AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

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The Honorable Kent Conrad
Chairman
Senate Budget Committee
624 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Jeff Sessions
Ranking Member
Senate Budget Committee
624 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Conrad and Ranking Member Sessions:

On behalf of the American Federation of Government Employees (AFGE), AFL-CIO, which represents 625,000 federal employees in 65 agencies throughout the nation, I am writing to urge you to reject proposals that would undermine the pay, health insurance, and retirement benefits of federal employees, as well as those proposals that would restrict the size of the federal workforce without corresponding, proportional cuts to federal service contracting.

The current political climate for all public employees, including federal employees, is harsh. Efforts underway throughout the country would eliminate pensions, severely curtail health insurance benefits, cut or freeze pay levels, contract out government work, and eliminate longstanding collective bargaining rights. In particular for federal employees, the two-year pay freeze is effective this year and next, but there are those who advocate a five-year pay freeze, including freezing all performance-based step increases and bonuses.

Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS)

Simpson-Bowles recommended cuts to federal retirement, including:

- changing the benefit formula from a high-3 basis to a high-5 basis;
- vastly increasing employees contributions to the FERS defined benefit; and
- reducing COLAs for FERS and CSRS retirees.

The proposed change from "high 3" to "high 5" would cut retirement benefits by 3 to 5 percent a year, depending on length of service. Combined with the two-year pay freeze – threatened by some to be extended to five years, this proposal represents a significant lifetime cut in compensation that will only drag down morale, recruitment, and retention for an entire generation.

After the 1983 Social Security amendments placed federal employees into the system, Congress and President Reagan replaced CSRS with FERS. FERS was designed to be cheaper for the government and to require a greater contribution from employees if they aimed for a retirement benefit equivalent to CSRS. FERS employees pay 0.8% of salary for their annuity, another 6.2% of salary for Social Security, and 5% of salary in order to obtain the government's full match to the Thrift Savings Plan. CSRS employees do not pay into Social Security, but pay a total of 7% of salary for their defined benefit pension. Thus, under current law, FERS employees must pay 12% of salary to get a benefit as good as CSRS.

This draconian proposal would force FERS employees to contribute approximately 7% to the defined benefit pension. If enacted, FERS employees would thus have to pay over 18% of salary toward retirement. Most AFGE members would be unable to afford this. In order to make ends meet, they would have to eliminate their contributions to the TSP. Then they would lose investment earnings from their own contributions as well as the government match.

The FERS three-component plan, with Social Security, a modest defined benefit pension, and a 401(k)–style savings plan is just like the responsible private sector standard, and the federal government should not aim to match what the worst private sector employers get away with.

Federal Employees Health Benefits Program (FEHBP)

One proposal included in the Simpson-Bowles deficit reduction plan advocated turning the Federal Employees Health Benefits Program (FEHBP) into a voucher system, with astonishing cuts to the government's contribution to premiums. Based on our conservative calculations, if this proposal were enacted, by the year 2030 federal enrollees would, on average, pay 63% of health insurance premiums, rather than the 33% they pay today.

In addition, Simpson-Bowles recommended cutting the government's share of health insurance premiums for federal retirees. While it is true that many private firms have broken promises to employees to provide health insurance in retirement, that is behavior that a Presidential commission and the Congress should deplore, not seek to emulate.

FEHBP is an inefficient and poorly structured program with high overhead costs, and high profits guaranteed to the health insurance companies that participate. The Office of Personnel Management has historically refused to take advantage of rebates for prescription drug costs available to employers that provide such coverage to their retirees. Significant reductions in the cost of FEHBP can be achieved without reducing health insurance benefits or shifting costs onto employees and retirees.

Arbitrary Downsizing/Wasteful Privatization

Finally, federal workers are being threatened by dangerous staffing cuts that will undermine the ability of the agencies to perform their important missions. One proposal would cut the federal workforce by ten percent. The federal government employed 2.1 million Executive Branch workers as of September 2010, slightly less than the number on board 40 years ago when Richard Nixon was president. The size of the federal workforce has steadily declined, relative to the American population that federal workers serve. In 1953, there was one federal worker for every 78 U.S. residents; by 2008, there was one federal employee for every 155 residents.

In particular, civilian employees in the Defense Department are under attack because of Secretary Gates' controversial "Efficiency Initiative", which will require that civilian employees make additional sacrifices because service contractors aren't being asked to make any meaningful sacrifices. Under the Initiative, the civilian workforce is capped at FY10 levels, which the Pentagon misleadingly refers to as a "freeze". In fact, an FY10 cap will require tens of thousands of civilian positions to be eliminated. The Army alone will likely have to reduce its workforce by 33,000 civilians over the next few years.

Although the Pentagon talks about 10% cuts in service contracts, they are not talking about service contracts generally, which cost taxpayers $150 billion annually. Rather, they will cut only a narrow subcategory of service contracts by 10% -- which will save less than $6 billion over 3 years, less than a drop in the bucket.

In practical terms, the Initiative will require new work and expansions to existing work to be automatically contracted out—even if we can do the work more efficiently or the work is inherently governmental. Although DoD concedes that insourcing has been "highly successful", no insourcing can occur if no new civilian employees can be added. The Initiative undermines the interests of warfighters and taxpayers, and it is completely contrary to the Administration's ostensible attempt to reduce defense spending.

It's also contrary to the law. DoD is legally prohibited from applying arbitrary constraints on the size of its civilian workforce, from not using the more efficient workforce, and from failing to give "special consideration" to insourcing certain functions. AFGE counts the department as violating eleven different sourcing and workforce management laws.

The Initiative has put the civilian workforce back into a death spiral. Last summer, Secretary Gates told *The Washington Post* that "federal workers cost the government 25 percent less than contractors." That the department is poised to repeat the discredited and ruinous downsizing-driven privatization policies of the 1990's is a sad testament to Secretary Gates' failure to heed his own well-reasoned analysis.

Excessive Contractor Salaries

For too long, some politicians have attacked the compensation earned by federal civil servants—even though our salaries are often considerably less than those earned in the private sector by workers in comparable jobs. What's been conspicuously missing from the debate, of course, has been any discussion of pay for contractors—even though the number of contractors exceeds the number of federal civil servants and many contractors earn several times the maximum federal salary. At Booz-Allen-Hamilton, to single out just one contractor that could not exist were it not for taxpayer dollars, the five highest salaries are $4,228,842; $4,045,365; $3,894,851; $3,881,937; and $3,808,038.

Before going any further, I want to make it clear that AFGE's reform would in no way change the compensation earned by contractors pursuant to the Service Contract Act, the Davis-Bacon

Act, or collective bargaining agreements. Rather, our focus is on the most lavishly-compensated contractors—limiting taxpayers' reimbursement for their salaries to no more than $200,000. Insisting that taxpayers should not be forced to reimburse contractors in excess of what is earned by the Secretary of Defense, the Secretary of State, or any of the other cabinet secretaries is hardly draconian. In fact, contractors should be paid less than $200,000.

This proposal has the advantage of being simple and easily understood. It would neither "micro-manage" contractor compensation nor would it cap contractors' salaries. Rather, it would limit the amount that contractors can be reimbursed by taxpayers for outrageously high salaries. If contractors insist on continuing to pay such outrageously high salaries, they can—provided they get the necessary money from someone other than Uncle Sam.

By implementing this reform, we can save money for the taxpayers and ensure that the highest paid contractors are finally required to make sacrifices. At a time of budget stringency, few parts of the budget or tax code should be off limits for scrutiny—and certainly not the lucrative salaries for contractors that are ultimately paid for through taxpayer dollars.

In conclusion, AFGE strongly opposes the many dangerous proposals that have been recently debated which would destroy the image and middle-class status of federal employees, as well as undermine the valuable services provided by the agencies which employ them. Alternatives, such as sensible restrictions on contractor salaries, structural improvements to FEHBP to make it more efficient, and eliminating wasteful downsizing and privatization policies, should be pursued instead.

Please contact me at 202-639-6404 or motenb@afge.org if you have any questions.

Sincerely yours,

Beth Moten

Beth Moten
Legislative and Political Director

Attachments: Federal Retirement Proposal to Increase Employee Contributions to Defined Benefit Pension

First Year Impact of Proposed Cuts for Middle Income Federal Workers

Five Facts That Should Guide Efforts to Right-Size the Federal Government

Federal Retirement Proposal to Increase Employee Contributions to Defined Benefit Pension

Civil Service Retirement System (CSRS) employees pay 7% of salary for retirement benefits:

- Contribute 7% of salary to their defined benefit pension plan.
- Do not contribute to social security and are not covered by social security.
- May participate in the Thrift Savings Plan (TSP) but there is no government match.

Federal Employees Retirement System (FERS) employees pay approximately 12% of salary for retirement benefits:

- Pay 6.2% of salary to social security.
- Pay .8% of salary to their defined benefit pension plan.
- Must contribute 5% or more to a TSP account in order to get the total government match (government matches dollar-for-dollar for first 3% of contributions, then 50 cents on the dollar for the 4th and 5th percent of contributions).

Simpson-Bowles recommended that FERS employees contribute approximately 7% of salary to their defined benefit pension (instead of .8% contributed now). As a result, employees would have to contribute more than 18% of salary for retirement benefits:

- 6.2% of salary to social security
- 7% of salary to their defined benefit pension
- 5% to the TSP

Total: 18.2%

For most federal employees, 18.2% is too much to spend on retirement. Their current living expenses, i.e. housing, transportation, food, child care, college savings, clothing, etc. would make that amount impossible. So they would be forced to withdraw their contributions to the TSP, in order to have enough to contribute 7% to their defined benefit pension. By removing their contributions to the TSP, they would lose out on future earnings of their own savings, as well as the 5% government match.

The increased contribution to the defined benefit pension coupled with the loss of the government match to the TSP would effectively be a 10-12% pay cut.

First Year Impact of Proposed Cuts for Middle Income Federal Workers

	FERS	Simpson-Bowles	Difference
Social Security	6.2%	6.2%	
FERS Annuity	0.8%	7.0%	
Thrift Savings Plan*	5.0%	5.0%	
Total Employee Cost for Retirement	12.0%	18.2%	**6.2%**
Example for GS-05 Step 1 (RUS)**			
Salary	31,315	31,315	
Social Security	1,942	1,942	
FERS Annuity	251	2,192	
Thrift Savings Plan*	1,566	1,566	
Total Employee Cost for Retirement	$3,758	$5,699	**$1,942**
Example for GS-07 Step 1 (RUS)**			
Salary	38,790	38,790	
Social Security	2,405	2,405	
FERS Annuity	310	2,715	
Thrift Savings Plan*	1,940	1,940	
Total Employee Cost for Retirement	$4,655	$7,060	**$2,405**
Example for GS-09 Step 1 (RUS)**			
Salary	47,448	47,448	
Social Security	2,942	2,942	
FERS Annuity	380	3,321	
Thrift Savings Plan*	2,372	2,372	
Total Employee Cost for Retirement	$5,694	$8,636	**$2,942**

* The government matches employee contributions dollar-for-dollar of the first 3% of salary and $.50 on the dollar for the next 2%. The employee must contribute 5% of salary to receive the full government contribution.

** RUS means Rest of U.S. General Schedule locality.

Five Facts That Should Guide Efforts to Right-Size the Federal Government

1. **The Federal Government Uses Both Civil Servants and Contractors to Carry Out Programs:** The federal executive branch non-postal workforce consists of fewer than 2 million civil servants, according to OPM. The size of the contractor workforce is unknown, but it has been estimated to be at least two times—perhaps even three times—the size of the federal civil service. Therefore, any serious effort to right-size the federal government must look carefully at both civil servants and contractors.

2. **If Agencies Are Required to Carry Out Programs, But Can't Use Civil Servants Because of Personnel Ceilings and Headcounts, They Will Inevitably Use Contractors Instead:** Using civil servants and contractors, agencies carry out the programs that are established by Congress. If Congress wants agencies to use significantly fewer civil servants, then it must eliminate or weaken those programs. As proven by the Federal Workforce Restructuring Act of 1994, if agencies can't use civil servants to carry out programs, they will simply contract out those programs, even if such backfilling is prohibited.

3. **Using Contractors in Such Circumstances Leads to Increased Costs and Loss of Public Control:** When agencies contract out because of in-house headcounts and personnel ceilings, it usually leads to higher costs and it can result in loss of public control over important and sensitive functions. In such circumstances, it's not just that there is no public-private competition but rather that there is no consideration of the cost of in-house performance, period, before work is contracted out. And as the experience of DoD, DHS, HUD, and other agencies shows, headcounts and personnel ceilings don't just result in work being contracted out regardless of cost but, also, as GAO pointed out, regardless of cost, risk and policy.

4. **Civil Servants Are Best Managed by Workloads and Budgets:** If there is work to be done and money to pay for the work to be done, then an agency should be allowed to use federal civil servants to get that work done, an approach which is already required in law in several instances. Whether an agency should use civil servants depends on cost, policy, and risk. The imposition of in-house headcounts and personnel ceilings often prevents agencies from using civil servants when there is work and money to pay for that work to be done, even when in-house performance is more efficient or required by law or regulation.

5. **Because Civil Servants Are Transparent and Quantifiable, Unlike Contractors, They Are Uniquely Vulnerable to Headcounts and Personnel Ceilings:** Through the budget process, agencies know what work civil servants are doing, how many civil servants are doing that work, how much those civil servants cost, and how well they are performing. Contractors, on the other hand, are shrouded in secrecy. Although significantly more numerous and more expensive than civil servants, little is known about contractors—not even how many of their employees are actually paid for by the taxpayers. Contractors have always fought efforts to require agencies to inventory their service contracts because they know that increased visibility would inevitably lead to increased accountability.

   Nevertheless, all agencies are now required to review their service contracts in order to identify, among other things, service contracts that are too expensive or poorly performed. However, only DoD has made significant progress, and the Office of Management and Budget was several months late in issuing guidance for the non-DoD agencies. The federal civil service is transparent and quantifiable, and thus accountable to taxpayers, while contractors are not. It is because federal civil servants are accountable to taxpayers—but contractors are not—that federal civil servants are uniquely vulnerable to the use of personnel ceilings and headcounts.