

March 2006

HUMAN CAPITAL

Agencies Are Using Buyouts and Early Outs with Increasing Frequency to Help Reshape Their Workforces





Highlights of [GAO-06-324](#), a report to congressional requesters

Why GAO Did This Study

Under the Chief Human Capital Officers (CHCO) Act of 2002, an agency may request authority from the Office of Personnel Management (OPM) to offer employees voluntary separation incentive payments (buyouts) and voluntary early retirement (early outs) to help reshape its workforce.

GAO was asked to identify (1) how many agencies have been granted authority to offer buyouts and early outs and how often agencies used them, (2) how agencies view OPM's role in facilitating the use of these tools, (3) how agencies have used practices associated with effective use of the tools, and (4) what challenges agencies identified, if any, to continued effective use. To respond, GAO reviewed the practices of the Departments of Agriculture, Commerce, Energy, Health and Human Services, Interior, and the Treasury because they were among the most frequent users of these authorities.

What GAO Recommends

GAO recommends that OPM, with the CHCO Council, (1) share information on agencies' successful use of the effective practices GAO identified, (2) help agencies assess their programs' effectiveness, and (3) assess potential program improvements agencies identified for possible implementation, and pursue needed regulatory and statutory changes to implement them. OPM agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-324.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Eileen Larencee, (202) 512-6510, larencee@gao.gov.

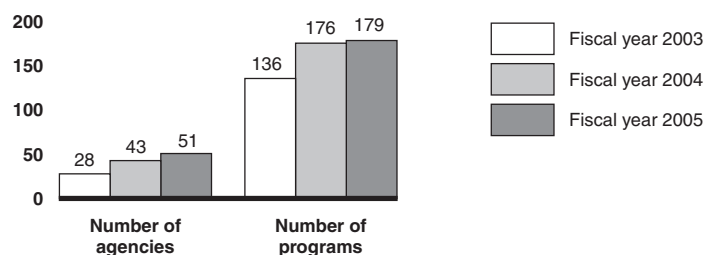
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What GAO Found

The total number of agencies using buyouts and early outs to reshape their workforces has significantly increased from 28 to 51 during fiscal years 2003 through 2005, and the number of programs agencies have offered over the past 3 years has also significantly increased (see fig. below). During this timeframe, at least 22,600 employees have separated from federal service under these authorities.

Total Number of Agencies Having Used the Authorities and Total Number of Buyout and Early-out Programs Offered Since the Authorities Were Made Available in Fiscal Year 2003
Total number



Source: OPM data.

Officials at all six agencies GAO reviewed believe that OPM's mandatory review of and feedback on their plans for using buyouts and early outs has improved implementation. However, nearly all of the agencies said they believe the review at times can be achieved more quickly and should be streamlined. OPM on average took 36 days to review the 28 randomly selected programs GAO assessed at the six agencies. OPM is taking steps to reduce its overall average review time including establishing more stringent timeframes for review and reducing the number of reviewers.

The six agencies also reported using almost all of the practices GAO identified as associated with the effective use of buyouts and early outs, and that these practices resulted in better-planned programs. Agencies were not, however, using one practice that involves evaluating the longer-term effectiveness of the buyout and early-out authorities for reshaping their future workforces. Officials at the six agencies suggested that information on how some agencies used effective practices in ways that were particularly successful or instructive in reshaping their workforces could help them improve program results.

Agency officials responsible for use of these authorities from the six agencies agreed that certain reforms would help them address some of the challenges they face in implementing their programs. These include (1) increasing the current dollar amount agencies can pay under buyouts to make the programs more attractive to employees and increase the acceptance rate and (2) allowing agencies to make minor changes to buyout and early-out plans after OPM approval. OPM is in the best position to assess these and other possible reforms and ways to achieve them.

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Abbreviations

CHCO	Chief Human Capital Officers
DOC	Department of Commerce
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
FWRA	Federal Workforce Restructuring Act
HHS	Department of Health and Human Services
HR	human resources
IRS	Internal Revenue Service
IT	information technology
NIST	National Institute of Standards and Technology
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RIF	reduction-in-force
Treasury	Department of the Treasury
USDA	Department of Agriculture
VA	Department of Veterans Affairs

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United States Government Accountability Office
Washington, D.C. 20548

March 31, 2006

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Jon C. Porter
Chairman
Subcommittee on the Federal Workforce and
Agency Organization
Committee on Government Reform
House of Representatives

The federal government's people—its human capital—are a critical element to meeting the current and emerging challenges of the 21st century, including responding to natural emergencies and handling the increased threat of terrorism, as well as maximizing the government's performance. However, fiscal challenges and competing budget needs put pressure on agencies to make trade-offs and difficult decisions regarding how to invest in their human capital. In the past, agencies have often responded to such financial challenges by using reductions-in-force (RIFs) to their workforces to meet their budget limitations. This has caused a loss of institutional memory and a backlog of work, among other problems. As a result, agencies subsequently reported that such mandatory downsizing has hindered them from carrying out their missions.¹

Agency RIFs are not, however, the only—and often are not the best—means of addressing reduced agency resources or changing the skill profile of the workforce to address 21st century challenges. Agencies may use a variety of approaches to reshape their workforce to achieve their mission results with greater economy, efficiency, and effectiveness. Such approaches may include merging departments or functions, redeploying people to different organizational units or locations, conducting training or retraining programs to improve workforce performance, implementing recruiting programs for needed skills, and reducing the layers within an organization's hierarchy.

¹GAO, *High Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

The authorities granted by the Congress in the Chief Human Capital Officers (CHCO) Act of 2002 provided two additional tools agencies may use to help them reshape their workforces. Under buyout programs, agencies offer cash incentives up to \$25,000 for employees to voluntarily leave federal service. The Act does not, however, provide funding for these authorities. Thus, each agency must bear the cost of the incentives. Under early-out programs, agencies offer early retirement at reduced annuity payments to employees age 50 and above with at least 20 years of service or to employees at any age with at least 25 years of service. An agency does not face any costs for offering early outs.

For agencies to use these authorities, the Office of Personnel Management (OPM) must first review agency plans for using these tools and assure that the plans comply with certain legislative requirements. According to OPM officials who are involved in reviewing agency programs, their reviews are intended to ensure that agency plans are complete and are linked to the accomplishment of the agency's strategic goals. Within OPM, agency plans are reviewed by a human capital officer familiar with that agency's operations, and four levels of supervision prior to the Director's official approval decision. Agencies have multiple opportunities each year to request authority to offer buyouts, early outs, or both to meet the specific reshaping goals of any of their components or organizational units. Agencies can request authority from OPM to offer programs for either buyouts, early outs, or for both at the same time. However, OPM cannot approve any buyout or combined buyout and early-out request without the Office of Management and Budget's (OMB) concurrence, due to the budget implications for the requesting agency.

To gain a better understanding of the extent to which agencies are using the buyout and early-out tools authorized by the Act, you asked us to identify (1) how many agencies have sought and been granted authority to offer buyouts and early outs, and the extent to which agencies have used these authorities; (2) how selected agency officials view OPM's role in facilitating the use of the buyout and early-out authorities; (3) what practices are associated with agencies' effective use of buyouts and early outs, how selected agencies used these practices, and whether they have helped agencies to achieve their workforce reshaping goals; and (4) what challenges the selected agencies identified, if any, to continued effective use of these authorities. The agencies we selected were the Departments of Agriculture (USDA), Commerce (DOC), Energy (DOE), Health and Human Services (HHS), Interior (DOI), and the Treasury (Treasury), because we determined from OPM data on agency requests and approvals

that they are the most frequent users of the buyout and early-out authorities.² The agency selection process was not designed to produce findings that could be considered representative of the use of these authorities in the federal government as a whole.

To meet our objectives, we analyzed information from a review of relevant literature on the use of buyouts and early outs in organizations including our prior studies of federal buyout programs in 1997 and 1998.³ We obtained and analyzed governmentwide, excluding the Department of Defense (DOD), data on agencies' use of buyouts and early outs, and interviewed officials involved in the approval process from OPM and OMB on their roles and responsibilities.⁴ We reviewed a sample of OPM case files for about a tenth of all the offers made by the six selected agencies for fiscal years 2003 through 2005. While we cannot generalize the results of our file review to OPM's overall program, the results can help us to illustrate examples of OPM's review process. We also conferred with officials with relevant expertise in the management of human resource programs from the National Academy of Public Administration and the International Public Management Association on the reasonableness of the effective buyout and early-out practices we identified. Both of these organizations have published reports on the effectiveness of these federal human capital practices. In addition, we interviewed human capital and program officials from the selected agencies to identify the particular buyout and early-out practices they were using, how they believe the practices helped them to achieve their goals, and the lessons learned from their experiences. Although we provided each of our six selected agencies with OPM's count of their buyout and early-out authorities to review, we did not independently verify OPM's governmentwide buyout and early-out data. Our review was conducted in accordance with generally accepted

²During the course of our review, OPM reported that the frequency with which the Department of Transportation (DOT) and the Department of Veterans Affairs (VA) had used the authorities was comparable in magnitude to the six agencies that we selected. Because of this, we included DOT and VA in our figures showing individual agency use of the authorities. However, they were not included in our more detailed examination of practices at the six selected agencies.

³See, for example, GAO, *Federal Downsizing: Effective Buyout Practices and Their Use in FY 1997*, GAO/GGD-97-124 (June 30, 1997); and *Federal Downsizing: Agency Officials' Views on Maintaining Performance during Downsizing at Selected Agencies*, GAO/GGD-98-46 (Washington, D.C.: Mar. 24, 1998).

⁴The CHCO Act of 2002 specifies that OPM, when reviewing agency buyout plans, consult with OMB before final approval is granted. 5 U.S.C. 3522(c).

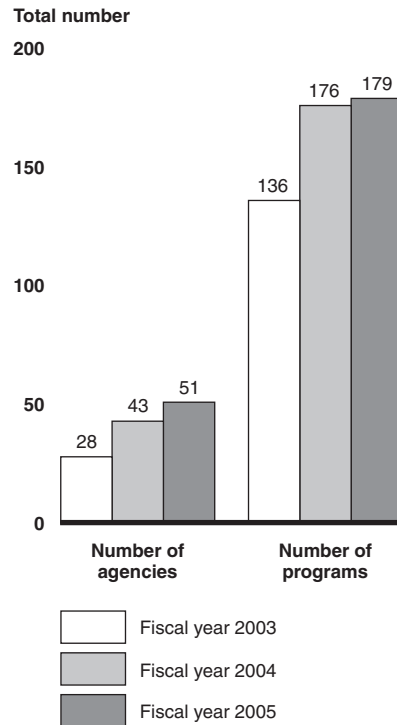
government auditing standards from October 2004 through November 2005. Appendix I provides additional information on our scope and methodology.

Results in Brief

Since November 2002, when the buyout and early-out authorities were provided, the number of agencies using the authorities significantly increased and the number of programs⁵ offered has also significantly increased. To date, nearly half of the approximately 110 executive branch agencies have taken advantage of these authorities to help reshape their workforces, and according to OPM data, at least 22,600 employees separated from federal service after accepting offers under these authorities during this timeframe. During fiscal years 2003 through 2005, a total of 51 agencies have been granted authority to offer buyouts or early outs to employees. This has increased from 28 agencies that were granted these authorities in fiscal year 2003, the first year they were available. During these same 3 years, OPM reviewed and approved agency requests for the authorities to offer buyout and early-out programs a total of 136 times, 176 times, and 179 times, respectively (see fig. 1).

⁵For the purposes of our review, a program is each OPM-approved agency request to use the buyout, early-out, or both authorities.

Figure 1: Total Number of Agencies Having Used the Authorities and Total Number of Buyout and Early-out Programs Offered Since the Authorities Were Made Available in Fiscal Year 2003



Source: OPM data.

Nearly three-fourths of the authorities OPM approved in fiscal year 2005 were combined buyout and early-out programs. OPM data show that 70 percent of all agency programs approved that year offered employees the opportunity to take a buyout and an early retirement at the same time. According to several agency officials responsible for use of these authorities, employees are more likely to accept early-out offers when they are combined with buyouts because the buyout's monetary payment helps offset the employee's loss in income and reduced annuity payments under an early-out program. The six agencies examined in our review used these authorities more frequently than other agencies and believe the authorities have helped to reshape their respective workforces more effectively. For example, according to program officials involved with managing these programs from DOC's National Institute of Standards and Technology (NIST), the agency used a buyout and early-out program to achieve a more

optimal skills mix in the face of budget cuts and changing priorities for its research and development, thereby limiting involuntary staff reductions to a minimal number.

Officials associated with the management of buyout and early-out programs at the agencies we met with believe OPM's review process adds value, but could at times also be achieved more quickly and should be streamlined. The program officials in each of the six agencies believed early OPM feedback on their individual agency plans to implement buyouts and early outs was helpful in obtaining final OPM approval. Several reported that their agency has modified and improved their plans as a result. Managers at DOE stated that the agency has worked closely with OPM to resolve any questions in an effort to streamline the process. On the basis of a sample of 28 programs that we examined at the selected agencies, we found that, on average, OPM's review took 36 days and ranged from 7 to 88 days. Agencies want timely reviews so that their programs can be implemented early in the fiscal year to maximize savings and to give employees enough time to decide whether to accept or decline the buyout or early out, better helping to ensure the success of the program. Otherwise, if the planned numbers of employees do not accept the offers, the agency may have to institute a more costly action to reduce its workforce.

According to OPM and officials from the agencies we reviewed, a number of variables can affect approval times, including the experience of the officers (OPM, OMB, and agency) assigned to the request, complexity of the request, and whether the request involved competitive sourcing decisions. The OPM program managers said that reviews overall take on average 34 days but that the agency has set a goal to reduce this to 21 days. To help achieve this goal OPM has developed an application checklist for agencies to help ensure their plans comply with regulatory requirements before they are submitted, and according to OPM officials, the agency is currently reviewing its program office review process for streamlining options. These options include realigning or dedicating staff to evaluate agency requests. Additionally, final approval of these requests is being delegated from the Director to the Associate Director level. OPM's actions to improve cycle time, if effectively implemented, should help address agency concerns about shortening the windows for offering buyout and early-out programs.

We identified seven practices associated with effective use of buyouts and early outs, and the agencies in our review reported not only using most of

these practices to some degree, but also that doing so helped them to achieve their reshaping goals. However, the agencies reported fewer activities related to the practice of establishing an evaluation system. Five of these practices are generally reflected in the CHCO Act of 2002 and OPM's implementing regulations. All seven practices are described in the following table:

Table 1: Practices Associated with Effective Buyout and Early-out Programs

Practices reflected in legislation or OPM regulations

1. **Identify the reshaping goals of the agency.** This will assist agencies in linking buyouts and early outs to specific organizational objectives.
2. **Develop workforce reshaping strategies that fully consider alternative methods.** This will help agencies identify whether alternatives may more effectively meet agency reshaping goals than buyouts and early outs, and could work in conjunction with these tools.
3. **Design buyout and early-out offerings that demonstrate a clear relationship to agency's workforce reshaping goals and overarching strategic goals.** This will help ensure that employees critical to the mission of an agency are retained.
4. **Design buyout and early-out offerings that consider employees' needs.** Programs that do not do so may cause damage to the agency's reputation or negatively affect employee morale and productivity.
5. **Develop a communications strategy early in the process.** Regular communication with employees increases transparency in the process used to determine which positions may be eliminated. This in turn increases employee trust and maintains employee morale.

Practices not reflected in legislation or OPM regulations

6. **Consider and adopt ways to maximize cost savings.** In general, agencies should maximize current year payroll savings by separating employees early in the fiscal year when possible, preferably in the first quarter.
7. **Establish an evaluation system to identify and report relevant data on buyout and early-out recipients.** Agencies can use these data to assess how well the buyouts and early outs are meeting or have met reshaping goals and whether they need to adjust their strategies.

Source: GAO analysis.

For example, officials responsible for use of these tools in the six agencies reported that determining up front the reshaping goals they wanted to attain with their buyout or early-out programs was critical to their achieving successful outcomes. They explained that by analyzing the reduction of staff they could achieve using these tools and how this would in turn help them achieve changes in skill mix or geographic deployment helped them to ensure they would meet their strategic goals. The agencies

in our review, however, have not taken full advantage of one of the leading practices—establishing evaluation systems for these programs. While the agencies do track how the individual program results relate to their reshaping goals and analyze the results to assure that all employees are treated fairly, agencies have not expanded or further developed these monitoring efforts for longer-term evaluation of these tools. For example, agencies could expand their analyses of results to include the examination of how, if at all, the length of service influences acceptance or rejection of an offer. This information could be useful in the structuring or timing of future offers. Similarly, agencies could assess the costs and savings of using buyouts and early outs relative to other separation strategies. OPM officials informed us that they are developing Web site guidance to assist agencies in implementing and administering buyout and early-out programs.

The changing demographics of the federal workforce, and limits on the dollar amount for buyouts, could pose challenges to the future viability of these tools, according to many of the agency officials associated with the use of these authorities in our review. For example, as more employees retire and are replaced by younger employees further from retirement, buyouts and early outs may not be attractive to them. In addition, officials in each of the six agencies also believe that the \$25,000 limit on the buyout payment amount, which has not been changed since 1992, may make the programs less attractive to prospective candidates. They note that they would benefit from having the flexibility to offer more money, even though doing so could limit the number of offers agencies could provide if additional funding is not available. Officials in three agencies also suggested they were challenged because they could not make minor deviations to the plans OPM approved. They would like the flexibility, for example, to include an additional occupation as being eligible for the program during implementation if they need to in order to achieve their reshaping goals, as long as they do not exceed the total number of buyouts or early outs OPM approved. Finally, some agency officials stated that obtaining examples of how some agencies used effective practices in ways that were particularly successful or instructive in reshaping their workforces could help them improve program implementation and administration. OPM, as the central human capital organization, is in the best position to collect and share this information, and determine what improvements would be worth implementing governmentwide, especially since some would require legislative changes.

To address challenges agencies face in using these authorities and consider possible ways to increase their viability, we are making recommendations to OPM and the CHCO Council that they serve as a clearinghouse to share examples of how agencies have used effective practices to achieve program successes; help agencies implement the practice of assessing the long-term effectiveness of these tools for future reshaping efforts; and assess potential improvements to these tools, and the steps needed to accomplish these improvements.

We provided a draft of this report to the Director of OPM for review and comment. The Director agreed with our recommendations and stated that OPM is actively working with agencies to help them measure the effectiveness of their buyout and early-out programs. This in turn will enable OPM to consider whether changes are needed to improve the effectiveness of these two tools. Further, the Director of OPM reported that, working with the CHCO Council, it sees a proactive role that it can take in sharing information from agencies on their best buyout and early-out practices, and how agencies may subsequently improve the effectiveness of their reshaping strategies. The Director's written responses are reprinted in appendix II.

Background

In the past, to help reduce and restructure their workforces, federal agencies have paid buyouts to employees to voluntarily leave federal service. DOD has had buyout authority since January 1993.⁶ Most non-DOD executive branch agencies have had two buyout opportunities. The first, under the Federal Workforce Restructuring Act (FWRA) in 1994,⁷ provided these agencies the authority to offer buyouts of as much as \$25,000 to employees to voluntarily leave federal service, thereby eliminating the need for involuntary staff reductions. Nearly 40 percent of the buyouts were paid to those employees in overhead positions such as personnel, budget, procurement, and accounting. About 70 percent went to employees in mid- to upper-level positions in their organizations. The second major buyout opportunity was authorized by section 663 of the

⁶Pub. L. No. 102-484 (Oct. 23, 1992) authorized DOD buyouts through Sept. 30, 1997; Pub. L. No. 103-337 (Oct. 5, 1994) extended DOD buyouts through Sept. 30, 1999. DOD's current buyout authority is included as part of the National Security Personnel System (5 U.S.C. 9902(i)).

⁷Pub. L. No. 103-226 (March 30, 1994).

Treasury, Postal Service, and General Government Appropriations Act of 1997.⁸ According to Administration officials, the buyouts have had three distinct purposes. Initially they were used to help ease reductions in the DOD civilian workforce following the end of the Cold War. Later, as part of the National Performance Review—the Clinton administration’s initiative to reinvent government—buyouts were used to reduce what the administration called “management control” positions. These positions included those held by managers and supervisors and employees in personnel, budget, procurement, and accounting occupations. Lastly, the buyouts were used to help save money by reducing the federal workforce as the Congress and the President agreed to pursue a balanced budget.

During the first buyout time frame, the Congress, as well as our own reports, began expressing concern over agencies’ lack of adequate planning prior to the implementation of their buyout programs and workforce reduction initiatives.⁹ The Congress considered this concern in a series of hearings and addressed the issue when it passed Public Law 104-208 in September 1996, which directed agencies to prepare strategic buyout plans for congressional review. OMB required agencies to first submit their plans for its review prior to submitting them to the Congress. In a June 1997 report on effective buyout practices, we found that, overall, the fiscal year 1997 buyout programs at six agencies we examined at that time appeared to have been better managed than was generally the case governmentwide during the 1994 and 1995 buyout window. This was due in large part to statutory and OMB requirements, as well as OPM guidance. Together, the requirements and guidance resulted in more structured programs in which agencies indicated they used buyouts to accomplish specific objectives and reportedly would save millions of dollars in the years ahead.¹⁰

In response to this success, the Congress streamlined the approval process for agency programs by eliminating congressional and OMB review of agency plans, although OPM must still consult with OMB on buyout plans. The CHCO Act of 2002 provided executive branch agencies, with OPM

⁸Pub. L. No. 104-208 (Sept. 30, 1996).

⁹See, for example, GAO, *Federal Employment: The Results to Date of the Fiscal Year 1994 Buyouts at Non-Defense Agencies*, [GAO/T-GGD-94-214](#) (Washington, D.C.: Sept. 22, 1994); and *Federal Downsizing: Better Workforce and Strategic Planning Could Have Made Buyouts More Effective*, [GAO/GGD-96-62](#) (Washington, D.C.: Aug. 26, 1996).

¹⁰[GAO/GGD-97-124](#).

approval, the authority to offer buyouts and early outs to certain qualifying employees, for the purposes of workforce reshaping, not just downsizing. DOD has separate legislative authority to offer buyouts and early outs and does not require approval of OPM for its programs.¹¹ The Act expanded the buyout and early-out authority to give agencies the flexibility required to reorganize their workforces should agencies need to substantially reduce their number of organizational layers, transfer functions, or make other substantial workforce changes. As such, the Act's provisions allow agencies to reduce managerial or supervisory positions, correct skill imbalances, and reduce operating costs without the loss of full-time positions.

Congress specified that each executive agency requesting buyouts, early outs, or both must submit a plan to OPM outlining its intended use of these authorities. OPM also issued regulations to the heads of executive agencies with information on how to prepare these plans. OPM review officials said they approve or disapprove agency requests for the authorities based on the quality of the plans. For example, they ensure that all legislative requirements are met. OPM reviews each agency's plan and, for buyouts only, consults with OMB before final approval is granted. OMB assures that the agency has funding for the buyout program and meets the legislative requirements. Agencies must have OPM approval before using buyout and early-out authorities and are required to provide OPM with interim and final reports on their use.

Agency plans are to describe how they will use buyout and early-out offers as tools to facilitate agencies' reshaping goals. For agencies requesting buyout or buyout and early-out authority, the plans are also to include identification of the agency or specified component(s) within the agency for which the authority is being requested; identification of the specific functions to be reduced or eliminated; a description of the categories of employees who will be offered these options identified by organizational unit, geographic location, occupational series, or grade level; and the time period during which buyouts may be paid or early outs offered. Agencies may request and offer buyout and early-out programs simultaneously for each of their components and organizational units.

¹¹5 U.S.C. 9902(i).

Almost Half of All Agencies Have Used Buyout and Early-out Programs to Reshape Their Workforces and the Number of Programs Has Increased

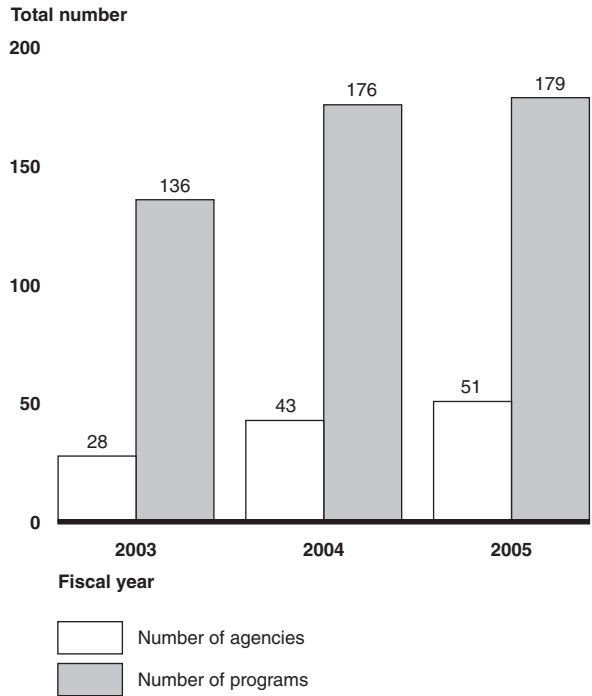
Since fiscal year 2003, the number of agencies using buyouts and early outs to reshape their workforces has increased, and to date, about half of the executive branch agencies have requested and used these authorities. In addition, agencies are more frequently offering buyouts and early outs together as an additional incentive for employees. Eight agencies are the major users of the authorities and represent approximately 70 percent of all requests. Agencies' decisions to use buyouts and early outs are based on specific workforce planning needs. In some cases, technological advances that necessitated a different skill mix primarily drove agency-reshaping efforts. In other cases, agencies' reshaping efforts were driven by a more diverse set of needs such as consolidation of functions or budgetary restrictions. Officials responsible for use of these authorities at our six selected agencies believe that buyouts and early outs have been successful tools to help reshape their respective workforces.

Total Number of Agencies Using These Authorities and Number of Programs They Offered Has Increased Each Year

Of the approximately 110 executive branch agencies under the CHCO Act, a total of 51 agencies have been granted authority to offer their employees programs of buyouts, early outs, or both at least once.¹² This has increased from 28 agencies that were granted these authorities in fiscal year 2003. As shown in figure 2, OPM approved, and the agencies used, the authorities to offer programs a total of 136 times, 176 times, and 179 times, respectively, to help reshape their workforce. According to OPM data, at least 22,600 employees have separated from federal service under a buyout, early out, or both. Among the employees who separated and received a buyout, 59 percent were employees who separated by retiring under the government's standard retirement qualifications and did not need an early out, 36 percent were employees who separated using an early-out program, and 5 percent were employees who separated through a resignation.

¹²Because DOD has separate legislative authority to offer buyouts and early outs and does not require approval from OPM, we excluded DOD from our review.

Figure 2: Total Number of Agencies and Total Number of Buyout and Early-out Programs They Offered Since Authorities Were Made Available in Fiscal Year 2003



Source: OPM data.

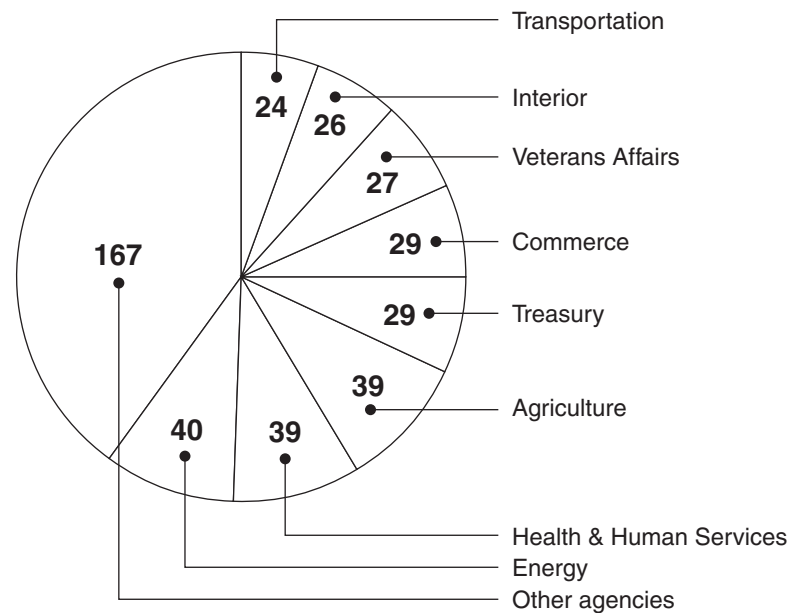
Agencies Are Offering Combined Buyout and Early-out Programs

In fiscal year 2003, 40 percent of all agency programs offered employees the opportunities to have a buyout and take an early retirement at the same time. In fiscal year 2004 this increased to 55 percent. In fiscal year 2005 this further increased to 70 percent. DOI, DOE, and Treasury were agencies more likely to offer programs with combined buyout and early-out offers. For example, in fiscal years 2004 and 2005, DOI combined buyouts and early outs in 39 of its 42 programs, DOE combined them in 38 of its 45 programs, and Treasury combined them in 14 of its 23 programs. According to several agency officials responsible for use of these authorities, employees are more likely to accept early-out offers when they are combined with buyouts because the buyout's monetary payment would help offset the employee's loss in income and reduced annuity payments.

Eight Agencies Are Major Users of the Authorities

Over the 3-year period, OPM granted a total of 491 requests from the 51 agencies for buyout, early-out, or both authorities. As shown in figure 3, USDA, DOC, DOE, HHS, DOI, DOT, Treasury, and VA represent approximately 70 percent of granted buyout and early-out programs.

Figure 3: Major Users of Buyout and Early-out Authorities



Source: OPM data.

Note: Numbers indicate total number of buyout and early-out programs offered by each agency from fiscal year 2003 through fiscal year 2005.

The Selected Agencies in Our Review Believe the Authorities Have Been Effective Tools in Reshaping Their Workforces

The six agencies in our review based their decisions to use buyouts and early outs on specific reshaping objectives identified in their particular agency's workforce planning process. For example, HHS consolidated its human resources (HR) offices from 40 to 5 using the buyout authority to manage the workforce transition from 1,167 employees to approximately 860. According to the HHS agency official who led the agency's HR consolidation effort, the agency successfully used the buyout authority to manage the reduction of higher-graded positions and to strategically adjust its workforce size and skills mix. The official stated that over 125 of the estimated 350 staff affected by the agency's consolidation of its HR offices

accepted buyout offers. He explained that initially they were able to redeploy displaced staff to mission-critical occupations and functions; however as consolidations continued and the balance shifted more and more away from administrative positions and toward mission-critical occupations, their ability to absorb and redeploy staff to other administrative or mission-support jobs diminished. According to the official, the buyout program allowed HHS to meet its targets without requiring a RIF.

In fiscal year 2004, NIST experienced a budget shortfall, new responsibilities, and changing national priorities for its research and development. Because of its budget shortfall, NIST officials anticipated conducting several RIFs during fiscal year 2004. NIST's reshaping goals were to (1) phase out a major program, (2) reduce funding of another program, (3) streamline institutional and administrative support, and (4) shift the focus of some laboratories. NIST officials reported that they used a combined buyout and early-out program, reassignments, and RIFs to help restructure its workforce, achieve a more optimal skills mix, and reduce its staff from 2,744 employees to 2,556. NIST officials reported that while they were unable to totally avoid involuntary reductions, the use of the buyout and early-out program enabled them to limit the RIFs to a minimal number of employees.

Agency Officials Responsible for Use of These Authorities Believe OPM's Review Process Adds Value but in Some Cases Could Be Quicker and Should Be Streamlined

All of the agencies in our selected sample believe OPM's feedback during the review process improved their use of the buyout and early-out authorities. OPM approved all agencies' buyout and early-out requests that met the statutory and regulatory requirements. However, according to program officials in three agencies, OPM's review process can at times be quicker so as to avoid possible delays in the approval process that could limit the success of the programs. OPM is taking steps to reduce the amount of time it takes to review agency submissions and is further planning to streamline its review process.

The OPM Review Process Assures Compliance with Legislative Requirements and Provides Help for Agency Officials Responsible for Use of These Authorities

OPM plays the central role in the oversight and implementation of the buyout and early-out authorities. OPM regulations, issued under the authority of the CHCO Act, require agencies to develop plans that provide information on agencies' intended buyout and early-out usage. OPM, in turn, reviews and approves agency plans for using the authorities. The Act and OPM's regulations also state that OPM will consult with OMB regarding agency buyout plans. These plans are to include the following:

- Identification of the specific positions to be reduced or eliminated, identified by organizational unit, geographical location, occupational series, grade level, and any other factors related to the positions.
- A description of the categories of employees who will be offered incentives, identified by organizational unit, geographic location, occupational series, grade level, and any other factors, such as skills, knowledge, or retirement eligibility.
- A description of how the agency will operate without the eliminated or restructured positions and functions.
- The time period during which incentives may be paid.
- The number of and maximum amounts of Voluntary Incentive Payments to be offered.

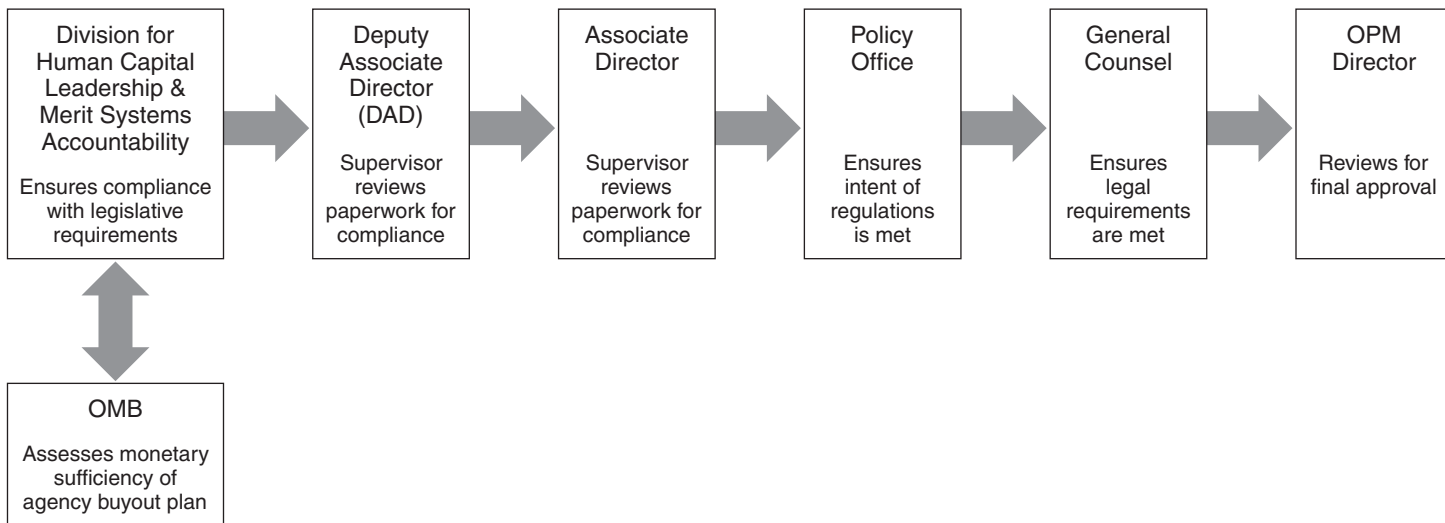
Agencies' early-out plans are to include the following:

- Identification of the agency or specified component(s) for which the authority is being requested.
- Reasons why the agency needs voluntary early retirement authority.
- The date on which the agency expects to effect the workforce reshaping.
- The time period during which the agency plans to offer voluntary early retirement.

According to an OPM reviewing official, the OPM human capital officer assigned to review a particular agency provides the first level of examination. The review process then includes additional management reviews and the final approval by the OPM Director. Through this process,

OPM checks to see whether all legislative and regulatory requirements are met, and that these criteria are being consistently applied across all agencies' requests for buyout and early-out authority. In some cases, OPM had agencies revise their plans until they met OPM's standards, according to an OPM review official. For example, OPM officials reported they received an agency request that involved four different components or work units. The justifications submitted for each component were in various states of readiness and covered different time periods. After consultation with OPM reviewing officials, the agency elected to withdraw the request and resubmit them as separate more-targeted requests. In its first resubmission, the agency provided a request dealing with reshaping, business process reengineering, and downsizing of one of the four components, thus improving the linkage to its business strategy. This request received OMB concurrence and was approved by OPM. Figure 4 illustrates OPM's review process for agency buyout and early-out requests.

Figure 4: OPM Review Process for Buyout and Early-out Requests



Source: OPM data.

Program officials in each of the agencies in our review believed OPM's feedback on their plans was helpful and several reported that they have modified and improved their plans as a result. Managers at DOE stated that the agency has worked closely with OPM to resolve any questions in an effort to streamline the process. USDA officials responsible for use of

these authorities stated that OPM has been responsive to their requests and subsequent inquiries.

OPM and Agency Officials Responsible for Use of These Authorities Believe Plans Can at Times Be Approved More Quickly and the Process Can Be Streamlined

OPM program officials and nearly all of the agency officials responsible for use of these authorities in our review believe the approval process can at times be accomplished more quickly and have fewer steps. Agencies want to avoid delaying the timelines for offering a buyout and early-out program, for fear that shortening the time frame employees have for deciding whether to accept or decline the buyout or early out can reduce the number of employees taking them and thus the success of the program. Both the quality of the agency request and the number of OPM reviews, as well as OMB's review of requests for buyout authority, can affect the cycle time for final approval. One agency official stated that he believes a contributing factor is that too many people have to review each request, a point that OPM is addressing in its planned streamlining of the review process.

When we looked at a sample of 28 programs between fiscal years 2003 and 2005 for our six selected agencies, we saw a variation in approval times that ranged from 7 to 88 days. On average, we found that OPM took 36 days to review the programs in our sample. According to OPM and officials from the selected agencies, a number of variables can affect approval times, including the experience of the officers (OPM, OMB, and agency) assigned to the request, the completeness of the agency request, the complexity of the request, and whether the requests are based on competitive sourcing situations.

According to OPM program managers, their calculations show that, overall, their reviews take on average 34 days, but they have set a goal to reduce this to 21 days. They established this target by analyzing results of previous reviews and also from surveying agency program officials. To help speed up its review process, OPM issued an application checklist for agencies to help ensure their plans comply with regulatory requirements prior to submission to OPM. According to OPM officials, OPM has expedited its review process by establishing more-stringent timeframes and standards for reviewing agency submissions and is developing Web site guidance on both authorities. In addition, to further streamline its review process, OPM plans to reduce the number of reviewers within each review step. If such actions are effectively implemented, OPM's steps to improve cycle time should help address agency concerns about shortening the windows for offering buyout and early-out programs.

Agencies in Our Review Are Using Most of the Practices Associated with Effective Use of Buyouts and Early Outs and Have Found Them Helpful in Achieving Their Reshaping Goals, Though One Practice May Require Further Attention

On the basis of our review of the literature on buyouts and early outs, we identified seven practices that are associated with effective buyout and early-out programs. All of the agency officials responsible for use of these authorities in our review believe that these practices have been helpful as they have used most of them to implement their programs. Of the identified practices, five are generally reinforced in the provisions of the CHCO Act and OPM's regulations for implementing it.¹³ The two practices not reflected in statutory and OPM documents are (1) consider and adopt ways to maximize cost savings and (2) establish an evaluation system to identify and report relevant data on buyout and early-out recipients (see table 2).

Table 2: Practices Associated with Effective Use of Buyout and Early-out Programs Were Generally Reflected in Legislation and OPM Regulations

Practices reflected in legislation or OPM regulations

1. **Identify the reshaping goals of the agency.** This will assist agencies in linking buyouts and early outs to specific organizational objectives.
2. **Develop workforce reshaping strategies that fully consider alternative methods.** This will help agencies identify whether alternatives may more effectively meet agency reshaping goals than buyouts and early outs, and could work in conjunction with these tools.
3. **Design buyout and early-out offerings that demonstrate a clear relationship to agency's workforce reshaping goals and overarching strategic goals.** This will help ensure that employees critical to the mission of an agency are retained.
4. **Design buyout and early-out offerings that consider employees' needs.** Programs that do not do so may cause damage to the agency's reputation or negatively affect employee morale and productivity.
5. **Develop a communications strategy early in the process.** Regular communication with employees increases transparency in the process used to determine which positions may be eliminated. This in turn increases employee trust and maintains employee morale.

Practices not reflected in legislation or OPM regulations

6. **Consider and adopt ways to maximize cost savings.** In general, agencies should try to maximize current year payroll savings by separating employees early in the fiscal year when possible, preferably in the first quarter.

¹³OPM issued final buyout regulations (5 CFR Part 576) effective on January 27, 2005, and final early-out regulations (5 CFR Parts 831 and 842) effective on June 14, 2004.

(Continued From Previous Page)

7. **Establish an evaluation system to identify and report relevant data on buyout and early-out recipients.** Agencies can use these data to assess how well the buyouts and early outs are meeting or have met reshaping goals and whether they need to adjust their strategies.

Source: GAO analysis.

Agency officials responsible for agency use of these authorities reported:

1. Identifying their reshaping goals up front helped agencies use these tools to achieve them.

Officials at each of the agencies in our review reported that a first step in developing buyout and early-out programs is identifying the reshaping goals of the agency. They explained that the reshaping goals must align with organizational strategic goals. For example, the DOC's Economics and Statistics Administration had an organizational strategic goal to enhance the quality and effectiveness of its economic policy support function by consolidating two subunits. The agency in turn developed a reshaping goal to streamline the offices and eliminate unneeded positions. In addition, agency program officials determined a decreased need for traditional clerical skills and decided to also target those positions and employees for buyouts and early outs. According to an agency official responsible for use of these authorities, they met their estimated buyout and early-out projections and achieved a number of reshaping goals. They formed a new organizational structure with increased quality and efficiencies in policy and administrative support functions, reduced staffing, and created a more desirable supervisor-to-employee ratio.

2. Considering not only buyouts and early outs, but also a range of alternative methods to meet reshaping goals helped agencies ensure success.

Considering not only buyouts and early outs, but also a range of alternative methods to meet reshaping goals helped agencies ensure success. Agencies in our review stressed that developing workforce strategies to meet reshaping goals that consider alternative methods for meeting the goals, including buyouts and early outs, is important and that they routinely do so. They explained that some alternatives work better than others in certain situations. For example, one agency official stated that in some areas the agency may need to strengthen its student programs and build that particular pipeline of talent and in other skill areas they may need to redeploy employees to programs in which their skills are better utilized.

USDA's Agricultural Marketing Service considered alternative methods such as placement opportunities, hiring freezes, redeployment, retraining, delaying capital purchases, and suspension of bonuses. For example, the agency provided opportunities for some employees to accept a lower grade position or take on additional duties and responsibilities, which required on-the-job training.

In addition to offering buyouts or early outs, several of the agencies considered retraining as part of their reshaping strategies. However, one agency official explained that retraining was not always a viable option. For example, at USDA's Agricultural Research Service, the new skills required a specialized academic background. But the vast majority of the affected employees was in manual trade positions and did not have the background necessary to successfully complete a retraining program for scientific duties. Thus, the agency could only assign a few of the affected employees to other positions and used the buyout and early-out programs for the remaining affected employees.

At Treasury's Office of the Comptroller of the Currency, agency officials reported that they established a working group that did extensive cost analyses to help design its reshaping options. The group compared costs of its current field locations and identified: (1) imbalances in its manager-to-employee ratios; (2) a declining volume of work in some areas; and (3) overstaffing in some district offices, particularly among support positions and within some information technology units. The working group made some assumptions on the number of staff positions needed for each option and recognized that each would have an effect on employees. They developed net savings projections for the various realignment configurations. The final decisions on the agency's district structure resulted in the closure of three district offices and establishment of one district office in a new location. As a result, the agency recognized there were employees with needed skills, but they were in the wrong locations. In addition to offering buyouts (under its own authority)¹⁴ and early outs, a number of surplus employees were given the opportunity to transfer with their function to the new office.

¹⁴The Office of the Comptroller of the Currency was able to offer buyouts prior to the CHCO Act of 2002, using its broad pay-setting authority. 12 U.S.C. § 482. The Act provided the Office of the Comptroller of the Currency the additional authority to use early-out programs.

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3. Designing buyout and early-out programs that demonstrate a clear relationship to the agency's workforce reshaping goals helped agencies achieve those goals.

Our review of agency buyout and early-out plans submitted to OPM shows that the plans identified the agency's workforce reshaping goals and specified how using the authorities would help meet those goals. For example, following an analysis of Treasury's Bureau of the Public Debt's Information Technology (IT) programs, management set the goal of consolidating most of the bureau's functions into one existing organizational unit that would require fewer employees to perform the IT work. The bureau established an IT consolidation team, made up of members of management as well as human resources representatives, to develop the workforce reshaping strategy. Team members, for the most part, were those who would be directly affected by the consolidation.

According to Bureau of the Public Debt officials involved with the consolidation effort, the bureau used a combined buyout and early-out program to help reshape its workforce to achieve a more optimal skills mix and to eliminate the need to use RIFs to cut excess IT positions. Prior to offering the buyout and early-out program, the agency's HR division surveyed all eligible employees. From the results of the survey, they were able to estimate the number of interested employees and also identify individuals likely to accept an offer. The agency also decided to make offers to non-IT individuals working in organizations identified as affected by the changes to create open positions for surplus IT employees. Agency officials reported that they met their goal to consolidate into one existing organizational unit and also met their targeted number of employees accepting program offers, which eliminated the need for involuntary separations.

4. Designing buyout and early-out programs that considered employees' needs helped them to cope with the changes.

Agency officials responsible for use of these authorities in the agencies we reviewed pointed out they consider employees' needs when designing and implementing programs. They believed that buyout and early-out programs should generally provide career guidance, counseling, and outplacement assistance to employees who may be displaced. Treasury's Office of the Comptroller of the Currency, when offering a buyout and early-out program, made a wide variety of other services available to employees. For example, in those offices to be closed Treasury solicited the affected

employees' relocation preferences and tried to accommodate them to the extent possible. Employees who were interested in other positions and locations could visit the new locations at the agency's expense. In addition, the agency paid relocation bonuses to some affected employees and instituted a "safe landing" program that consisted of a support network matching affected employees with "buddies" who provided encouragement to those employees and served as sounding boards for them, training and discussion forums that focused on career and stress management, and technical training to prepare for other job opportunities.

Program officials in these agencies also reported that their programs are routinely reviewed internally at many levels, including agency general counsel offices, to ensure that the programs not only conform to applicable laws, union agreements, and regulations, but also would be considered equitable from the employees' point of view. Officials at USDA's Agricultural Research Service reported that in addition to reviewing the appropriate contracts and regulations, they continuously consulted with the employee union and its human capital office throughout the duration of the buyout and early-out program to ensure fairness. Additionally, the agency ensured that information packets regarding the proposed programs were provided to all eligible employees before the date the offers took effect in an effort to give employees ample time for fullest consideration. Program officials at USDA's Natural Resources Conservation Service reported that their Civil Rights Division conducted a Civil Rights Impact Analysis to determine if there were any adverse effects on employees and concluded that there were none, since every employee was offered a similar position at their current grade level. None of our selected agencies reported any grievances filed as a result of their buyout and early-out programs.

5. Developing a communication strategy early in the process helped to build an understanding of the purpose of planned changes.

Agency officials in our review stressed that communication early and throughout the reshaping process was critical. In a recent report, we said that creating an effective, ongoing communication strategy is essential to implementing a merger or transformation.¹⁵ Communicating often, accurately, and consistently was the key factor to one agency's successful

¹⁵GAO, *Results-Oriented Government: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

strategy, according to an official responsible for use of the buyout and early-out authorities. At NIST, the Director met with staff prior to getting approval to offer buyouts and early outs, and explained the agency was facing financial deficits and wanted to avoid the possible need to resort to involuntary separations, and so was soliciting the authority to offer voluntary separation incentives.

Other agencies began communicating with employees immediately after obtaining OPM approval to offer buyouts or early outs. Treasury's Office of the Comptroller of the Currency established an electronic bulletin board and employees were invited to provide their comments, suggestions, or recommendations on the agency's proposed reshaping initiative and options that the agency's program officials might want to consider. A number of agencies also communicated with employees about the particulars of their programs through e-mails and brochures to ensure employees were kept advised of all reshaping actions. Agency officials also stressed that having highly visible top management involvement in their communication strategies helped to deliver the message of organizational changes as efficiently as possible. One agency had its managers in the components and offices targeted for reshaping brief their employees and attend group information sessions with those employees. During these sessions, employees were able to directly ask these managers specific questions about the reshaping effort, thus helping the employees to understand management's rationale for decisions made.

6. Agencies in our review considered ways to maximize cost savings.

Nearly all of the agencies in our review, in an attempt to maximize costs savings, reported that they tried to separate employees from federal service early in the fiscal year so as to save on employee salary expenses. One agency also assigned affected employees to nonaffected positions where appropriate.

7. Although they monitor who is accepting buyouts and early outs, the agencies were not evaluating the continuing and future effectiveness of these authorities.

Agencies in our review collected and reviewed data on the number of employees who accept offers under their individual programs compared with their intended goals. One agency has a system in place that periodically generates a report on the numbers of employees who accept buyout offers, thus providing management with useful information to

consider the progress toward their reshaping goals and make necessary adjustments. To monitor the progress and success of its reshaping initiative, another agency established a consolidation team that met weekly to discuss issues that emerged as the agency implemented this initiative and potential roadblocks to achieving its reshaping goals. The team also maintains a list of all individuals who separate from the agency with a buyout and provides this information to the agency's staff involved in recruitment and placement to help ensure that previous buyout recipients repay the full amount of the buyout payment if they are rehired within five years of receiving the buyout.¹⁶

However, agencies have not expanded on these monitoring efforts to provide an evaluation of the longer-term effectiveness of these tools. For example, agencies could compare the length of service for employees in its workforce, the role this factor plays in employee decisions about accepting buyout and early-out offers, and how this could affect the composition and timing of future offers. This information on length of service in relation to the acceptance or rejection of a buyout or early-out offer could help the agencies as they plan and prepare for future programs. In addition, agencies could perform an analysis to determine the savings generated by buyouts and early outs relative to other separation strategies, such as involuntary staff reductions. Such an analysis would help agencies determine whether anticipated cost savings of buyouts and early outs will in fact provide the best choice of resource actions that could be taken.

Officials in Agencies We Reviewed Suggested Ways to Make the Buyout and Early-out Programs More Efficient and Effective

Agency officials responsible for use of these authorities that we contacted found the requirement that agencies must get even minor changes to their plans approved by OPM to be restrictive. Under OPM regulations, even slight deviations from approved plans by even one position or grade level requires additional OPM review. Officials in three agencies suggested that agencies be allowed to make such minor deviations, as long as the agencies do not exceed the total number of approved buyouts or early outs. For example, an agency official responsible for use of these authorities from HHS explained that agencies using the authorities in nearly all cases are being asked to predict the future because when offering buyouts, the agency never really knows how many employees will accept the offers, or

¹⁶The CHCO Act of 2002 contains provisions that require buyout recipients to repay the full amount of the buyout if, within 5 years of separating, they are reemployed by the federal government. 5 U.S.C. 3524.

where they will be located. The official explained that agencies target a group of employees who will be offered the buyouts, and then hope for the best. Having the flexibility to adjust the target group to which the offer is made during the implementation of their plans could improve program results and ultimately provide additional opportunity for agencies to achieve their reshaping goals, according to this manager. OPM officials said that they believe that the CHCO Act does not provide OPM the authority to allow agencies to make changes to approved plans.

Furthermore, agency officials responsible for use of these authorities in our review believe that the buyout maximum payment amount of \$25,000, which has been constant since 1992,¹⁷ may not be enough incentive to encourage eligible workers to voluntarily leave the workforce, especially higher-salaried employees. They explained that inflation has eroded the buying power and value of buyouts, making them less attractive unless the employee is ready to retire anyhow, thus defeating the purpose of the program. Officials in four agencies said some consideration should be given to ways to make buyouts more attractive to employees. On the other hand, one agency official acknowledged that increasing the buyout amount may reduce the number of offers agencies could make at a higher amount and thus could make alternative approaches to reshaping more attractive. Although they have not undertaken any studies regarding this, OPM officials believe that agencies' reporting that they are meeting their targeted number of reductions indicates the dollar amount is sufficient.

In addition, some agency officials suggested that more coordination across the agencies using the programs would be helpful as would the sharing of examples of how some agencies used effective practices in ways that were particularly successful or instructive in reshaping their workforces, and that OPM may be in the best position to do this coordination. For example, several program officials suggested that OPM could sponsor forums, an interagency working group, or even additional training sessions, such as the session OPM headquarters offered in May 2005, to encourage information sharing on how agencies may more efficiently implement their buyout and early-out programs.

A number of the agency suggestions for improving the outcomes achieved with the buyout and early-out programs would benefit all agencies using the authorities, but some would require legislative changes. OPM, as the

¹⁷Pub. L. No. 102-484.

central human capital office, is well positioned to determine which governmentwide improvements to pursue and how to implement them, including regulatory changes or proposals for legislative reform. For example, OPM may assess the effects of raising the \$25,000 buyout amount and, if appropriate, sponsor legislative proposals for these changes.

Conclusions

As agencies transform to better meet 21st century challenges and changing missions, they are increasingly recognizing the need to reshape their workforces to meet these challenges. The Congress also recognized this need and responded to it by designing legislation creating buyout and early-out programs as additional tools agencies could consider using in their efforts to reshape their workforces. Our review shows that agencies have taken advantage of these programs and are employing certain practices that help them to use these tools more effectively.

Now agencies and OPM, working through each agency's CHCO, have the opportunity to make even better use of these authorities and best practices. Several agencies we reviewed have formulated ideas about how to improve them. OPM and the CHCOs, through their governmentwide Council, could provide an important service by sharing information with agencies on successful ways to use the tools and the lessons learned across agencies, and helping agencies determine what data to collect and evaluate as indicators of the program's results. Currently, the individual agencies in our review have not systematically evaluated the relative efficiency, continuing effectiveness, and future viability of the authorities as reshaping tools for their agencies. By doing so, agencies will know whether they need to make adjustments in their long-term strategy for employing those tools, and whether it is more cost-efficient to spend funds on implementing buyouts and early outs rather than on other reshaping tools, such as retraining. Finally, because OPM takes a governmentwide perspective on human capital programs, it is well positioned to assess potential improvements to these authorities, such as the agencies proposed changes, and determine what changes to implement and the steps needed to do so.

Recommendations for Executive Action

To help ensure that agencies can take full advantage of the authorities to use buyouts and early outs to reshape their workforces, we recommend that the Director of OPM, in conjunction with the CHCO Council, take the following actions.

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1. Share additional information with agencies on examples of how agencies have used practices associated with effective use of buyout and early-out programs to support their programs and achieve successful results. In addition, OPM could support the improvement of approval cycle time and the effectiveness of the programs by facilitating information sharing among agencies, such as holding forums and training sessions on the use of the authorities for agencies with less-experienced staff.
 2. Help agencies identify ways they can determine the extent to which the authorities have been effective tools and will continue to be in the future, and how agencies may need to tailor their reshaping strategies accordingly.
 3. Assess potential program improvements, such as those the agencies have identified, for possible governmentwide implementation, then take the steps necessary to accomplish this, such as changing the regulations governing the program, or proposing any needed statutory changes.

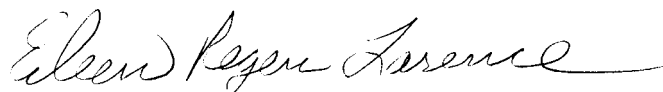
Agency Comments and Our Evaluation

We provided a draft of this report to the Director of OPM. The Director provided written comments, which are included in appendix II. The Director agreed with our recommendations, as well as our conclusion that buyouts and early outs have been effective tools for agencies implementing workforce reshaping plans. The Director also stated that the agency-specific examples included in our report provide additional insight on the usefulness of buyouts and early outs as proven workforce reshaping options, and will help agencies to emulate best practices as they manage their own restructuring plans. In addition, the Director of OPM agreed that, working with the CHCO Council, the agency could provide an important service by sharing information on such successful ways to use the tools and the lessons learned across agencies. Furthermore, the Director stated that the examples will help as OPM actively works with agencies to determine what data to collect and evaluate as indicators of the program's results in an effort to measure the effectiveness of their buyout and early-out programs. Once OPM reviews agencies' actual experiences using these two tools, it will be able to consider whether changes are needed to improve their effectiveness. The Director of OPM also agreed that its review of agency plans could be done more quickly and stated that it is expediting approval of agencies' buyout and early-out requests.

The Director of OPM also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to other interested congressional parties, the Director of OPM, and the federal agencies and offices discussed in this report. In addition, we will make copies available to other interested parties upon request. This report will also be made available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at (202) 512-6510 or at larencee@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report include William Doherty, Clifton G. Douglas Jr., Charlesetta Bailey, Tom Beall, Andrew Edelson, Jeffrey McDermott, Amy Rosewarne, and Lou Smith.



Eileen Regen Larence
Director, Strategic Issues

Objectives, Scope, and Methodology

The objectives of our review were to identify

- how many agencies have sought and been granted authority to offer buyouts and early outs and the extent to which agencies have used these authorities;
- how selected agency officials view the Office of Personnel Management's (OPM) role in facilitating the use of the buyout and early-out authorities;
- what practices are associated with agencies' effective use of buyouts and early outs, how selected agencies used these practices, and whether they have helped agencies to achieve their workforce reshaping goals; and
- what challenges the selected agencies identified, if any, to continued effective use of these authorities.

To address our first objective, we obtained and analyzed OPM data on the buyout and early-out programs authorized under the Chief Human Capital Officers Act of 2002 to obtain governmentwide data on agencies' use of the program and to help identify agencies for further review.

To address our other objectives, we reviewed the OPM data to identify those federal agencies that were the most frequent users of the buyout and early-out authorities under the Act. We selected the Departments of Agriculture, Commerce, Energy, Health and Human Services, Interior, and the Treasury for further review since they accounted for over half of all requests for authorities at the time we started our review.¹

We interviewed agency officials, such as human capital officers and buyout and early-out program managers from the six selected agencies to ascertain (1) their views of OPM's role in their use of the buyout and early-out

¹During the course of our review, OPM reported that the frequency with which the Department of Transportation (DOT) and the Department of Veterans Affairs (VA) had used the authorities was comparable in magnitude to the six agencies that we selected. Because of this, we included DOT and VA in our figures showing individual agency use of the authorities. However, they were not included in our more detailed examination of practices at the six selected agencies. In addition, because DOD has separate legislative authority to offer buyouts and early outs and does not require approval from OPM, we excluded DOD from our review.

authorities, (2) the particular buyout and early-out practices they were using, (3) their views on how the practices helped them to achieve their goals, (4) the lessons learned from their experiences, and (5) the challenges to continued successful use of these authorities. As part of this review, we also asked officials to identify and discuss more specifically either a buyout or early-out offer in each of fiscal years 2003, 2004, and 2005 that, in their view, was among the most successful of such offers conducted that year.

In addition, using a systematic selection procedure with a random start, we reviewed a sample of OPM case files for about a tenth of all the offers made by the six selected agencies for fiscal years 2003 through 2005. We reviewed the files to determine the length of OPM's review time and also to identify instances where agencies used practices associated with effective buyout and early-out use. While our total sample of cases consisted of 40 buyout or early-out offers, we excluded 7 cases from our analysis of OPM's review time because in these cases, the agencies requested buyouts or early outs on the assumption that they would possibly use contractors to conduct some of the agencies' work. OPM could not approve the offers, however, until the agencies made these final outsourcing decisions. In addition, we excluded 5 cases from this analysis because either OPM's review of the case was pending or we were unable to identify the agency date of the submission or OPM's date of approval from the file. To supplement and support the views provided by agency officials, our review also included obtaining and examining available documentation, such as strategic workforce plans, buyout and early-out plans, and other documents associated with the use of the authorities from each of our selected agencies.

We also interviewed officials involved in the review process from OPM and the Office of Management and Budget to obtain information on their roles and responsibilities in approving agency requests and their perspectives on the use of buyout or early-out offers governmentwide. In addressing our third objective, we first reviewed information from relevant literature on the use of buyouts and early outs in organizations including our prior studies of federal buyout programs in 1997 and 1998.² We conducted a content analysis and included as effective practices those common to

²See, for example, GAO, *Federal Downsizing: Effective Buyout Practices and Their Use in FY 1997*, GAO/GGD-97-124 (Washington, D.C.: June 30, 1997); and *Federal Downsizing: Agency Officials' Views on Maintaining Performance during Downsizing at Selected Agencies*, GAO/GGD-98-46 (Washington, D.C.: Mar. 24, 1998).

multiple sources and those previously cited in GAO reports. We next conferred on the reasonableness of selected buyout and early-out practices we identified with officials from the National Academy of Public Administration and the International Public Management Association who had relevant expertise in the management of human resource programs. Both of these organizations have published reports on the effectiveness of federal human capital practices related to buyout and early-out programs.

Because we designed our selection of agencies and cases to examine the experiences, practices, and perspectives of a set of agencies that, in recent years, have been relatively more engaged in conducting buyout and early-out programs, the findings are not generalizable to other agencies or the federal government as a whole. To assess the reliability of OPM's database on buyout and early-out authorities, we interviewed the officials at OPM who were knowledgeable about maintaining that database. In addition, we provided each of our six selected agencies with OPM's count of their buyout and early-out authorities to review. We determined that OPM's data were sufficiently reliable for the purpose of providing general information on the number of agencies participating in buyouts and early outs over time and the number and nature of authorities that these agencies used. Our review was conducted in accordance with generally accepted government auditing standards from October 2004 through November 2005.

Comments from the Office of Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

March 14, 2006

Ms. Eileen Regen Larence
Director
Strategic Issues
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Larence:

Thank you for the opportunity to comment on the Government Accountability Office (GAO) draft report entitled Agencies are Using Buyouts and Early Outs With Increasing Frequency to Help Reshape Their Workforces.

Your report provides a timely analysis of agencies' experiences over the past 3 years in using voluntary separation incentive payments (i.e., "VSIP" or "buyouts") and voluntary early retirements (i.e., "VERA" or "early outs") authorized by the Chief Human Capital Officers Act of 2002. Agencies can use buyouts and early outs to minimize involuntary reduction in force separations that could otherwise result from restructuring actions. We have attached our comments on this report.

Please contact me, or Mr. Mark Doboga, Deputy Associate Director for Talent and Capacity Policy at 202-606-0388 or mark.doboga@opm.gov, if we can be of further assistance to you.

Sincerely,

Linda M. Springer
Director

Attachment

Appendix II
Comments from the Office of Personnel
Management

OPM's Comments and Suggestions for
Government Accountability Office (GAO)
Draft Report Entitled:
Agencies are Using Buyouts and Early Outs With Increasing Frequency
to Help Reshape Their Workforces

New Website Guidance From OPM: The report notes that we are developing additional website guidance to assist agencies undertaking buyout and early out programs. Our new guidance includes two Fact Sheets; one covers buyouts and the second covers voluntary early retirement. Our new Fact Sheet on voluntary early retirement is now on our website at <http://www.opm.gov/html/topics.asp>. Our new Fact Sheet on buyouts will be posted on our website no later than March 31, 2006.

Active Role for Both OPM and Individual Agencies in Evaluating the Buyout and Early Out Programs: The report suggests that we take a positive role in partnership with the CHCO Council for interaction with agencies to maximize the effectiveness of both tools in potential reduction in force (RIF) and other restructuring situations. We agree with this suggestion. To minimize the likelihood of RIF separations, we are actively working with agencies in measuring the effectiveness of our VSIP and VERA programs. For example, beginning in October 2005 we revised the VSIP and VERA reports that agencies send to OPM to now capture information such as:

“How has this VSIP impacted the shape of your workforce?”

Did the VSIP have the desired results? Why or why not?

What is the average cost of VSIPs paid during the quarter?”

After we review agencies' reports on their actual experiences using buyouts and early outs, we will be able to consider if changes are needed to improve the effectiveness of the VSIP or VERA programs.

We also see a proactive role for OPM in sharing information from agencies on their best buyout and early out practices, and how agencies may subsequently improve the effectiveness of their reshaping strategies. This will further support the active consulting assistance that OPM human capital officers presently provide individual agencies considering VSIP or VERA and other RIF-avoidance options.

Effectiveness of Buyouts and Early Outs in Minimizing Involuntary Separations: We agree with GAO's conclusion that the VSIP and VERA options have been effective tools for agencies implementing workforce reshaping plans. The agency-specific examples that GAO includes through the draft report give additional meaning to the usefulness of buyouts and early outs as proven options to avoid RIF separations in restructuring situations.

Appendix II
Comments from the Office of Personnel
Management

OPM is Expediting Approval of Agencies' Buyout and Early Out Requests: We agree with GAO's conclusion that our updated VSIP and VERA checklists should expedite approval time by ensuring agencies submit complete packages to us for approval. The checklists support OPM's positive consultant role that the report notes assists, not delays, approval of agencies' VSIP and VERA requests. Our new website guidance on buyouts and early outs should further minimize approval time of agencies buyout and early out packages.

The Best Practices Suggested by GAO Will Benefit Agencies in Restructuring Situations: GAO provided several agency-specific examples of best practices that agencies have found useful in offering buyouts and early outs while reorganizing their workforces. We believe that specific examples such as these are beneficial both for us to evaluate the effectiveness of agencies' programs, and for other agencies to emulate as they manage their own restructuring and reshaping plans.

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