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FEDERAL DOWNSIZING

The Status of Agencies' Workforce Reduction Efforts

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Federal Downsizing: the Status of Agencies' Workforce Reduction Efforts

To downsize the federal workforce, the Federal Workforce Restructuring Act of 1994 (P.L. 103-226) placed annual ceilings on executive branch full-time equivalent (FTE) positions for fiscal years 1994 through 1999. These ceilings would result in downsizing of the federal workforce from 2.08 million FTE positions during fiscal year 1994 to 1.88 million FTE positions during fiscal year 1999. The act also allowed non-Department of Defense (DOD) agencies to pay buyouts to employees of as much as $25,000 between March 1994 and March 1995 to help achieve these workforce reduction goals. DOD has buyout authority through fiscal year 1999 under separate legislation. According to data from the Office of Personnel Management, more than 112,500 buyouts had been paid governmentwide as of September 30, 1995. Through fiscal year 1995, the federal workforce had downsized ahead of the timetable called for by the act, and the administration anticipates being 62,500 FTE positions below the ceiling mandated by the act for the end of fiscal year 1996.

DOD has absorbed most of the workforce reductions. Nearly 75 percent of the workforce reductions came from DOD in fiscal year 1994, and 56 percent came from DOD in fiscal year 1995. The President's fiscal year 1997 budget anticipates that all of the workforce reductions will come from DOD because non-DOD agencies are expected to experience a net increase in FTE positions.

The administration, through the National Performance Review (NPR), called on agencies to restructure their workforces by directing their downsizing toward specific "management control" positions including budget, procurement, and personnel positions, as well as managers and supervisors. These management control positions have been barely reduced as a proportion of the workforce as a whole, and at some agencies they have increased.

Demographically, the largest share of the buyouts were paid to employees who took regular or early retirements. Governmentwide, the buyouts enabled agencies to downsize without disproportionately affecting women and minorities.

GAO's estimates show that in terms of absolute numbers—and given historical quit rates—the Workforce Restructuring Act's fiscal year 1999 final FTE ceiling could probably be met governmentwide through an attrition rate as low as 1.5 percent per year in fiscal years 1996 through 1999. At that rate, executive branch agencies in total would be sufficiently below the fiscal year 1999 target to allow for the hiring of nearly 28,000

new full-time employees. However, as some agencies may be required to downsize considerably more than others, buyouts or reductions-in-force (RIF) may be necessary at certain agencies.

When GAO compared the costs and savings of buyouts and RIFs, the analysis showed that over the 5-year period following separation, buyouts can generate up to 50 percent more in net savings than RIFs if the RIF involves bumping and retreating and the RIFed employees are not eligible for retirement.

Federal Downsizing: the Status of Agencies' Workforce Reduction Efforts

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the progress being made in downsizing the federal workforce and agencies' use of buyouts. As agreed with your office, our statement includes information on

- the results to date of federal downsizing efforts,
- whether agencies' use of buyouts reflected the administration's workforce restructuring goals as articulated by the National Performance Review (NPR),
- the demographic results of the buyouts,
- the extent to which we estimate that the statutorily mandated workforce reduction goals could be met through attrition, and
- the cost and savings implications of buyouts versus reductions-in-force (RIF).

We obtained information on the results of federal downsizing activities by analyzing workforce data contained in the Office of Personnel Management's (OPM) Central Personnel Data File (CPDF) for fiscal year 1992 through November of fiscal year 1996, and by reviewing workforce trends presented in the President's fiscal year 1997 federal budget. Our analysis of whether agencies' use of buyouts reflected NPR's workforce restructuring goals was based on our review of applicable Office of Management and Budget (OMB) guidance to agencies and CPDF workforce data. Our examination of the demographic results of the buyouts was based on CPDF data as well. Our estimate of the extent to which mandated workforce reduction goals can be achieved by attrition was based on workforce trends data contained in the President's fiscal year 1997 federal budget. The costs and savings of buyouts and RIFs were analyzed using past studies by us, the Congressional Budget Office, and other federal agencies; contacts with agency officials; and demographic data from the CPDF. A more detailed analysis of the circumstances under which buyouts or RIFs offer greater potential savings is contained in the report we prepared for this Subcommittee that was released today.[1]

[1]Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions-in-Force (GAO/GGD-96-63, May 14, 1996).

The Results to Date of Federal Downsizing Efforts

The Federal Workforce Restructuring Act of 1994 (P.L. 103-226) placed annual ceilings on executive branch full-time equivalent (FTE) positions from fiscal years 1994 through 1999.[2] If implemented as intended, these ceilings will result in downsizing the federal workforce from 2.08 million FTE positions during fiscal year 1994 to 1.88 million FTE positions during fiscal year 1999.

To help accomplish this downsizing, the act allowed non-Department of Defense (DOD) executive branch agencies to pay buyouts to employees who agreed to resign, retire, or take voluntary early retirement by March 31, 1995, unless extended by the head of the agency, but no later than March 31, 1997. DOD, though subject to the act's governmentwide FTE ceilings, has the authority, under earlier legislation, to offer buyouts through September 30, 1999. For both DOD and non-DOD agencies, the buyout payment was the lesser of $25,000 or an employee's severance pay entitlement.[3] According to OPM data, as of September 30, 1995, more than 112,500 buyouts had been paid governmentwide. DOD was responsible for about 71 percent of these buyouts.

Federal Downsizing Is Proceeding Ahead of Schedule, With Most Reductions Coming From DOD

The federal workforce is being reduced at a faster pace than was called for by the Workforce Restructuring Act. As shown in table 1, the act mandated a ceiling of 2,043,300 FTE positions for fiscal year 1995. This would have resulted in a reduction of 95,500 FTE positions (4.5 percent) from the actual fiscal year 1993 level. In reality, the actual fiscal year 1995 FTE level was 1,970,200, a reduction of 168,600 FTE positions (7.9 percent) from the fiscal year 1993 level. By the end of fiscal year 1997, the administration's budget calls for the federal workforce to be nearly 53,000 FTE positions below the ceiling called for by the act for that period.

[2] According to OMB guidance, an FTE or work year generally includes 260 compensable days or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

[3] Severance pay is calculated on the basis of one week's basic salary at the time of separation for each year of creditable service for the first 10 years, and two weeks' basic salary for each year of service thereafter. An age adjustment allowance is also included for employees over 40 years old. The total severance pay an employee is eligible to receive is limited to one year's pay at the rate they received at the time of separation.

Table 1: Workforce Reductions Are Proceeding Ahead of Schedule

	Fiscal year				
	1993	**1994**	**1995**	**1996**	**1997**
FTE ceiling mandated by act	Not applicable	2,084,600	2,043,300	2,003,300	1,963,300
Actual executive branch civilian FTE positions	2,138,800	2,052,700	1,970,200	1,940,800[a]	1,910,500[a]
FTEs below ceiling	Not applicable	31,900	73,100	62,500[a]	52,800[a]

Note: FTEs are rounded to the nearest hundred.

[a]Estimated.

Source: Workforce Restructuring Act of 1994 and the President's fiscal year 1997 budget.

Although the workforce reductions occurred governmentwide, they were not evenly distributed among agencies. Indeed, most of the downsizing took place at DOD. As shown in table 2, DOD absorbed nearly three-quarters of the FTE reductions in fiscal year 1994 and over half of the governmentwide reductions in fiscal year 1995.

Table 2: DOD Has Accounted for the Largest Share of Workforce Reductions

Fiscal year	DOD share of total FTE reductions	Non-DOD share of total FTE reductions
1994	73.7%	26.3%
1995	56.4	43.6
1996 (est.)	74.1	25.9
1997 (est.)	100.0	0.0

Source: GAO calculations based on the President's fiscal year 1997 budget.

In fiscal year 1997, DOD is expected to absorb all of the FTE reductions made that year while the non-DOD workforce is expected to increase by a net total of 0.2 percent, according to the President's fiscal year 1997 budget.

Buyouts Helped Minimize the Need for RIFs

Although federal employment levels have declined steadily in recent years, the workforce has been reduced with comparatively few RIFs, in part because of the buyouts. Had it not been for the buyout authority, it is likely that more agencies would have RIFed a larger number of employees to meet federal downsizing goals.

From September 30, 1994, through March 1995, the on-board executive branch civilian workforce dropped from 2,164,727 employees to 2,032,440 employees, a reduction of 6 percent. CPDF data show that of the 132,287 reductions in on-board personnel that took place during this time period, 48 percent involved buyouts and 6 percent came from RIFs. The remaining 46 percent involved separations without buyouts or the basis for separation was not identified in the CPDF.

Agencies Used Buyouts More to Meet Act's Downsizing Objectives Than Administration's Restructuring Goals

The administration, through NPR, recommended that agencies direct their workforce reductions at specific "management control" positions that the administration said added little value to serving taxpayers. Such positions included those held by (1) managers and supervisors and (2) employees in headquarters, personnel, budget, procurement, and accounting occupations. By fiscal year 1999, the administration called on agencies to increase managers' and supervisors' span of control over other employees from a ratio of 1:7 to 1:15, and to cut management control positions by half.

In our draft report on agencies' use of buyouts that we are preparing for this Subcommittee, we present preliminary data showing that, as a proportion of the workforce as a whole, the management control positions designated for reduction by NPR were barely reduced since the end of fiscal year 1992 (the year before buyouts began at DOD); in some agencies they have increased. As shown in table 3, although the percentage of supervisors at DOD agencies dipped from 12.7 percent of the workforce to 11.9 percent, (1 supervisor for every 6.9 employees to 1 supervisor for every 7.4 employees), all but one of the other designated management control positions increased somewhat. Acquisition positions showed no change. Non-DOD agencies came only slightly closer to meeting the NPR goals. The percentage of supervisors in the non-DOD workforce went from 12.5 percent to 11.6 percent (1 supervisor for every 7 employees to 1 supervisor for every 7.6 employees). Personnel and headquarters staff also decreased as a proportion of the non-DOD workforce, while the remaining categories showed no proportional reduction or slight increases.

Table 3: NPR Positions Recommended for Reduction as a Proportion of the Workforce, September 1992 and March 1995

NPR management control position	Percentage of DOD/non-DOD workforce FY 1992	Percentage of DOD/non-DOD workforce at end of first half FY 1995	Net change FY 1992 to 1995
Defense agencies			
Personnel	1.5%	1.6%	+0.1%
Budget	1.2	1.3	+0.1
Accounting/ auditing	2.4	2.6	+0.2
Acquisition	4.9	4.9	0
Headquarters staff	6.6	7.4	+0.8
Supervisors	12.7	11.9	–0.8
Non-Defense agencies			
Personnel	1.7%	1.6%	–0.1%
Budget	0.4	0.4	0
Accounting/ auditing	2.4	2.5	+0.1
Acquisition	2.0	2.0	0
Headquarters staff	14.6	14.2	–0.4
Supervisors	12.5	11.6	–0.9

Note: Workforce totals for the end of fiscal year 1992 were 960,317 (DOD); 1,231,229 (non-DOD). Workforce totals for the end of the first half of fiscal year 1995 were 846,479 (DOD); 1,185,961 (non-DOD).

Source: GAO calculations based on OPM's CPDF database.

The Demographic Results of Buyouts

Of the 82,771 buyouts made governmentwide between fiscal year 1993 and the first half of fiscal year 1995, when we could identify the type of separation, 40 percent of the buyouts were paid to employees who took regular retirement, while about 30 percent were paid to employees who took early retirement. Without directly surveying employees, it is difficult to determine whether buyouts influenced them to leave federal service earlier or later than they would have otherwise. However, CPDF data shows that separations for employees covered by the Civil Service Retirement System and the Federal Employees Retirement System dropped by 20 percent from the end of fiscal year 1991 through fiscal year 1992, when Congress was considering buyout legislation. Separations then rose by 35 percent in fiscal year 1994, when both DOD and non-DOD agencies had buyout authority. Although some of the drop in separations may have been due to economic conditions at the time, it is likely that some employees delayed their separations so that they could receive a buyout.

Although it was not an explicit goal of the buyout legislation, the buyouts appeared to have helped agencies downsize without adversely affecting workforce diversity. Indeed, of the nearly 83,000 employees who were paid buyouts from fiscal year 1993 through March 31, 1995, 52 percent were white males. Consequently, the percentage of women in the workforce increased from 43.4 percent at the end of fiscal year 1992 to 44.6 percent by March 31, 1995. Likewise, during that same time period, the percentage of minorities went from 27.9 percent to 28.9 percent of the workforce.

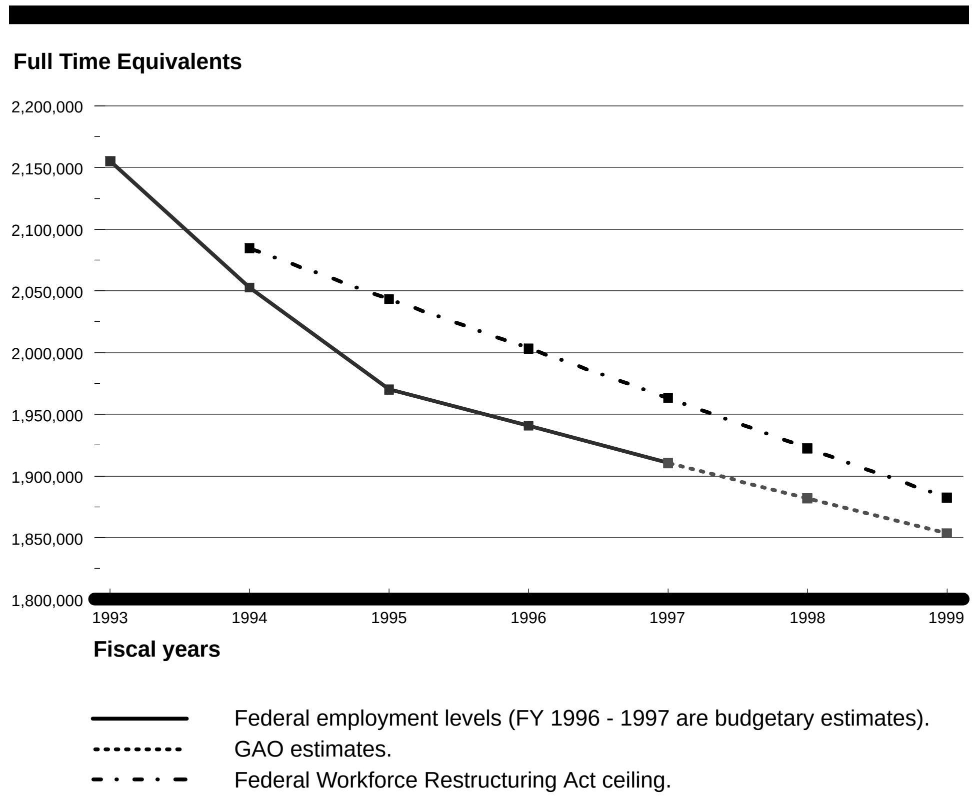
Governmentwide Downsizing Goals Probably Could Be Met Through Attrition Given Historical Quit Rates

As noted earlier, total governmentwide FTE levels to date are well below the annual ceilings mandated by the Workforce Restructuring Act. Our estimates indicate that the act's final fiscal year 1999 target for FTE ceilings could probably be met in total through an attrition rate as low as 1.5 percent and still allow for some limited hiring. As shown in figure 1, the administration's 1997 budget calls for reducing the federal workforce from 1.97 million FTE positions at the end of fiscal year 1995 to an estimated 1.91 million FTE positions by the end of fiscal year 1997. At that rate of reduction—about 1.5 percent per year—executive branch civilian agencies could meet the fiscal year 1999 FTE ceiling called for by the act while still hiring nearly 28,000 new full-time employees.

Although federal attrition varies from year to year because of such factors as the state of the economy, the availability of separation incentives, and employees' personal considerations, federal attrition has typically run considerably higher than 1.5 percent. For example, in fiscal years 1982 through 1992 (the year before buyouts began at DOD), CPDF data shows that the average annual quit rate was about 8 percent.[4]

[4]As defined by OPM, quits include voluntary resignations by employees or separations by an agency if an employee declines a new assignment; abandons a position; joins the military; or fails to return from a military furlough.

Figure 1: Total Governmentwide Workforce Reduction Goals Could Probably Be Met Through Attrition



Source: GAO estimates based on the President's fiscal year 1997 budget.

Experience has shown that some agencies may need to pare down their workforces more than others as budgets are reduced, programs are dropped, and/or missions are changed. In such circumstances, some agencies may not be able to meet workforce reduction goals through attrition, and other downsizing strategies, such as buyouts or RIFs, may be necessary.

An example of this situation is the accelerated downsizing that the National Aeronautics and Space Administration (NASA) has been contemplating because of budget cutbacks. NASA's proposal would reduce its headquarters staff from its current level of 1,430 positions to between 650 and 700 positions by October 1997. This would eliminate about 400 more positions than NASA's current downsizing goal, and would do so 3 years earlier. If it were to reduce at this pace, NASA has said that it would anticipate that RIFs would be necessary. Although this downsizing proposal may or may not be implemented, it illustrates the potential magnitude of workforce reductions being considered at some individual agencies.

Buyouts Generally Offer Greater Savings Than RIFS

If an agency is unable to meet its workforce reduction goals through attrition alone, which downsizing strategy—buyouts or RIFs—generates greater savings? Our study of the costs and savings of buyouts versus RIFs concludes that, over a 5-year period, buyouts would generally result in more savings to taxpayers than RIFs.[5] This is because buyouts usually result in the separation of employees with higher salaries and benefits than those who are separated through RIFs. Because of the rights of higher graded employees to "bump" or "retreat" to lower-graded positions during a RIF, employees separated through RIFs are frequently not those who were in the positions originally targeted for elimination.[6]

We found that buyouts could generate up to 50 percent more in net savings than RIFs over the 5-year period following separation. However, these results would change if bumping and retreating did not occur in a RIF and the separated employees were eligible for retirement. In these cases, RIFs could generate up to 12 percent more in savings over the 5-year period than buyouts. Finally, if the employees were separated without bumping and retreating and were not retirement-eligible, the cost of severance pay for the RIFed employees would result in buyouts generating up to 10 percent more in net savings than RIFs over the 5-year period.

These net savings projections are based on the assumption that positions vacated by separating employees would not be refilled by government or contractor personnel. Projected savings would be reduced if this occurred.

In summary, the downsizing of the federal workforce is proceeding ahead of the schedule called for by the Workforce Restructuring Act. At the same time, the administration, through NPR, called on agencies to restructure

[5]GAO/GGD-96-63.

[6]"Bumping" means displacing an employee in the same competitive area who is in a lower-tenure group (type of appointment category). Although the employee who displaces another employee through bumping must be qualified for the position, it may be a position that he or she has never held. "Retreating" means displacing an employee in the same competitive area who has less service within the same tenure group. The position into which the employee is retreating must be the same or an identical position the employee held in the past on a permanent basis.

their workforces by reducing management control positions. These positions have not been reduced as a proportion of the workforce as called for by NPR.

With regard to future workforce reductions, our analysis showed that in terms of absolute numbers—and given historical quit rates—the remaining annual FTE employment ceilings called for by the Workforce Restructuring Act probably could be achieved governmentwide through attrition. Nevertheless, some agencies may be required to downsize more than others. In such situations, buyouts or RIFs may be necessary. In comparing the costs and savings of buyouts and RIFs, our analysis showed that buyouts offered greater savings than RIFs, except when RIFed employees do not bump and retreat and are eligible to retire.

This concludes my prepared statement. I would be pleased to answer any questions you or Members of the Subcommittee may have.

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