



AFGE Congressional Testimony

STATEMENT BY

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THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA

SENATE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS

ON

INSPIRING STUDENTS TO FEDERAL SERVICE

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Mr. Chairman and Members of the Subcommittee:

My name is Witold Skwierczynski. I am President of the American Federation of Government Employees (AFGE) Council of Social Security Administration Field Operations Locals. On behalf of AFGE, which represents 625,000 federal employees in 65 agencies throughout the nation, I thank you for the opportunity to testify today on the subject of inspiring students to federal service. AFGE is proud to represent federal government workers because they are the vital threads of the fabric of American life. AFGE members inspect the food we eat and the places we work. They protect us from environmental dangers, and develop treatments and cures for our illnesses and diseases. They protect us from the flow of illicit drugs, maintain the safety of our nation's borders, and protect our communities by incarcerating dangerous felons. They keep our airways and homeland secure from terrorism and our warfighters prepared for any danger. They care for our nation's veterans, serve as a vital link to Social Security recipients, and make the dream of homeownership a reality for millions of Americans.

Hiring the next generation of federal employees is a serious undertaking. Those charged with the task have both a legal and social responsibility to conduct federal hiring in the most open, fair, and competitive way possible, and the plain fact is that openness, fairness, and competition take time. Federal agencies have a legal and moral responsibility to honor veterans' preference. Internal candidates who were selected into career ladder positions must be given the opportunities they have been promised. Background checks must be conducted. Information regarding education and prior employment must be verified. Working for a federal agency is not the same as working at a private firm, and it takes time to make sure an applicant meets the standards and requirements our society expects the federal government to uphold.

AFGE applauds President Obama's Executive Order 13562 (issued December 27, 2010), which repealed the Federal Career Intern Program (FCIP), a widely discredited hiring system that made a mockery of the Merit System and its promise of open competition for federal jobs, as well as veterans' preference.

In addition, the Executive Order created the Pathways Programs, three programs tailored to recruit, train and retain well-qualified candidates:

- the Internship Program for current students,
- the Recent Graduates Program, which will place successful applicants in a two-year development program prior to achieving conversion to career jobs, and
- the Presidential Management Fellows (PMF) Program, which is tailored to advanced degree candidates.

Because the Office of Personnel Management (OPM) regulations for implementation of the three Pathways Programs are still in development, it is, of course, too early to tell what these programs will look like in final form and whether they will avoid the pitfalls that plagued the

FCIP. AFGE, however, continues to urge that the regulations ensure that the programs use appropriate merit-based procedures for recruitment, provide for equal employment opportunity, apply veterans' preference procedures, and comply with all applicable laws. AFGE understands the need for qualified students, recent college graduates, and advanced degree graduates to move into the federal workforce. But this should not be done at the expense of qualified veterans and current federal employees, many of whom are ideal candidates for hiring or promotion. This is why AFGE wants to ensure that these new programs will not reduce the opportunities for promotion of the current workforce and are also directed at appropriate numbers and types of vacancies.

Political Climate for Federal Employees and Retirees

OPM Director John Berry has noted several times the desire of the Obama Administration to make government service "cool" again. We strongly agree that it is important to support in concrete ways our nation's public servants, and to educate the public about the value of their service to America. If we do this, it will certainly be easier to attract the best and the brightest to federal service.

Unfortunately, however, the current political climate for all public employees, including federal employees, is harsh. Efforts are underway throughout the country to 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 proposed by the President and enacted by the Congress 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 Health Benefits Program (FEHBP)

One of the proposals 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 AFGE's conservative calculations, if that proposal were to become law, by the year 2030, federal employees and retirees would be forced to pay 63% of the premium for Blue Cross/Blue Shield's standard option (the most popular plan in FEHBP), rather than the 33% they pay today.

In addition, the Simpson-Bowles proposal recommended reducing the government's share of health insurance premiums for federal retirees. This proposal is presented as an effort to follow the private sector in the race to the bottom. While it is true that many private firms have broken promises to employees to provide health insurance support in retirement, that is behavior that a Presidential commission should deplore, not seek to emulate.

There are good ways to save money by reforming the FEHBP without taking away benefits from federal retirees, all of whom were promised that the government's share of their health insurance costs in retirement would continue on par with those still in the federal workforce.

FEHBP is an inefficient and poorly structured program with high overhead costs, and high profits guaranteed to the health insurance plans that participate. OPM has also refused to take advantage of rebates for prescription drug costs available to employers that provide such coverage to their retirees. If the true goal of Simpson-Bowles is budget savings, that can be achieved without reducing health insurance benefits or shifting costs onto employees and retirees.

Federal Retirement

Further, the Simpson-Bowles report recommended numerous cuts to federal retirement, including:

- changing the benefit formula from a high-3 basis to a high-5 basis, which we estimate will cut retirees' annuities by three to five percent;
- vastly increasing the amount that employees enrolled in the Federal Employees Retirement System (FERS) would be required to pay for these reduced annuities;
- reducing cost of living adjustments for FERS and Civil Service Retirement System (CSRS) retirees; and
- raising the retirement age for Social Security.

According to the most recent Congressional Research Service (CRS) report, while CSRS can be described as having an unfunded liability of \$674 billion, FERS has a deficit of just \$0.9 billion. Even these "deficits" are irrelevant, according to CRS, as the trust fund out of which benefits are paid "is not in danger of becoming insolvent." None of the proposed cuts to FERS or CSRS is necessary to close a funding gap because both systems are on sound financial footing. The CRS report quotes OPM on the ability of the retirement trust fund to cover all benefits under promised current law: "the total assets of the CSRDF, including both CSRS and FERS, continue to grow throughout the term of the projection, and ultimately reach a level of about 4.1 times payroll, or about 19 times the level of annual benefit outlays."¹ Because these systems face no financial problem or risks, there is no reason to cut benefits or change the financing formula.

High 3 to High 5

The proposed change from "high 3" to "high 5" as a basis for calculating annuities would mean a cut in retirement benefits of anywhere from 3 to 5 percent a year, depending on length of service. Combined with the impact of the two-year pay freeze – threatened by some to be

¹ Civil Service Retirement and Disability Fund, Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2009, p.18.

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.

Increasing Employee Contributions to Retirement

When the 1983 Social Security amendments mandated inclusion of federal employees into the system, Congress and President Reagan replaced CSRS with FERS. FERS was designed to be less costly to the government and to require a greater contribution from employees if they aimed for a retirement benefit equivalent to CSRS. 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 (TSP). 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.

The draconian proposal suggested first by The Third Way, a conservative Democratic think tank, would force FERS employees to contribute approximately 7% more 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 for their living expenses and responsibilities to their families, they would have to eliminate their contributions to the TSP. The result of that, of course, is that they would lose investment earnings from their own contributions as well as the government match.

If this proposal becomes law, FERS employees, who now constitute 88% of the federal workforce, will be brought down to the level of many irresponsible private employers. Providing inadequate or no retirement benefits in the private sector should not become normative for public sector employers. The fact is that the FERS three-component plan, with Social Security, a defined benefit annuity, 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 employers in the private sector get away with. (It should be noted that recent legislation introduced in the Senate would eliminate completely the modest defined benefit for FERS employees.)

"Chained" CPI

AFGE also strongly opposes the Simpson-Bowles' recommendation to substitute a new, inferior measure of inflation called the "chained" Consumer Price Index (CPI) in order to lower COLAs for federal retirees. This proposal would hit FERS retirees twice, because the measure would reduce COLAs for both federal annuitants and Social Security recipients. The so-called "chained CPI" is a highly controversial method for lowering the official measure of inflation. The current CPI measures increases in the prices of the goods and services the typical household buys. The "chained" CPI says if the price of something goes up, instead of counting that increase, substitute the price of another good or service whose price either stayed the same or went up by less. For example, if the price of beef went up, the "chained" CPI would not include that price increase in its calculation. Instead, it would assume that people would be just as well off

if they substituted a lower-priced animal protein in their market basket. The chained CPI literally takes the inflation out of the formula for measuring inflation. This method “cooks the books” to pretend inflation is lower than it is, thereby depriving annuitants and other retirees of the inflation protection that cost of living adjustments are meant to provide.

Social Security Retirement Age

The Simpson-Bowles proposal also suggested gradually raising the age for eligibility for full Social Security benefits in retirement from 67 to 69. The age for early eligibility with reduced benefits would rise from 62 to 64. This cut in Social Security benefits would disproportionately affect minorities and those in jobs that are physically demanding. Today, 25% of all workers age 60 and 61 report a health condition that limits their ability to work, yet this proposal would require them to work almost a decade beyond this age for full benefit eligibility. Although the Commission says it would support a “hardship” exemption for some workers in particularly physically-demanding occupations, it would not cover all workers with health problems that limit their ability to continue working into old age.

Further, the increases in life expectancy that the Simpson-Bowles proposal uses for justification are hugely correlated with income. According to data from the Social Security Administration, the life expectancy of men in the bottom half of the income distribution has risen by just 1.1 years between 1982 and 2006, while those in the top half experienced a 6 year increase in longevity. During this period, the age for eligibility for all workers has risen by 8 months, but the Simpson-Bowles proposal wants to make this problem worse. A hardship exemption will not apply to half of all workers, and half of all workers will have already had their increase in life expectancy accounted for when the full benefit eligibility age rises to 67 by 2027.

Contracting Out Federal Government Work

Finally, federal workers in the Department of Defense (DoD) are under attack because of Secretary Robert Gates’ controversial “Efficiency Initiative.” It’s not that there shouldn’t be an “Efficiency Initiative”—of course, DoD should always be striving to become more efficient. It’s not that civilian employees shouldn’t be asked to sacrifice if the department’s budget is rationalized. However, it is clearly wrong for the Pentagon to insist that civilian employees make additional sacrifices because service contractors aren’t actually being asked to make any meaningful sacrifices.

The failure to include service contractors reveals the “Efficiency Initiative” to be a sham. At a time of budget stringency, it makes no sense not to closely scrutinize the hundreds of billions of dollars DoD service contractors bill to the American people. The Pentagon’s failure to even account for service contractor costs, let alone control and reduce those costs, means that actual savings can never be realized. It also likely means that non-DoD departments will be asked to make even greater sacrifices to make up for the savings DoD cannot achieve because of its stubborn over-reliance on expensive service contractors.

Under the “Efficiency Initiative,” the department’s civilian workforce is capped at FY10 levels. Pentagon officials have misleadingly referred to this as a “freeze.” In fact, an FY10 cap will actually require tens of thousands of civilian positions to be eliminated. There is talk that the Army alone will have to reduce its workforce by 33,000 civilians over the next several years. Moreover, the cap is onerously applied. In Secretary Gates’ words, only “very limited exceptions” are to be allowed. As a practical matter, secretarial approval will be required before a manager or a commander can add in-house staff.

Although Pentagon officials talk about 10% cuts in service contracts, they are not talking about DoD service contracts generally, which cost taxpayers at least \$150 billion annually; rather, they actually mean that the costs of a narrow subcategory of service contracts will be reduced by 10%—which, according to Secretary Gates, will result in less than \$6 billion in savings over three years. I’ve heard more than one incredulous observer remark that such savings are “a drop in the bucket.” In fact, given the amount of taxpayer dollars spent on service contracts over that period, such savings actually constitute a microbe in a drop in the bucket. Needless to say, there is no special approval required before the department may undertake new contracts or expansions of existing contracts. Indeed, according to the House Appropriations Subcommittee on Defense, the Administration’s FY12 budget request would significantly increase service contracting costs.

What does this mean in practical terms? New work and expansions to existing work will 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,” it is obviously difficult for any meaningful insourcing to occur if no new civilian employees can be added—even if civilian employees can do the work more efficiently or the work is inherently governmental. The Pentagon, despite protestations to the contrary, has erected a series of bureaucratic roadblocks in order to prevent even inherently governmental acquisition work from being insourced. In other words, DoD is deliberately allowing contractors to continue to award contracts and oversee other contractors. In fact, activities that insourced successfully are being punished because now they must eliminate a comparable number of positions in order to get back down to FY10 levels. And because the civilian workforce is being reduced to achieve an arbitrary target, work that we are currently performing will likely have to be contracted out—even if we can do the work more efficiently or the work is inherently governmental.

Why won’t the Pentagon allow the civilian workforce to be managed by budgets and workloads instead of by arbitrary constraints? If an activity has funding and workload, why can’t it use civilian employees or contractors—depending on the usual criteria of cost, policy, risk, and the law? Why must those activities sometimes be forced to use contractors—even if civilian employees can do the work more efficiently or the work is inherently governmental? In a time of budget stringency, why does the department insist on tying the hands of its managers and its commanders and forbid them from using civilian employees in certain situations? Obviously, the “Efficiency Initiative” undermines the interests of warfighters and taxpayers alike; and it is completely contrary to the Administration’s ostensible attempt to control defense spending.

It's also contrary to the law. The department is forbidden from applying arbitrary constraints on the size of its civilian workforce, from not using the more efficient workforce (consistent with military needs), and from failing to give "special consideration" to insourcing certain functions. In fact, AFGE counts the department as acting in defiance of eleven different sourcing and workforce management laws. Congressional experts insist that is merely the short-list.

DoD's "Efficiency Initiative" has put the civilian workforce back into a death spiral. With no new work, no new staff, and no new promotional opportunities, in-house workforces can't help but become less productive and thus become vulnerable to even the most outrageous privatization schemes. Beginning in 2007, the Congress undertook a bipartisan effort to make the sourcing process more accountable to taxpayers and less unfair to civilian employees. The "Efficiency Initiative" threatens to undo all of that work. 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 so soon the utterly 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.

Conclusion

To say the very least, Mr. Chairman, unless these efforts to destroy the image and middle-class status of federal employees are not halted, it will not make a bit of difference if the Obama Administration creates the best possible recruitment programs for student interns, and recent undergraduate and graduate students. A candidate with any sense at all would be reluctant to join a workforce which is constantly being maligned and financially undermined for political purposes.

That concludes my testimony. I will be happy to respond to any questions.

Witold Skwierczynski

Witold Skwierczynski is President of the American Federation of Government Employees (AFGE) National Council of SSA Field Operations Locals, Council 220.

Witold was born in East Chicago, Indiana. He graduated from the University of Notre Dame in 1972. His federal career began in March 1973 and he soon became active in AFGE at his Local in Chicago, Illinois. In November of 1983, he was elected the President of Council 220 and has served as President ever since.

In 2001, Witold moved to Baltimore, Maryland and is an active member of Local 3302.