described as a laudable and humane act.

~~About~~ About 153,000 disability retirees receive benefits under the guaranteed minimum provisions. ~~We found that~~ many of these retirees are not, in fact, the short-term Federal personnel that the law was intended to serve as they are also receiving benefits from prior careers in the military,

Our findings were based on a sampling of the 29,493 employees who retired on civil service disability with annuities calculated under the guaranteed minimum provisions during calendar years 1976 to 1978. ~~To determine the extent to which former military personnel might be receiving both military retirement and minimum civil service disability annuities, we compared a listing of the 29,493 retirees~~ ^{was compared} with information on all persons who were retired from the Air Force. Our presumption was that if a significant number of Air Force retirees were also receiving minimum civil service disability annuities, the same was undoubtedly true of retirees from the other military services.

^{compared about} We found that 1,202 of the civil service retirees were also receiving military retirement pay and/or Veterans Administration compensation in lieu of retirement pay. On the average, they were receiving \$415 a month in civil service disability payments; \$665 a month in military retirement and

veteran's compensation; and 80 of them were also receiving social security payments averaging \$328 a month. Many of the remainder will eventually qualify for social security upon reaching age 62.

A detailed examination of 56 of the 1,202 cases showed that they entered the civil service after military retirement at an average age of 43 and worked an average of about 11 years before retiring on disability. Nearly all of them had spent 20 years or more in the military. Ten of them were retired from the military on disability, and 25 were receiving nontaxable veteran's compensation payments after waiving all or part of their military retired pay.

The guaranteed minimum annuity provisions permitted these 56 individuals to collectively receive about \$109,000 more each year than they would have received if their annuities had been based solely on their actual civilian service. For the total 1,202 Air Force/civil service retirees, ^{if we} ~~we~~ estimate that the minimum benefit provisions will add about \$54 million to their lifetime annuity payments. Since this amount covers only Air Force retirees who retired again from the civil service in a 3-year period, the numbers would be much greater when all Air Force retirees and other military service retirees are also considered. Moreover, approximately 140,000 military retirees are now employed in civil service jobs, so it is very likely that the numbers will continue to grow.

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We are also concerned that the minimum benefit provisions may provide a disincentive for disabled employees who are receiving retirement income from previous military careers to continue working or to seek other jobs that they may be capable of performing. With the guaranteed minimum, disability retirement is generally more advantageous to them than the system's other retirement provisions. Disability retirement provides an immediate benefit in lieu of continued employment with retirement at a later date, and the guaranteed minimum permits their annuities to be based on the same service credits they would have accrued if they had continued working for the Government to age 60 or up to almost 22 years. We have long maintained that the Government should change its disability retirement policy to encourage the retention of potentially productive employees. The guaranteed minimum provisions, in effect, encourage disability retirement.

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Our report recommended that the Congress amend the civil service retirement law to provide that only the benefits earned under the regular formula be given to military retirees. The minimum annuity provisions were designed to protect employees who are required to prematurely terminate their Federal careers because of disability. We believe that such increased annuities are inappropriate for individuals who are already receiving full benefits from prior careers in the military.

We do recognize that there may be ^{To cover} instances in which the combination of benefits available from former military careers and the regular civil service formula may be less than the civil service guaranteed minimum. Such cases should be rare, but to cover that possibility, we also recommended that the law should allow for appropriate adjustments to be made to the civil service benefits to assure that these retirees receive total benefits at least equal to the civil service minimum/

Our recommendations are consistent with other actions the Congress has taken to limit rights and benefits under multiple Government programs and would reduce retirement costs significantly.

That concludes my statement Madam Chair. My colleagues and I will be pleased to answer any questions the Subcommittee may have.