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Report to Congressional Requesters

August 1999

FEDERAL WORKFORCE

Payroll and Human Capital Changes During Downsizing

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GAO

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August 13, 1999

The Honorable Fred Thompson
Chairman, Committee on
Governmental Affairs
United States Senate

The Honorable Thad Cochran
Chairman, Subcommittee on International
Security, Proliferation and Federal Services
Committee on Governmental Affairs
United States Senate

This report, prepared at your request, provides information on the factors causing the federal payroll to increase while the number of federal employees decreased during downsizing and summarizes our prior studies on the impact of downsizing on human capital. Specifically, the report identifies the extent to which each major factor contributed to the increase in the federal payroll during fiscal years 1993 through 1997. The factors relate primarily to the current system for compensating federal employees, a prominent topic in the Office of Personnel Management's strategic plan and an area that will need additional consideration as the government evaluates the guiding principles and best practices for addressing a wide range of federal human capital issues. In this regard, we believe a strong link is needed between human capital planning and agencies' strategic and programmatic approaches to accomplishing their missions. Accordingly, in this report we are recommending that Congress, in considering buyout legislation, continue to require agencies to prepare and submit strategic buyout plans for congressional review as a prerequisite for implementing buyout authority and to implement downsizing consistent with the results of their planning efforts.

As agreed, unless you announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of this report to Senator Joseph I. Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Senator Daniel Akaka, Ranking Minority Member, Subcommittee on International Security, Proliferation and Federal Services, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry A. Waxman, Ranking Minority Member, House Committee on Government Reform; and Representative Joe Scarborough, Chairman, and Representative Elijah E. Cummings, Ranking Minority Member, Subcommittee on Civil Service, House Committee on Government Reform. We will also send copies to the Honorable Janice R. Lachance, Director, Office of Personnel Management. Copies will be made available to others upon request.

Please call me on (202) 512-2700 if you have any questions concerning this report. GAO contacts and major contributors to this report are acknowledged in appendix III.

Nancy R. Kingsbury
Acting Assistant
Comptroller General

Executive Summary

Purpose

Since 1991, Congress and the Bush and Clinton administrations have been reducing federal employment levels as a means of restructuring the workforce and reducing federal costs and budget deficits. The Department of Defense (DOD) and non-DOD agencies have been using pay separation incentives—commonly known as buyouts—to induce employees to voluntarily leave federal service. During fiscal years 1993 through 1997, the federal civilian workforce (excluding the Postal Service) was reduced by almost 300,000 employees, or 13.8 percent. At the same time, the federal civilian payroll—basic pay, premium pay, and benefits—increased by 9.3 percent, to $102.4 billion. In addition, in analyzing this reduction in the federal workforce, GAO and others have raised concerns about the implications of downsizing on the employees—a human capital issue.

In view of the significance of these issues, the Chairmen of the Senate Committee on Governmental Affairs and its Subcommittee on International Security, Proliferation and Federal Services asked GAO to determine why, during a period of downsizing, the federal payroll increased while the number of federal employees decreased. In response, GAO analyzed data from the Office of Personnel Management's (OPM) Central Personnel Data File (CPDF) of federal employees and reports on work years and personnel costs. GAO identified the major factors and the extent to which each contributed to the increase in the federal payroll during fiscal years 1993 through 1997, and interviewed officials at selected agencies to determine some of the reasons why the cost of these factors increased. GAO also agreed to summarize prior GAO studies on the impact of downsizing on human capital.

Results in Brief

Between the beginning of fiscal year 1993 and the end of fiscal year 1997, the total federal payroll grew by $8.7 billion (9.3 percent) to $102.4 billion, while the size of the federal workforce decreased from 2.2 million employees to 1.9 million.[1] In real terms, however, overall federal payroll costs decreased because, in 1997 constant dollars, the payroll declined by $2.4 billion during the 5-year downsizing period.[2] Because the decrease in the number of employees for the most part offset actual aggregate payroll cost increases for those employees remaining on the payroll, GAO calculated payroll costs for a constant workforce of 1.9 million employees over the 5-year period to isolate the payroll cost increases and their

[1] The numbers represent the number of full-time equivalent employees or work years, which generally consist of one or more employed individuals who collectively complete 2,080 work hours in a given year.

[2] GAO normalized dollar amounts to 1997 inflation adjusted or constant dollars for overall payroll comparisons. However, GAO primarily used nominal dollars in the analyses because it allowed us to illustrate all the causes of the payroll increase, some of which were related to inflation and some not.

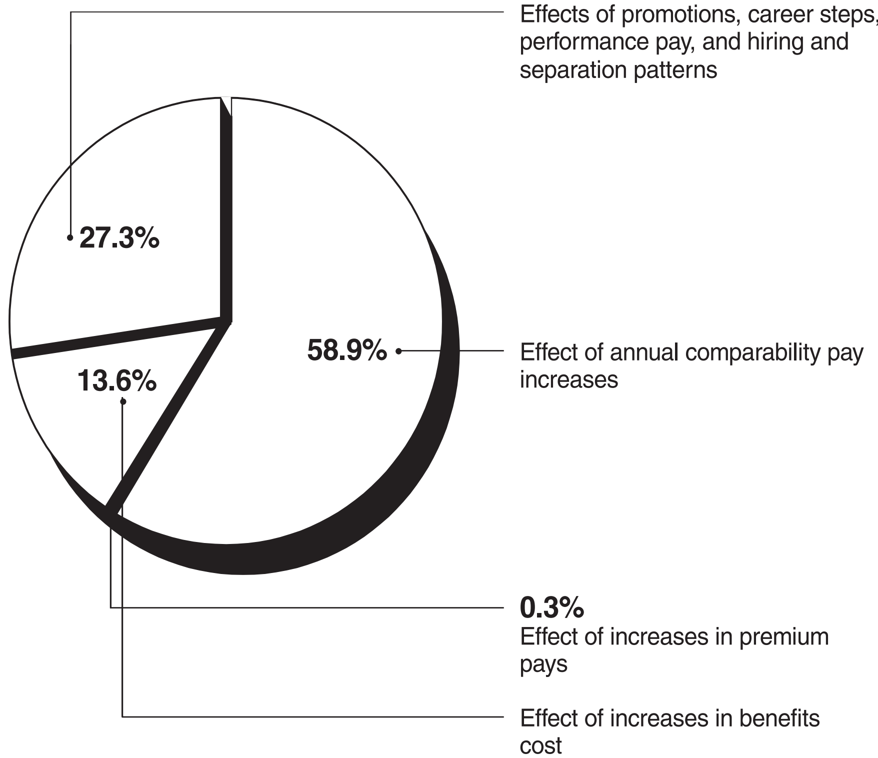
causes. On this basis, GAO estimated that, between fiscal years 1993 and 1997, payroll costs in nominal dollars increased about $11,600 per employee and approximately $21.6 billion in total.[3] For comparison, in terms of 1997 constant dollars, this payroll increase was approximately $6,460 per employee and $12.0 billion for 1.9 million employees.

The increased payroll costs were attributable to several causes, but the predominant cause was the annual pay comparability adjustment that is intended to keep federal pay competitive with that of nonfederal employers. (See figure 1.) The cost of employee benefits and changes in the characteristics of the federal workforce also played a major role in increasing the overall federal payroll cost. Employee benefits increased due primarily to (1) incentives paid to separating employees, (2) the increasing proportion of employees in the Federal Employees' Retirement System (FERS) and the increasing cost of the government's required match for FERS employees' Thrift Savings Plan (TSP) contributions, and (3) increases in health insurance costs.

Changes in the characteristics of the federal workforce that increased payroll costs included (1) career step increases based on tenure and satisfactory performance, (2) promotions, and (3) pay increases due to high quality performance. The payroll cost increases that resulted from these factors, however, were partially offset by the limited hiring of staff, at grades below the governmentwide average, whose lower pay levels helped dampen the overall average payroll and grade increases. (See figure 1.)

[3] GAO did not have the data necessary to determine the exact payroll costs for the 1.9 million employees or for the net reduction of 300,000 employees during fiscal years 1993 through 1997. Therefore, GAO used the difference between the average payroll cost per employee for 2.2 million employees in 1993 and 1.9 million employees in 1997 to approximate a $21.6 billion payroll increase for a constant workforce of 1.9 million employees.

Figure 1: Percentage Effect of Various Factors Contributing to Federal Payroll Increase, Fiscal Years 1993-1997



Source: GAO calculations based on OPM data.

The various factors that caused the payroll increase were not unique to the downsizing period. The most significant factor contributing to the increased payroll, the annual pay comparability adjustment, increased at a somewhat lower rate during downsizing than in the preceding 5-year period. Benefit cost increases, another significant contributor to payroll cost increases during downsizing, increased about 29 percent less than in the 5-year period before downsizing.

Career step increases, promotions, performance pay, and hiring and separation patterns all contributed to changes in the governmentwide averages for employees' grade and payroll cost from fiscal years 1993 through 1997. These changes in the characteristics of the workforce resulted in an average grade level increase of about one-half grade, from the beginning to about the mid-point of GS-9. This increase of about one-half grade during downsizing was similar to the average grade increase in the 5 years before downsizing.

The separation and hiring practices employed by the agencies during downsizing also contributed to substantially greater increases in employees' average age and service time during downsizing than occurred during the previous 5-year period.

The implications of changes during downsizing on the government's human capital will require continuing attention. GAO reviews have found, for example, that a lack of adequate strategic and workforce planning during initial rounds of downsizing by some agencies may have affected their ability to achieve organizational missions. Some agencies have reported that downsizing in general led to such negative effects as the loss of institutional memory and an increase in work backlogs.

In a study of six agencies' experiences in the later stages of the downsizing effort, GAO found that most had planned and implemented buyout programs more effectively than had agencies during the initial rounds of downsizing and had generally linked buyouts to achieving specific organizational objectives. This increase in buyout program effectiveness was due in part to a statutory requirement (P.L. 104-208) that agencies prepare and submit strategic buyout plans for congressional review prior to implementing their buyout authority. Most of the recent and pending legislation to provide buyout authorities requires specified agencies to prepare and submit strategic buyout plans for congressional review prior to implementing buyouts. GAO is recommending that Congress continue these requirements.

Background

At the end of fiscal year 1997, the federal workforce was composed of about 1.9 million employees, excluding postal employees. About 1.6 million employees were in white-collar positions, most of which are covered by the General Schedule (GS). The Federal Wage System covered the remaining trade, craft, and labor employees. GS and wage system employees have separate pay schedules consisting of individual grades and steps within grades.

The federal payroll has three primary components—basic pay, premium pay, and the cost of benefits provided to employees. Basic pay consists of salaries and wages paid directly to employees for duties performed during the regular workweek. Premium pay is supplemental pay for overtime work in excess of the regular workweek, which is generally an 8-hour day and 5-day week, and for work at night and on Sundays and holidays, as well as for availability duty. Benefit costs include health and life insurance premiums, retirement and Thrift Savings Plan contributions, and separation pay.

Pay adjustments for the federal workforce have traditionally occurred on an annual basis. Under the Federal Employees Pay Comparability Act of 1990, pay adjustments for the majority of the workforce are to consist of two components: (1) a nationwide basic pay increase linked to the Employment Cost Index (ECI) and (2) individual locality pay adjustments that apply to specific geographical areas where nonfederal pay exceeds federal pay by more than 5 percent. Beginning in 1994, the locality pay component of the pay adjustment was to be phased in over a 9-year period to reduce the then estimated pay gap of about 28 percent. A different statutory pay system, based on comparability with local prevailing wage rates, applies to wage system employees.

Principal Findings

Overview of Federal Payroll Changes

Between the beginning of fiscal year 1993 and the end of fiscal year 1997, the total federal payroll grew by $8.7 billion (9.3 percent) to $102.4 billion, while the size of the federal workforce decreased from 2.2 million employees to 1.9 million. In real terms, however, overall federal payroll costs decreased because in 1997 constant dollars the payroll declined by $2.4 billion during the 5-year downsizing period.

The payroll cost could have been about 16 percent higher in nominal dollars had there been no employment reductions and had the average pay per employee increased annually at the rate experienced during downsizing. However, this estimate cannot be used as a downsizing savings estimate because it does not consider all downsizing costs, such as the amount of separation payments and payments to contractors to provide services previously provided by downsized employees. For example, a prior GAO review found that 5 of the 24 agencies reviewed were contracting for work previously done by employees who had taken buyouts, to compensate for their reduced workforces.

Because the decrease in the number of employees offset actual aggregate payroll cost increases for those employees remaining on the payroll, GAO calculated payroll costs for a constant workforce of 1.9 million employees over the 5-year period to isolate the payroll cost increases and their causes. On this basis, GAO estimated that, between fiscal years 1993 and 1997, payroll costs increased about $11,600 and $6,460 per employee in nominal and constant dollars, respectively, and approximately $21.6 billion in total nominal dollars. In terms of 1997 constant dollars, the total payroll increase was $12.0 billion.

The increased payroll costs were attributable primarily to the annual pay comparability adjustments that the President recommended and that were agreed to by Congress. These adjustments are intended to keep federal pay competitive with that of nonfederal employers. Other factors that directly increased the compensation of federal employees were increases in the costs of benefits, premium pay, promotions and other performance-based pay increases, and tenure-based career step increases. The latter three pay-related factors, offset to some extent by limited hiring at lower grade levels, pushed the average grade level, and hence pay, of federal employees higher during the downsizing period than they were before.

Annual Pay Comparability Adjustments Were the Primary Cause of Increased Payroll Costs

The annual pay comparability adjustments were responsible for an estimated 58.9 percent, or $12.7 billion, of the estimated overall increase in federal payroll costs for a constant workforce of 1.9 million employees. This estimate includes the effect of comparability adjustments not only on the basic pay of federal employees, but also on the increased costs of certain federal pay and benefits, like retirement benefits, whose costs are set as a percentage of employees' basic pay.

Increases in basic pay totaled about $10.1 billion due to annual comparability adjustments, and associated increases in premium pay and benefits added about $2.6 billion to this total. Overall, the comparability adjustments amounted to about a 17-percent increase in employees' pay and benefits.

Comparability adjustments were approximately 19 percent during the preceding 5-year period. Nonfederal employers increased their employees' pay and benefits approximately 16 percent, as measured by the ECI, during the federal downsizing period. In most years before and during downsizing, the President and Congress acted to reduce the adjustments that otherwise would have been provided under the statutory pay formulas. During the 5-year period, for example, the combined nationwide and locality pay adjustments were about 9 percentage points less than the 24.5 percent adjustment that was calculated, but not fully provided, under the pay formulas.

Benefits Cost Increases Accounted for Over 10 Percent of the Payroll Cost Increase

Some of the benefits that are calculated on the basis of employees' basic pay increased more than the amount that was due to basic pay increases. In addition, other benefits, such as health insurance premiums, are not calculated on the basis of employees' basic pay, and some of these benefits increased in cost during fiscal years 1993 through 1997. In total, increases in the cost of benefits, exclusive of those attributable to increases in employees' basic pay, accounted for an estimated 13.6 percent, or $2.9 billion, of the overall increase in federal payroll costs.

The average annual increase in benefit costs per employee during downsizing was about 29 percent less than the increase in benefit costs during the previous 5-year period. According to OPM officials, the primary reasons for the increases in benefit costs that did occur were agencies' costs for the buyouts offered to encourage employees to leave, matching contributions to the Thrift Savings Plan that agencies are required to make for the increasing number of employees' in the Federal Employees Retirement System (FERS), and the continuing increase in the cost of health insurance premiums of which agencies pay a portion.

Premium Pay Increases Were Minimal

Premium pay, exclusive of the effect of comparability and other pay increases, increased during fiscal years 1993 through 1997, accounting for about 0.3 percent, or $0.1 billion, of the overall increase in federal payroll costs. This increase in the average amount of premium pay during downsizing was about 91 percent less than during the previous 5-year period. Agencies cited overtime payments as the primary reason for the premium pay increases.

Pay Actions, Combined With Changes in Workforce Composition, Contributed to Over One-Fourth of the Payroll Increase

Career step increases, promotions, performance pay, and the combined effect of hiring and separation patterns together resulted in an overall payroll increase and an increase in the workforce's average grade. The combination of the pay actions and the hiring and separation patterns increased the average employee's payroll cost by about $3,180 and the total workforce's payroll by about 29 percent, or $5.9 billion of the $21.6 billion increase for a constant workforce of 1.9 million employees during fiscal years 1993 through 1997. These changes in the characteristics of the workforce also resulted in an increase in the average grade level from GS-9.1 to GS-9.5. This almost one-half grade increase was similar to the rate of increase during the previous 5-year period.[4]

The agencies' separation and hiring practices used during downsizing also contributed to 1.7 and 1.6 year increases in employees' average age and service time, respectively, during downsizing. These rates of increase for average age and length of service were 55 and 100 percent greater,

[4] The average grade levels cannot be used to compute the dollar impact on the federal payroll because the composition of the average may vary depending on the step levels of the employees, and even higher grade and step levels do not necessarily equate to higher pay. For example, if an average grade of GS-9, step 1, was composed of a GS-8, step 8, and a GS-9, step 4, the average pay of the two employees would actually be much higher than GS-9, step 1, pay since both GS-8, step 8, and a GS-9, step 4, are paid at rates higher than GS-9, step 1.

respectively, than the rates that occurred during the previous 5-year period. This aging of the workforce could pose problems if knowledgeable and experienced workers begin to retire in greater numbers.

The administration's goal of increasing the ratio of staff to supervisors to 15 to 1 during downsizing was only partially met, as the ratio increased from 6.6 to 7.7 employees per supervisor. Principally because most of the former supervisors remained with the government at the same grade and pay, the change in the supervisory ratio had little impact on the federal payroll.

Impact of Downsizing on Human Capital

When federal agencies' allocate operating resources, the largest share often is devoted to their workforces. Thus, agencies' effective management of their human capital is critical to both accomplishment of their missions and to efficient, effective, and economical agency operations. Agencies' ability to provide quality service while downsizing its human capital can be an extremely challenging effort without adequate planning.

GAO reviews have found that a lack of adequate strategic and workforce planning during downsizing by some agencies may have affected their ability to provide quality service. Also, the use of agencywide hiring freezes made the replacement of employees with the types of skills needed to perform agencies' missions problematic. Some agencies acknowledged that the loss of critical employees could have been avoided had the agencies done meaningful planning and granted their buyouts consistent with those plans. Agencies have also reported that downsizing in general led to such negative effects as the loss of institutional memory and an increase in work backlogs.

A more recent GAO study of six agencies found that most of these agencies had more effectively planned and implemented buyout programs after Congress began to require that strategic buyout plans be submitted to Congress. These agencies also had generally linked buyouts to achieving specific organizational objectives. These agencies were required by statute (P.L. 104-208) to submit these plans to the appropriate congressional appropriations and oversight committees prior to implementing their buyout authority. The plans were required to outline the intended use of the authority, including a description of how the agency would operate without the eliminated positions and functions. Recent and pending legislation to provide buyout authorities generally, but not always, require the agencies to prepare and submit strategic buyout plans for congressional review prior to implementing buyouts.

Strategic buyout plans are especially important given the general lack of attention to human capital issues in federal agencies' annual performance plans that are prepared under the Government Performance and Results Act of 1993. In this regard, we recently reported that most of the fiscal year 2000 annual performance plans do not sufficiently address how the agencies will use their human capital to achieve results.[5] This general lack of attention to human capital issues is a very serious omission because only when the right employees are on board and provided the training, tools, structure, incentives, and accountability to work effectively is organizational success possible.

Human capital issues will require continuing attention to minimize possible adverse effects on government performance. In this regard, GAO continues to believe that a strong link is needed between human capital planning and agencies' strategic and programmatic approaches to accomplishing their missions.

Recommendations to Congress

To ensure the most cost-effective use of any future buyouts and to help mitigate the adverse effects that can result from poorly planned downsizing, GAO recommends that Congress, in considering buyout legislation, continue to require agencies to prepare strategic buyout plans as a prerequisite for implementing buyout authority and to implement downsizing consistent with the results of their planning efforts. Similar to what was done for buyouts authorized by P.L. 104-208, Congress should also require agencies to submit their plans to appropriate congressional committees prior to implementing their buyout authority.

Agency Comments

DOD and OPM provided written comments on a draft of this report. Each agency concurred with the report's findings. OPM's additional comments are included at the ends of chapters 2, 3, and 4. Subsequent to obtaining these agencies' comments, GAO revised the report to provide additional context on the impact of downsizing on human capital. Since comments had been previously requested from the appropriate agencies regarding the human capital issues discussed in its prior reports, GAO did not request additional comments.

[5] Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

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Abbreviations

COLA	cost of living adjustment
CPDF	Central Personnel Data File
DOD	Department of Defense
ECI	Employment Cost Index
FAA	Federal Aviation Administration
FEPCA	Federal Employees Pay Comparability Act of 1990
FERS	Federal Employees Retirement System
FTE	full-time equivalent
FWS	Federal Wage System
GS	General Schedule
OPM	Office of Personnel Management
SSA	Social Security Administration

Introduction

Since 1991, Congress and the Bush and Clinton administrations have been reducing federal employment levels as a means of reducing federal costs and controlling deficits. For much of the period since January 1, 1993, Department of Defense (DOD), and since March 30, 1994, non-DOD, agencies have been paying separation incentives—commonly known as buyouts—to induce employees to voluntarily leave federal service. However, the federal payroll increased by $8.7 billion, or 9.3 percent, from $93.7 billion to $102.4 billion, while the federal civilian workforce was reduced by about 297,000 employees, or 13.8 percent, to 1.9 million employees during fiscal years 1993 through 1997. To determine why, we identified and analyzed the major factors that resulted in an increased federal payroll at the end of this period of downsizing. We also summarized our prior studies on the impact of downsizing on human capital.

Origins of Federal Downsizing

The administration and Congress began to reduce the number of employees in DOD agencies in 1991—primarily through military base closings—to reduce the federal payroll. Beginning in 1993, Congress and the administration, through a series of legislative acts and executive orders, established authorities and goals for reducing federal staffing levels governmentwide. In this regard, three key pieces of legislation were the National Defense Authorization Act for Fiscal Year 1993; the Federal Workforce Restructuring Act of 1994; and section 663 of the Treasury, Postal Service, and General Government Appropriations Act of 1997, each of which authorized agencies to pay separation incentives—commonly known as buyouts—of as much as $25,000 to eligible employees as inducements to leave federal service voluntarily. Buyouts provided agencies a tool to avoid or reduce the need for reductions-in-force.

The National Defense Authorization Act authorized buyouts for civilian employees at DOD agencies from January 1, 1993, through September 30, 1997. This closing date was later extended to September 30, 1999.[1] The Federal Workforce Restructuring Act of 1994, in addition to authorizing buyouts, mandated governmentwide reductions of 272,900 full-time equivalent (FTE) positions through fiscal year 1999.[2] The Workforce Restructuring Act generally gave non-DOD agencies authority to offer buyouts from March 30, 1994, through March 31, 1995. The 1997

[1]P.L. 102-484 authorized DOD buyouts through September 30, 1997; P.L. 103-337 extended DOD buyouts through September 30, 1999.

[2]According to OMB guidance, an FTE or work year generally consists of one or more employed individuals who collectively complete 2,080 work hours in a given year. Therefore, either one full-time employee or two half-time employees equal one FTE or work year. These hours include straight-time hours only and exclude overtime and holiday hours.

appropriations act gave most non-DOD agencies the authority to offer buyouts from October 1, 1996, through December 30, 1997.

More recent legislation has extended the authority for offering buyouts for DOD agencies to September 30, 2001, and for some non-DOD agencies until September 30, 1999, with some specific agencies, such as the Internal Revenue Service, having authority until as late as January 1, 2003.

Composition of the Federal Workforce

The federal workforce was composed of about 1.9 million FTE non-postal employees at the end of fiscal year 1997. Most "white-collar" workers, about 1.6 million, are covered for pay and classification purposes by the General Schedule (GS), which consists of 15 grades, each broadly defined in law in terms of difficulty and responsibility of the work and the qualifications required for its performance. Other white-collar employees not covered under the GS system include the Foreign Service, certain Veterans Health Administration medical personnel, and the Senior Executive Service, which includes most employees above the GS-15 level.

The Office of Personnel Management (OPM) categorizes each white-collar occupation on the basis of the general subject matter of work, level of difficulty or responsibility, and educational requirements. A description of the five categories follows.

- Professional occupations require incumbents to use discretion and judgment in applying knowledge acquired through education or training equivalent to a bachelor's degree in a specialized field. Professional occupations include statistician, accountant, and architect.
- Administrative occupations involve the exercise of analytical ability, judgment, and the application of a substantial body of knowledge of administrative or management principles and practices. While these occupations do not require specialized educational majors, they do involve the type of skills typically gained through a general college education or progressively responsible work. These occupations include air traffic controller, criminal investigator, and financial analyst.
- Technical occupations consist of nonroutine work that is learned on-the-job or from specialized training less than that represented by college graduation, to support professional or administrative fields. Technical occupations include practical nurse, economics assistant, and engineering technician.
- Clerical occupations require incumbents to do structured work according to established policies, which are learned through training or work experience, to support office operations. Clerical occupations include secretary, clerk-typist, and customs aide.

- Other white-collar occupations include those miscellaneous occupations that are not included in one of the four other categories. Other white-collar occupations include corrections officers and police.

Professional and administrative occupations generally have higher entry levels and average grade levels than do clerical occupations.

As of September 30, 1997, federal blue-collar employees numbered about 250,000. They are covered by the Federal Wage System (FWS), the major pay system covering trade, craft, and labor occupations. These occupations include machine tool work, printing, and plumbing and pipefitting. Wage schedules consist of 15 grades, covering most nonsupervisory employees. Schedules for supervisors and leaders are based on the nonsupervisory schedules, but are separate from them.

Components of the Federal Payroll

The federal payroll has three primary components—basic pay, premium pay, and the cost of benefits provided to the employees. Basic pay consists of the salaries and wages paid directly to employees for duties performed during the employees' regular workweek. Basic pay also includes amounts paid for annual and sick leave. Premium pay is supplemental pay, such as overtime, for work in excess of the regular workweek, which is generally an 8-hour day and a 5-day week that does not include Sunday. Benefits provided to employees at a cost to the government include agencies' shares of health and life insurance premiums and retirement contributions. The benefits cost category also includes severance pay or buyout payments made to employees leaving the federal government.

Employee Pay Adjustments

Most federal employees receive annual pay comparability adjustments under the Federal Employees Pay Comparability Act of 1990 (FEPCA). FEPCA introduced a new annual pay-setting process that, beginning in 1994, was to gradually raise federal pay rates to within 5 percent of nonfederal rates by the year 2002.

Annual pay comparability adjustments consist of two components: a single nationwide basic pay schedule percentage adjustment and varying adjustments in specific localities. The nationwide adjustment is based on the Employment Cost Index (ECI), an index prepared by the Bureau of Labor Statistics that measures the change in nonfederal employers' wages and salaries. The ECI adjustment generally applies to GS—that is, most—federal employees; Foreign Service pay schedules; and pay schedules established under title 38 for certain Veterans Health Administration employees. It may also be applied to other pay systems, such as the Senior Executive Service. The locality pay adjustments apply to specific geographical areas within the continental United States in which surveyed nonfederal pay rates exceed GS pay rates by 5 percent. As with the ECI adjustment, the locality pay adjustment may also be applied to other pay systems up to established statutory pay ceilings.

The locality and nationwide pay comparability adjustments were intended to deal with the pay gap as well as any annual increases in nonfederal pay rates. At the time of enactment, the estimated pay gap was about 28 percent, and FEPCA required that 20 percent of the gap be closed in 1994, with locality pay adjustments each year thereafter until the pay gap was reduced to 5 percent.[3] FEPCA also authorizes the President to propose lower alternative pay comparability adjustments under certain specified conditions. Since 1994, either the adjustment based on the ECI or the locality pay surveys have been limited by alternative adjustments by the President and Congress.

Employees' pay also varies at a given grade level, depending on which of 10 steps the employee occupies within that grade. Each higher step increases the employee's rate of basic pay within that grade. Employees' advancement to the next step within a grade (career step increases) is to be based on performance at an acceptable level of competence and established waiting periods for the steps. The waiting periods for steps 1 through 4, 5 through 7, and 8 through 10 are 52, 104, and 156 weeks, respectively. Employees demonstrating "high quality performance" may advance more rapidly through the steps by being granted additional performance-based step increases (quality step increases). An employee may receive only one such increase during any 52-week period.

Pay under FWS is to be based on what private industry is paying for the same kind of work in local wage areas. Federal blue-collar employees are to be paid the full prevailing rate at step 2 of their grade. At step 5, the highest step, they may be paid 12 percent above the prevailing rate. Since fiscal year 1979, separate legislation has limited or delayed annual FWS wage adjustments.

Blue-collar employees also receive career step increases and, based on creditable service, may advance to step 5 in about 6 years. However, there are no provisions for their receiving quality step increases.

[3]Prior to FEPCA, employees' pay was adjusted annually in accordance with the Federal Pay Comparability Act of 1970. The 1970 Act also had the principle of pay comparability, requiring annual adjustments to make federal pay rates comparable with private sector pay rates for the same levels of work.

Objectives, Scope, and Methodology

The Chairmen of the Senate Committee on Governmental Affairs and its Subcommittee on International Security, Proliferation and Federal Services asked us to analyze changes in the federal workforce's pay and composition since passage of the National Defense Authorization Act for Fiscal Year 1993 and the Federal Workforce Restructuring Act of 1994, to determine why the federal payroll increased while the number of federal employees was decreasing. Our specific objectives were to determine

- to what extent and for what reasons the amounts of basic pay, costs of benefits, and premium pay changed during downsizing, and
- how, and to the extent possible why, grade and pay levels, the proportion of employees in occupations, and other demographics of the workforce changed in DOD and non-DOD agencies during downsizing and what impact these changes had on the federal payroll.

We also answered the question of to what extent the number and salaries of supervisors and managers and their ratio to employees changed during downsizing and how those changes affected the payroll. In addition, we summarized our prior findings on human capital issues related to downsizing.

To determine the extent to which and for what reasons basic pay, benefits costs, and premium pay changed during downsizing, we identified the factors that affected these payroll costs—annual comparability adjustments, changes in the grades and pay levels of federal employees, and changes in agencies' use of benefits and premium pay. We obtained data on pay comparability adjustments from reports prepared by the President's Pay Agent[4] and OPM's annual reports entitled Pay Structure of the Federal Civil Service. We obtained data on the number of employees, basic pay, benefits costs, and premium pay and the average grade of full-time federal employees from OPM's annual reports entitled Work Years and Personnel Costs and The Fact Book: Federal Civilian Workforce Statistics.

We used the difference between the average payroll cost per employee for the 2.2 million employees at the beginning of fiscal year 1993 and for the 1.9 million employees at the end of fiscal year 1997 to approximate a $21.6 billion payroll increase for a constant workforce of 1.9 million employees. We did not have the data necessary to determine the exact payroll cost for

[4]The President's Pay Agent is composed of the Secretary of Labor and the Directors of OPM and the Office of Management and Budget.

the employees who separated during fiscal years 1993 through 1997. However, we were able to determine that the average payroll cost per employee for the 2.2 million employees included subsequently separated employees, who had lower average payroll costs than the remaining employees.

We calculated the impact of annual comparability adjustments on the basic pay portion of the federal payroll and on the average employee's basic pay during fiscal years 1988 through 1997. We used a single average for each of the years to represent the nationwide and locality pay adjustments. To facilitate our analysis, we applied these increases to the entire payroll for all federal civilian employees, including blue-collar employees, who received pay adjustments under another system.[5] After determining the amount that basic pay increased as a result of annual comparability adjustments, we calculated the amounts that basic pay increased each year due to other pay actions and separation and hiring trends that resulted in changes in employees' grade and pay levels. We then determined the proportionate relationship each year between the impact on basic pay of comparability adjustments and the impact on basic pay of other pay actions and of separation and hiring trends.

To calculate the effect comparability adjustments and other pay actions had on the costs of benefits and premium pay, we analyzed the extent to which the cost of each benefit and premium pay changed during fiscal years 1988 through 1997 due to basic pay increases–as distinct from changes in usage of the benefits and premium pays, which may also increase their costs. Since most benefits and premium pays are based on employees' basic pay, we calculated the proportions of the costs of benefits and premium pays that increased annually due to pay comparability adjustments. We then used these proportionate cost increases due to comparability adjustments, and the proportionate relationship of comparability adjustments to grade and pay level changes, to calculate the increases in the costs of benefits and premium pay due to grade and pay level changes. One exception was that we did not attribute any increases in the government's share of health insurance premiums to pay comparability adjustments or other pay actions, since health insurance premiums are not based on employees' pay. We considered the changes in costs of benefits and premium pay to be the difference between the amounts due to comparability adjustments and grade and pay changes and the total changes in the annual costs of benefits and premium pays.

[5]Blue-collar employees are covered by a different pay system; however, their annual pay adjustments have been similar to those received by white-collar employees.

Our calculations of the impact of comparability and other pay increases do not provide an exact amount but rather an estimate, because the government's costs for some benefits and premium pay, such as overtime, are also affected by other factors, such as a cap on the amounts that can be paid. In addition, per employee costs were calculated on the basis of all employees because data were not readily available on the specific number of employees who received each type of benefit or premium pay. Further, although temporary employees generally do not receive benefits, we did not determine and adjust for the number of such temporary employees in our calculations. Temporary employees comprised about 10 percent of the federal civilian workforce in fiscal year 1997.

We totaled the change due to usage in the costs of various benefits and premium pays to determine whether, in aggregate, the annual costs of benefits and premium pays increased during the downsizing period and thus contributed to an increase in the federal payroll.[6] In addition, we determined the extent to which the costs of benefits and premium pays due to usage increased or decreased during fiscal years 1993 through 1997.

To determine how, and to the extent possible why, the proportion of employees in occupations and grade and pay levels changed governmentwide, as well as in DOD and non-DOD agencies, we used OPM's Central Personnel Data File (CPDF) to analyze data on the numbers of employees in occupations and general occupational categories in each agency and governmentwide.[7] We calculated the extent to which the percentage of employees in occupations with 500 or more employees, and in general occupational categories, changed in proportion to the federal workforce between October 1, 1987, and December 31, 1992, compared with the period January 1, 1993, to March 31, 1998. We also did the same analysis for the periods from October 1, 1987, through March 31, 1994, and April 1, 1994, through March 31, 1998, for non-DOD agencies. We ranked the five agencies with the highest increases and decreases in individual occupations and in each general occupational category. We then selected eight agencies that were among those ranked highest in a number of these categories and that also had payrolls that represented over 3 percent of the total federal payroll. Two agencies with smaller payrolls—the Federal Emergency Management Agency and the Department of Housing and

[6] The entire amount of annual changes in the cost of health insurance premiums was included in the total amount of benefit costs attributed to usage.

[7] The CPDF contains computerized records of most federal civilian employees, including employees' grade levels and pay, as well as their personnel actions, such as promotions and performance pay increases. These records are maintained and updated quarterly by OPM from data provided by federal agencies.

Urban Development—were selected because they had the highest number of changes in several occupations and occupational groups. We interviewed officials at these 10 agencies to determine reasons why the changes had occurred.

To determine how and why employees' grade and pay levels changed and the impact of those changes, we identified the primary factors that increased employees' pay. We obtained and analyzed CPDF data on the types of pay actions and determined that career steps, promotions, and performance pay increases together played the largest part in increasing employees' pay. We analyzed the CPDF data to determine the total number and amounts of these actions for the two 5-year periods and adjusted the amounts to exclude the sums attributable to annual pay comparability adjustments. We had previously estimated the effect of comparability adjustments on the costs of benefits and premium pay. We used these estimates and assumed that the pay actions' impact was in the same proportional relationship to the comparability pay adjustments' effect on the costs of benefits and premium pay as was the proportional relationship of comparability and pay actions for basic pay.

To determine the impact of separation and hiring patterns on the average grade levels, we also analyzed the CPDF database to determine the average grade for employees who were separated from, were hired into, and who remained in the government in fiscal years 1988 through 1997. To determine whether the average grade increased at a different rate during downsizing than before downsizing, we calculated the difference in employees' average grade for the periods before downsizing—fiscal years 1988 through 1992—and during downsizing—fiscal years 1993 through 1997. We recognize that some of the change in the average grade and pay would occur as a result of downsizing if the distribution of separated employees were uneven across federal grade levels.

To determine the extent to which the number and salaries of supervisors and managers, and their span-of-control, changed, and the effect of such changes on the federal payroll, we analyzed the CPDF data on GS and blue collar employees to identify the number of supervisors and managers, and their ratio to staff, on September 30, 1987; September 30, 1992; and September 30, 1997, for all agencies governmentwide.[8] For fiscal years 1993 through 1997, we also determined whether employees who had been

[8] We excluded blue collar employees in calculating the number of employees in grades GS-12 through GS-15 on September 30, 1992, and September 30, 1997, because blue collar employees do not have GS grades.

identified as supervisors or managers after downsizing began, but were no longer identified as supervisors or managers at subsequent dates, had a code indicating the reason for the change, such as reclassification or transfer to another position. For these former supervisors and managers, we reviewed their salaries to determine the amount of any salary change at the time they changed to nonsupervisory or nonmanagement positions.

For employees who became supervisors or managers, and for supervisors and managers who left the federal government during downsizing, we determined the amount of their salaries at those times. Our estimate of the total pay of new supervisors and managers assumed that 86 percent of those who were not hired from outside government were either replaced in their previous nonsupervisory positions by new hires or that, somewhere in the line of succession caused by the vacancy in their former position, an employee from outside government was hired. We assumed that 14 percent of the vacated positions were not filled, to reflect the overall 14 percent staffing reduction during downsizing. We could not verify our assumptions because the CPDF does not have information on whether newly appointed supervisors or managers or other employees were replaced in their former positions by new hires or existing employees.

To provide contextual information on the impact of downsizing on human capital, we reviewed and summarized the relevant portions of our prior reports. These reports, issued during fiscal years 1996 through 1999, are cited where the relevant discussion occurs in chapter 2.

We did our audit work in Washington, D.C., from September 1998 through July 1999 in accordance with generally accepted government auditing standards.

We requested comments on a draft of this report from the Director of OPM and the Secretary of DOD or their designees. OPM and DOD provided written comments. OPM's additional comments are presented at the ends of chapters 2, 3, and 4, and are reprinted in appendix II. OPM and DOD also provided technical comments, which we incorporated in the report where appropriate. Subsequent to obtaining these agencies' comments, we revised the report to provide additional context on the impact of downsizing on human capital. Since comments had been previously requested from the appropriate agencies regarding the human capital issues discussed in our prior reports, we did not request additional comments.

Impact of Downsizing on Federal Payroll and Human Capital

Between the beginning of fiscal year 1993 and the end of fiscal year 1997, the total federal payroll cost grew by $8.7 billion to $102.4 billion, even though the number of employees decreased by about 300,000, because the payroll cost reductions attributable to the employees who left were less than the increased payroll costs for those employees who remained with the federal government. In terms of 1997 constant dollars, however, the payroll declined by $2.4 billion during the 5-year downsizing period. Based on the change in the average cost per employee during fiscal years 1993 through 1997, the payroll cost could have been about $16.4 billion, or 16 percent, higher had there been no employee reductions. This estimate, however, does not consider costs resulting from downsizing, such as the cost of an increased number of separation payments and the use of contractors to provide services previously provided by downsized employees.

Because the $8.7 billion increase was based on 2.2 million employees in 1993 and 1.9 million employees in 1997, we recalculated the payroll increase of about $11,600 per employee as it related to only 1.9 million employees so that we could isolate the factors contributing to the increase. We developed a payroll-increase approximation of about $21.6 billion.[1] For comparison, in terms of 1997 constant dollars, the payroll increase was approximately $6,460 per employee and $12.0 billion for 1.9 million employees.

The increased payroll costs for those employed by the federal government were attributable to several causes, but the predominant cause was the annual, statutorily-based pay adjustment meant to make federal pay competitive with that of nonfederal employers.

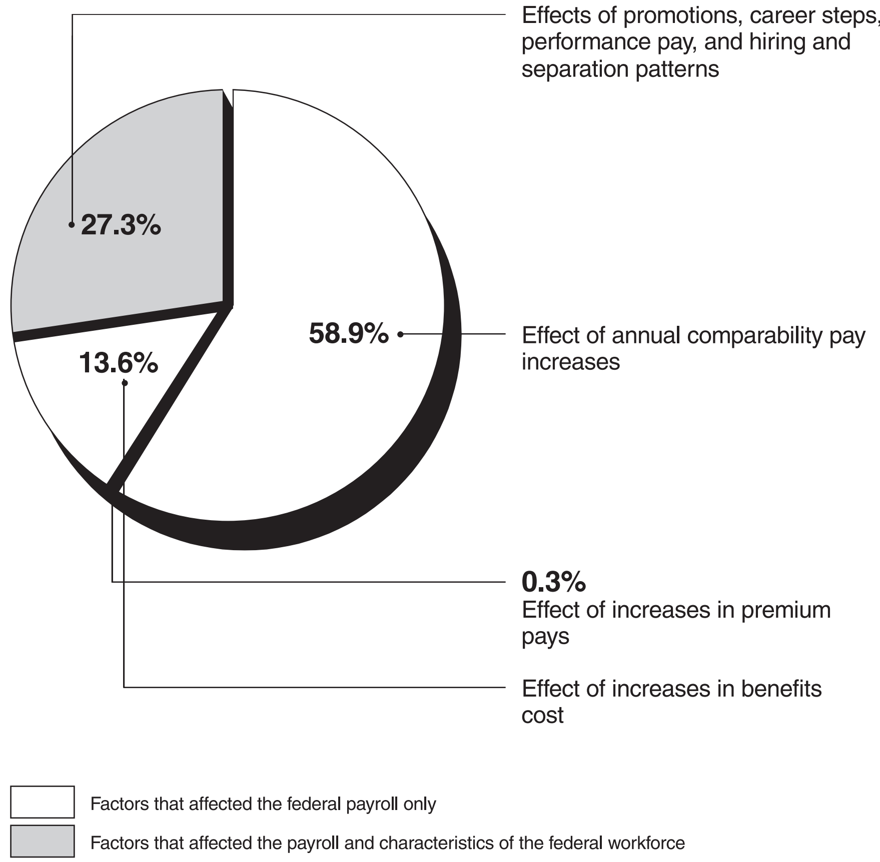
Other factors that directly increased the compensation of federal employees were increases in the cost of employee benefits and a small increase in the amount of premium pays that employees earned. These factors are discussed in more detail in chapter 3. Certain changes in the characteristics of the federal workforce also increased the overall federal payroll cost. However, while career steps, promotions, and performance pay increased the overall grade and payroll cost averages governmentwide, hiring and separation patterns had the combined effect of lessening the

[1] We did not have the data necessary to determine the exact payroll costs for the 1.9 million employees or for the net reduction of 300,000 employees during fiscal years 1993 through 1997. Therefore, we used the difference between the average payroll cost per employee for 2.2 million employees in 1993 and 1.9 million employees in 1997 to approximate a $21.6 billion payroll increase for a constant workforce of 1.9 million employees.

growth in the governmentwide average grade and payroll cost. These factors are discussed in more detail in chapter 4.

Figure 2.1 shows the percentage each of these factors contributed to the increase in payroll costs for those employed in 1997. The factors that affected the federal payroll but not the characteristics of the workforce are unshaded, while the factors that affected both the payroll and the characteristics of the workforce are shaded.

Figure 2.1: Percentage Increase Contributed by Various Factors to Federal Payroll Costs, Fiscal Years 1993-1997



Source: GAO calculations based on OPM data.

While our primary objective was to identify and analyze reasons for the payroll increase, another was to summarize our past findings on human capital issues related to downsizing. Our previous reviews of downsizing found that a lack of adequate strategic and workforce planning by some agencies may have affected their ability to achieve organizational missions with a reduced workforce. In a subsequent study of six agencies' experiences in the later stages of their downsizing efforts, we found that most of these agencies had more effectively planned and implemented buyout programs and had generally linked buyouts to achieving specific organizational objectives. These latter agencies were required to submit strategic buyout plans to Congress prior to implementing buyouts.

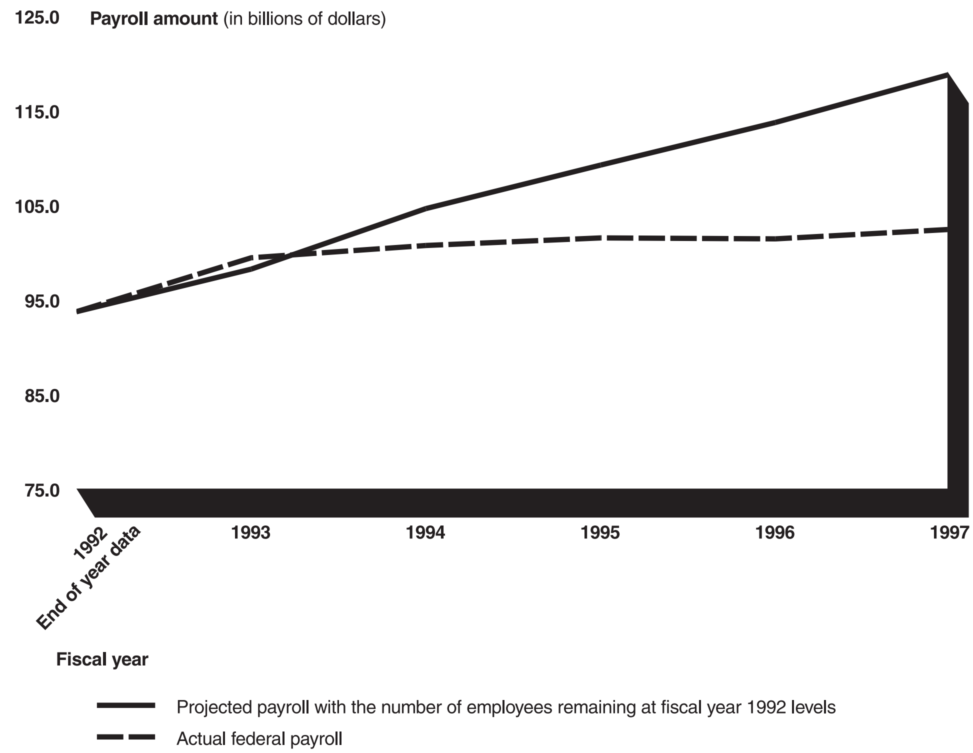
Payroll Increases for Remaining Employees Were Larger Than Payroll Decreases Resulting From Downsizing

The actual payroll at the beginning of fiscal year 1993 was $93.7 billion, and it increased by $8.7 billion to $102.4 billion as of September 30,1997, the end of that fiscal year. During that same time period, federal employment was reduced from 2.2 million employees to about 1.9 million. The net increase of $8.7 billion in the payroll occurred because employees' payroll costs increased in excess of the payroll cost reductions resulting from the separation of about 300,000 employees during the period. In terms of 1997 constant dollars, however, the payroll declined by $2.4 billion during the 5-year downsizing period. At the same time, the average payroll cost per employee increased in nominal dollars by $11,600, from about $43,400 to $55,000, and by approximately $21.6 billion for a constant workforce of 1.9 million employees. For comparison, this increase in terms of 1997 constant dollars was about $6,460 per employee and about $12.0 billion for 1.9 million employees. Had the number of employees remained at 2.2 million, and had the average cost of pay and benefits per employee still increased by $11,600, the federal payroll would have increased from $93.7 billion to $118.8 billion in fiscal year 1997.

Although the federal payroll is less than it would have been without downsizing, it nevertheless increased in relation to what it would have been had it been held constant since the beginning of fiscal year 1993. In effect, the retrospective 1993 payroll for the 1.9 million employees on the rolls as of September 30, 1997, was an estimated $80.8 billion, and it increased by approximately $21.6 billion to $102.4 billion based on the $11,600 increase in the average cost of pay and benefits per employee.

Figure 2.2 presents the actual and projected federal payrolls for fiscal years 1993 through 1997 for the scenarios discussed in the preceding paragraph. The figure shows the projected federal payrolls if the number of employees had remained at 2.2 million during downsizing while the average pay per employee increased annually at the rate experienced during downsizing, as well as showing the actual federal payrolls during downsizing.

Figure 2.2: Actual Versus Projected Fiscal Year 1993-1997 Changes in the Federal Payroll Amounts



Source: GAO calculations based on OPM data.

The difference of approximately 16 percent between the projected federal payroll if 2.2 million employees had remained in the federal government and the actual payroll in fiscal year 1997 does not accurately represent the amount saved by downsizing. This estimate does not consider the costs resulting from downsizing, such as the cost of an increased number of separation payments and the use of contractors to provide services previously provided by downsized employees. In a previous report, we noted that 5 of 24 agencies reviewed acknowledged contracting out some work, formerly done by federal employees who had taken buyouts, to compensate for having a smaller workforce.[2]

Factors that Increased the Federal Payroll During Downsizing

Table 2.1 shows the factors and the extent to which each contributed to the changes in employees' average pay and benefits and to total federal payroll costs. These factors are discussed in more detail in chapters 3 and 4.

[2] Federal Downsizing: Better Workforce and Strategic Planning Could Have Made Buyouts More Effective (GAO/GGD-96-62, Aug. 26, 1996).

Table 2.1: Factors Causing Increased Cost per Employee and Federal Payroll to Change, Fiscal Years 1993 Through 1997

Status/change factor	Employee's average pay	Impact on federal payroll (in billions)	Percentage of increase caused by factor
Fiscal year 1993	**$43,400**		
Increase due to annual pay comparability adjustments[a]	6,840	$12.7	58.9
Increases in employees' benefits[a]	1,580	2.9	13.6
Increases in employees' premium pay[a]	30	0.1	0.3
Increases due to career steps, promotions, performance pay increases, and the combination of hiring and separation patterns[b]	3,180	5.9	27.3
Fiscal year 1997[c]	**$55,000[d]**	**$21.6**	**100.0[d]**

[a]Addressed in chapter 3.

[b]Addressed in chapter 4.

[c]Employees' average pay and the extent to which the factors increased the federal payroll as of fiscal year 1997.

[d]Numbers do not total due to rounding.

Source: GAO calculations based on OPM data.

Impact of Downsizing on Human Capital

When federal agencies allocate operating resources, the largest share often is devoted to their workforces, that is, human capital. Thus, effectively managing their human capital is critical to both effective accomplishment of agencies' missions and to efficient, effective, and economical operations. Providing quality service while agencies downsize their human capital can be extremely challenging without adequate planning.

Our reviews have found that a lack of adequate strategic and workforce planning during downsizing by some agencies may have affected their ability to provide quality service.[3] Also, the use of agencywide hiring freezes made the replacement of employees with the types of skills needed to perform agencies' missions problematic. Some agencies acknowledged that the loss of critical employees could have been avoided had the agencies done meaningful planning and granted their buyouts consistent with those plans. Agencies have also reported that downsizing in general had negative effects. For example, 11 or more of 24 agencies in the 1996 review cited a loss of institutional memory, an increase in work backlogs, or a somewhat of a or great hindrance in performing their mission.

In a subsequent study of six agencies' experiences in the later stages of their downsizing efforts, we found that most of these agencies had more effectively planned and implemented buyout programs and had generally

[3] Federal Downsizing: Better Workforce and Strategic Planning Could Have Made Buyouts More Effective (GAO/GGD-96-62, Aug. 26, 1996) and Federal Downsizing: Buyouts at the Farm Service Agency (GAO/GGD-97-133, July 23, 1997).

linked buyouts to achieving specific organizational objectives.[4] This increase in buyout program effectiveness was due in part to a statutory requirement (P.L. 104-208) that directed agencies to submit strategic buyout plans to the appropriate congressional appropriation and oversight committees prior to implementing buyout authority. The plans were required to contain an outline of the intended use of the authority, including such information as the number and amounts of buyouts to be offered, the positions and functions to be reduced or eliminated, and a description of how the agency would operate without the eliminated positions and functions. Recent and pending legislation to provide buyout authorities generally, but not always, require the agencies to submit similar plans prior to or after implementation of the buyout program.

Strategic buyout plans are especially important given the general lack of attention to human capital issues in federal agencies' annual performance plans that were prepared under the Government Performance and Results Act of 1993. In this regard, we recently reported that most of the fiscal year 2000 annual performance plans do not sufficiently address how the agencies will use their human capital to achieve results.[5] Specifically, few of the plans relate how the agency will build, marshal, and maintain the human capital needed to achieve its performance goals. This general lack of attention to human capital issues is a serious omission because only when the right employees are on board and provided the training, tools, structure, incentives, and accountability to work effectively is organizational success possible.

Conclusions

Improved planning by some agencies during the more recent downsizing period should help to minimize those agencies' future problems. Problems such as skills imbalances and work backlogs, however, may take some time to resolve. When human capital planning is linked to agencies' strategic planning, problems such as skills imbalances are more easily avoided. Thus, we continue to believe that a strong link is needed between human capital planning and agencies' strategic and programmatic approaches to accomplishing their missions.

Recommendations to Congress

To ensure the most cost-effective use of any future buyouts and to help mitigate the adverse effects that can result from poorly planned downsizing, we recommend that Congress, in considering buyout

[4] Federal Downsizing: Effective Buyout Practices and Their Use in FY 1997 (GAO/GGD-97-124, June 30, 1997).

[5] Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

legislation, continue to require agencies to prepare strategic buyout plans as a prerequisite for implementing buyout authority and to implement downsizing consistent with the results of their planning efforts. Similar to what was done for buyouts authorized by P.L. 104-208, Congress should also require agencies to submit their plans to appropriate congressional committees prior to implementing their buyout authority.

Agency Comments

DOD and OPM concurred with our findings. OPM agreed that much of the increase in payroll cost during downsizing was due to pay raises, with smaller increases due to changes in the workforce's composition and in benefits costs. OPM also said that it believes the report reflects the success of the administration's efforts to slow the rate of growth in federal employment and payroll costs, noting that the growth would have been much greater had the federal workforce not been reduced by about 300,000 employees during the period we reviewed. We agree that the federal payroll could have been larger in the absence of downsizing and recognize the importance of the administration's role in downsizing the government. However, as noted in chapter 1, both Congress and the administration played roles in the downsizing effort. Subsequent to obtaining the agencies' comments, we revised the report to provide additional context on the impact of downsizing on human capital. Since comments had been previously requested from the appropriate agencies regarding the human capital issues discussed in our prior reports, we did not request additional comments.

Annual Pay Comparability Adjustments Were the Primary Cause of Increased Payroll Costs

The increased payroll costs for the 1.9 million federal employees in fiscal year 1997 were due primarily to employees' annual pay comparability adjustments. The annual pay comparability adjustments were responsible for an estimated 59 percent of the overall increase in federal payroll costs. This estimate includes the effect of comparability adjustments not only on the basic pay of federal employees, but also on the costs of other types of pay and employee benefits, such as premium pay, the costs of which are based on percentages of employees' basic pay. Basic federal pay rose about $5,440 per employee due to annual comparability increases during fiscal years 1993 through 1997, and associated pay and benefits increased about $1,400 per employee. These pay comparability adjustments were comparable to the increases provided to nonfederal employees during the same period, as measured by the ECI.

Some of the benefits that are calculated on the basis of employees' basic pay increased by more than the amounts that were due to basic pay increases. In addition, some benefits costs, such as health insurance premiums, that are not calculated on the basis of employees' basic pay also increased during fiscal years 1993 through 1997. In total, increases in the cost of benefits, exclusive of the increases directly attributable to increases in employees' basic pay, accounted for an estimated 13.6 percent, or $1,580 per employee, of the overall increase in the average payroll cost per employee.

Premium pay, exclusive of the effect of comparability and other pay increases, also increased in cost during fiscal years 1993 through 1997. This accounted for about 0.3 percent, or $30, of the overall $11,600 increase in federal payroll costs per employee.

Annual Pay Comparability Adjustments Were the Major Cause of the Increases in Payroll Costs

During fiscal years 1993 through 1997, comparability adjustments increased the average payroll cost per employee by about $6,800, or an estimated $12.7 billion for the 1.9 million employees. These pay adjustments affected not only employees' basic pay, but also the amounts of premium pay and the cost of benefits provided by the government, since most of these costs are based on percentages of an employee's basic pay. Thus, the pay comparability adjustments resulted in increases in the average employee's basic pay, benefits, and premium pay of about $5,400, $1,020, and $380, respectively. The comparability adjustments increased pay and benefits by about 17 percent, which was somewhat less than the approximately 19-percent increase resulting from such adjustments during the preceding 5-year period.

Annual pay comparability adjustments are intended to make federal pay competitive with that of alternative employers so that the federal government can attract and retain employees. During this period, comparability adjustments to employees' basic pay totaled about 17 percent. This was comparable to the 16-percent increase provided by nonfederal employers, as measured by the ECI. In most years before and during downsizing, however, the President and Congress acted to reduce the adjustments that otherwise would have been provided under the statutory pay formulas. During the 5-year period, for example, the combined nationwide and locality pay adjustments were about 9 percentage points less than the 24.5 percent adjustment that was calculated but not provided under the pay formulas.

Benefits Cost Increases Accounted for Over 13 Percent of the Payroll Cost Increase

During fiscal years 1993 through 1997, the cost of benefits, exclusive of the effect attributable to comparability and other pay increases, increased by $1,576 per employee. Thus, the cost of benefits for 1.9 million employees contributed an estimated $2.9 billion, or 13.6 percent, of the $21.6 billion increase in the total payroll. However, the average annual increase per employee was about 29 percent less than during the previous 5-year period. Also, the total change in the cost of benefits, compared with the 5-year period preceding downsizing, was $4.2 billion less governmentwide, due primarily to the reduction in the number of employees.

The cost of benefits per employee increased during the 5-year downsizing period, as well as between most of the years during the period, due primarily to increases in the cost of five benefits. The five benefits primarily responsible for the increase were health insurance premiums; retirement contributions, including agencies' contributions to employees' Thrift Savings Plan accounts; separation and severance payments; Social Security contributions; and other benefits, which included retirement and other benefits charged to agencies under special plans for non-U.S. citizens in foreign areas.

Table 3.1 shows the change in the cost of benefits, per employee and governmentwide, between the beginning of fiscal year 1993 and the end of fiscal year 1997.

Table 3.1: Changes in Cost of Benefits per Employee and Governmentwide During Downsizing

Benefit	Change in cost of benefits per employee during downsizing[a]	Change in cost of benefits projected to 1.9 million employees (in thousands)
Health insurance	$249	$463,204
Life insurance	(9)	(16,287)
Retirement	520	968,102
Social Security	232	430,946
Workers compensation	89	165,272
Overseas allowance	(70)	(131,078)
Severance/separation pay	385	716,481
Other benefits [b]	120	223,831
Miscellaneous benefits [c]	61	113,581
Total	**$1,576**[d]	**$2,934,051**[d]

[a]Per employee costs are calculated on the basis of all employees because data were not readily available on the specific number of employees who received each type of benefit.

[b]Other benefits include agencies' costs for employees' retirement and other benefits under special plans for non-U.S. citizens in foreign areas. They also include relocation and other expenses related to the movement of employees to new duty stations.

[c]Miscellaneous benefits include uniform allowances, nonforeign cost-of-living-adjustments (COLA), retention allowances, and recruitment and relocation bonuses.

[d]Numbers do not total due to rounding.

Source: GAO calculations based on OPM data.

Although benefits costs increased during downsizing, the increases were at a lower rate than during the previous 5-year period. Benefits costs per employee increased by $315 annually during downsizing. This increase was $129, or about 29 percent, less than the annual increase per employee during the previous 5-year period. Appendix I contains additional information comparing the downsizing period with the previous 5-year period.

Since the costs of benefits are generally determined by governmentwide policies, we obtained opinions from OPM officials who are knowledgeable of the effect of these policies. According to OPM officials, the primary reasons for the increases that did occur were agencies' costs for buyouts and for their contributions to employees' Thrift Savings Plan accounts. During downsizing, over 170,000 buyouts were paid, totaling about $3.9 billion in separation pay. OPM officials said that the increase in retirement and Social Security contributions during downsizing was due primarily to the increasing number of employees covered by the Federal Employees Retirement System (FERS). As employees increased their contributions—now averaging about 4 percent of annual pay—to the Thrift Savings Plan, the agencies had to match those contributions under FERS. In addition, under FERS, agencies are required to make Social Security contributions for the increasing number of employees in FERS.

Premium Pay Increases Were Minimal

During fiscal years 1993 through 1997, the cost of premium pay, exclusive of the effect of comparability and other pay increases, increased by $30 per employee. Thus, the cost of premium pay contributed to increasing the total payroll cost for the 1.9 million employees by an estimated $0.1 billion, or 0.3 percent, of the $21.6 billion increase in the total payroll. The annual average increase in the cost of premium pay per employee was about 91 percent less than during the previous 5-year period. Also, the total cost of premium pay compared with the 5-year period preceding downsizing was $1.4 billion less on a governmentwide basis, primarily due to the reduction in the number of employees.

Premium pay costs on a per employee basis increased during the 5-year downsizing period, as well as generally between years in the period. Although most types of premium pay decreased during downsizing, there was an overall increase, due primarily to increases in the costs of overtime, Sunday premium pay, and physicians' comparability allowances.

Table 3.2 shows the change in the cost of premium pay, per employee and governmentwide, between the beginning of fiscal year 1993 and the end of fiscal year 1997.

Table 3.2: Changes in Cost of Premium Pay per Employee and Governmentwide During Downsizing

Premium pay	Change in cost of premium pay per employee during downsizing[a]	Change in cost of premium pay projected to 1.9 million employees (in thousands)
Overtime	$121	$225,506
Holiday	(3)	(4,914)
Sunday	8	14,426
Night differential	(15)	(28,758)
Hazardous duty	(1)	(2,308)
Post differential	(16)	(30,043)
Supervisory differential	1	2,625
Physicians' comparability allowances	30	55,339
Cash awards	(30)	(55,413)
Other premium pay[b]	(63)	(117,862)
Miscellaneous premium pay[c]	(2)	(2,978)
Total	**$30**	**$55,618**[d]

[a]Per employee costs are calculated on the basis of all employees because data were not readily available on the specific number of employees who received each type of premium pay.

[b]Includes payments above the basic rates for any other premium pay, such as annual premium pay for regularly scheduled standby duty.

[c]Includes staffing differential and remote site allowance pay.

[d]Numbers do not total due to rounding.

Source: GAO calculations based on OPM data.

Premium pay increased on a per employee basis during downsizing, although the annual average increases were less than during the previous 5-year period. The annual average increase of $6 per employee during downsizing was about 91 percent less than the average annual increase of $70 per employee during the previous 5-year period. For additional information comparing the downsizing period with the previous 5-year period, see appendix I.

We contacted agencies that experienced the highest increased costs for overtime, as well as for several other premium pays, during downsizing to identify the reasons for the cost increases. Department of Justice officials attributed increases in overtime, Sunday, and other premium pays to several factors, such as

- a growth in the law enforcement occupations that perform the majority of the department's overtime, holiday, Sunday, and night work (for example, the number of Border Patrol personnel increased by 33.2 percent), and
- enactment of the Federal Law Enforcement Pay Reform Act of 1990, which raised hourly and biweekly premium pay caps, mandated higher special salary rates for certain law enforcement employees, and provided pay increases for such employees in specific large metropolitan areas.[1]

Justice officials also attributed increases in the amount of physician comparability allowances to a 55-percent increase in the Bureau of Prison's correctional officer workforce, which includes physicians.

Department of Transportation officials said that their increases in Sunday premium pay, holiday pay, and other premium pays during downsizing were due to increased air traffic activity, which resulted in higher numbers of Federal Aviation Administration employees working hours that entitled them to premium pay.

The average amount of cash awards and other premium pay per employee decreased annually during downsizing. DOD officials cited several reasons for the decrease in the amount of most cash awards and other premium pays, including a congressional mandate to reduce the overall defense budget.

[1]While this authority was enacted prior to the downsizing period, the effect continued during the downsizing period.

Agency Comments

DOD and OPM agreed with our findings. OPM also commented that the increased cost of benefits was driven mainly by increases in direct agency payments for retirement contributions and health insurance that would have occurred in any case. Our review identified retirement contributions and health insurance premiums as two of the primary factors contributing to increased benefits costs, and they probably would have occurred without downsizing. However, the increase in severance pay, which contributed the second greatest amount to the overall increase in benefits costs, was affected by the buyouts and early retirements offered during the downsizing period we reviewed.

Career Steps, Other Pay Actions, and Workforce Composition Changes Contributed About One-Fourth of the Payroll Increase

Pay actions other than comparability payments and the combined effect of hiring and separation patterns together resulted in an increase of about $3,180 per employee, or about $5.9 billion of the payroll increase for a constant workforce of 1.9 million employees during downsizing. The combination of these factors also contributed to a more highly paid workforce, with a higher proportion of employees in occupations with higher pay governmentwide and an increase in the average grade level from the beginning to about the mid-point of GS-9. Although grade levels increased, the increases in the average grade levels were about the same during the downsizing period and the previous 5-year period.

Our analysis of governmentwide data also showed that reductions in the number of supervisors and managers during downsizing increased the ratio of supervisors to employees from 6.6 to 7.7 employees per supervisor but had a limited effect on the federal payroll.

Impact of Career Steps, Promotions, and Performance Pay

Career step increases, promotions, performance pay, and the combined effect of hiring and separation patterns contributed about $3,180 per employee and $5.9 billion of the $21.6 billion payroll increase for 1.9 million employees during downsizing. The resulting changes in the characteristics of the workforce caused the average grade level to increase from GS-9.1 to GS-9.5 during downsizing. Although employees received fewer promotions during the downsizing period, this almost one-half grade increase was similar to the rate-of-grade increase during the previous 5-year period.

Table 4.1 presents the total number and dollar amounts of pay actions during downsizing for employees still in the government in fiscal year 1997, exclusive of comparability pay adjustments. The pay actions increased the federal payroll in the years they were provided and in each succeeding year the employee remained in the federal government. The effect of this $6.1 billion in pay increases on payroll cost was partially offset, however, by the combined effect of hiring and separation patterns—discussed in the next section—which served to lessen the payroll increase to $5.9 billion during downsizing.

Table 4.1: Number and Amount of Personnel Actions Affecting Payroll During Downsizing Period

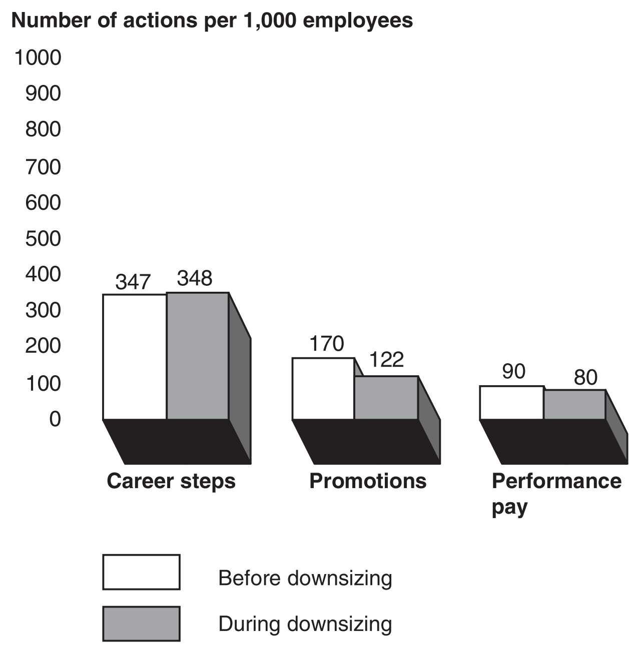
Type of action	Number of actions during downsizing	Increase in basic pay due to actions during downsizing (in thousands)[a]
Career step increases	2,924,480	$2,733,829
Promotions	1,033,254	2,594,616
Performance based increases	664,318	812,003
Total	**4,622,052**	**$6,140,448**

[a]Amounts exclude the effect of comparability pay adjustments.

Source: GAO calculations based on data in OPM's CPDF.

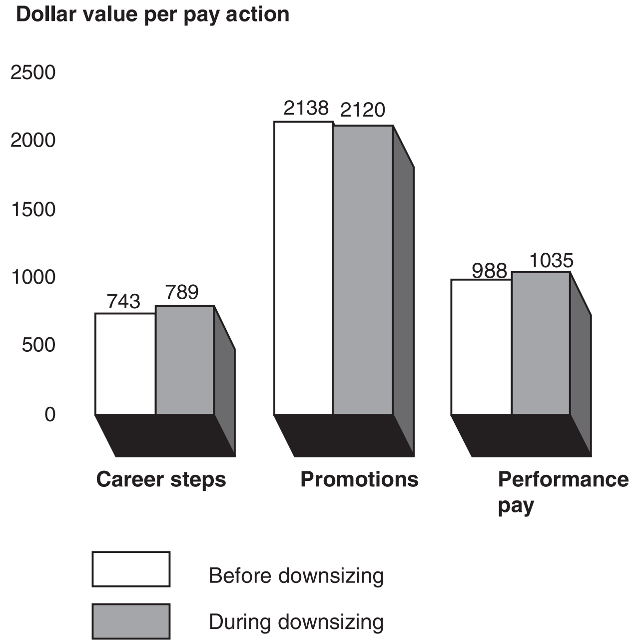
Figures 4.1 and 4.2 show that the number and dollar amounts of promotions, career step increases, and performance-based increases varied during the downsizing period in comparison with the previous 5-year period. The average number and amount of promotions and the average number of performance pay awards decreased, while the average number and dollar amounts of career steps and the average dollar amounts of performance pay increased during downsizing.

Figure 4.1: Annualized Average Number of Career Step Increases, Promotions, and Performance Pay Increases per 1,000 Employees During Downsizing Compared With the 5-year Period Before Downsizing



Source: GAO calculations based on data in OPM's CPDF.

Figure 4.2: Dollar Value of Career Step Increases, Promotions, and Performance Pay Increases per Pay Action During Downsizing Compared With the 5-year Period Before Downsizing



Source: GAO calculations based on data in OPM's CPDF.

Career Steps

During the 5-year downsizing period, 2.9 million career step increases for employees still in the federal workforce in fiscal year 1997 accounted for an increase in federal basic pay of about $2.7 billion, exclusive of comparability pay increases. Career step increases are based on the amount of time spent by an employee in a given grade and step and an employee's demonstration of an acceptable level of competence. Increases for GS employees may occur every 52, 104, or 156 weeks, depending on the employee's step.

Exclusive of annual pay comparability adjustments, the annual average number and dollar amount of all career step increases during downsizing were 348 per 1,000 employees and $789 per career step, respectively. This was an annual average increase of 1 career step per 1,000 employees and $46 per employee compared with the average for the previous 5-year period.

Promotions

During the downsizing period, employees who were still in the federal workforce in fiscal year 1997 received about 1.0 million promotions to a higher grade level, which increased federal basic pay by about $2.6 billion, exclusive of annual comparability adjustments. The annual average number and dollar amount of all promotions during downsizing was 122 per 1,000 employees and $2,120 per promotion, respectively. Compared with the previous 5-year period, this was an annual average decrease of 48 promotions per 1,000 employees and about $18 per promotion, exclusive of pay comparability adjustments.

Performance Pay

During the downsizing period, about 700,000 performance pay increases were awarded to employees still in the federal workforce in fiscal year 1997, which increased federal basic pay by about $0.8 billion, exclusive of comparability pay increases. Performance pay increases were a combination of GS quality step increases and merit pay increases. Quality step increases are step increases granted by the head of an agency in recognition of high quality performance and above that ordinarily found in the type of position concerned. Unlike career step increases, quality step increases can be granted annually.

GS quality step increases were awarded only to nonsupervisory and nonmanagement employees during the 5-year period preceding downsizing and through the end of fiscal year1993 during downsizing. Merit pay increases were awarded in the Performance Management and Recognition System, which existed between the beginning of fiscal year 1985 and the end of fiscal year 1993. This program established step and partial step increases for managers and supervisors in grades GS-13 through GS-15 who received certain high level ratings. When this program was terminated, these employees became eligible for the GS career and quality step increases.

The annual average number and dollar amount of all performance step increases during downsizing were 80 per 1,000 employees and $1,035 per performance step, respectively, exclusive of annual pay comparability adjustments. These figures represented an annual average decrease of 10 quality performance steps per 1,000 employees and an increase of $47 per step, compared with the previous 5-year period.

Impact of Hiring and Separation Patterns

In addition to the pay actions discussed in the previous section, hiring and separation patterns also affected the workforce composition during downsizing. The combination of hiring and separation patterns lessened the extent to which the average payroll cost and grade level increased during downsizing and, to an even greater extent, during the previous 5-year period. Hiring and separation patterns, however, caused employees' average age and length of service to increase at a greater rate during downsizing than in the previous 5-year period. Hiring and separation patterns had a limited effect on the proportion of employees in occupational categories.

Hiring and Separation Patterns Lessened Payroll and Grade Increases

While career steps, promotions, and performance pay directly increased individual employees' pay and grade level as well as the overall payroll cost and grade averages, hiring and separation patterns can also affect the governmentwide average grade and payroll cost. The pay actions increased the total basic pay of the recipient employees still in the government in fiscal year 1997 by $6.1 billion. However, due to hiring and separation patterns, the total basic pay of all employees in fiscal year 1997 was only $4.7 billion greater than the total basic pay for a constant workforce of 1.9 million employees in the beginning of fiscal year 1993. This only modest increase was due to new hires with lower average basic pay entering the government and employees with higher basic pay separating from the government during downsizing, which had the effect of lessening the increase in total basic pay by $1.4 billion, or about $775 per employee. As previously discussed, most benefit costs and premium pay are proportions of basic pay, and thus the increase in basic pay also increased benefit costs and premium pay of the employees by $1.2 billion governmentwide. As a result, the net average payroll increase was $5.9 billion, $4.7 billion in basic pay and $1.2 billion in premium pay and benefits.

New hires also were employed at lower grade levels, and thus reduced the extent to which governmentwide average grade levels increased. On the other hand, the separation of employees with grade levels below the governmentwide average—which occurred in both 5-year periods—increased average grade levels. Thus, as a result of the combined effect of pay actions and hiring and separation patterns during downsizing, the average grade level increased from GS-9.1 to GS-9.5.

The number of new hires during downsizing was about 300,000 fewer than the number of separations, compared with the previous 5-year period in which the number of new hires exceeded the number of separations. From fiscal years 1993 through 1997, the combined effect of hiring fewer and separating a larger proportion of staff at grade and pay levels below the governmentwide average lessened, by about 6 steps, the increases that would otherwise have resulted from the pay actions related to individual employees.[1] In comparison, hiring and separation patterns lessened the effect of pay actions by 7 and 1/2 steps during the prior 5-year period.

[1]The average grade and step levels cannot be used to compute the dollar impact on the federal payroll because the composition of the average may vary and each higher grade and step level does not necessarily equate to higher pay. For example, if an average grade of GS-9, step 1, was composed of a GS-8, step 8, and a GS-9, step 4, the average pay of the two employees would actually be much higher than GS-9, step 1, pay since both a GS-8, step 8, and a GS-9, step 4, receive pay rates higher than GS-9, step 1.

To illustrate how hiring and separation patterns can lessen grade level increases due to pay actions, consider two employees: a GS-8, step 1, and a GS-10, step 1. In this case, the average grade would be GS-9, step 1. Assume that during the next 5 years, the GS-10 received 4 promotions to GS-14, step 1, while the GS-8 separated from the government and was replaced by a new hire at GS-6, step 1. The resulting increase in average grade would be one grade, from GS-9 to GS-10 (the average of a GS-6, step 1, and GS-14, step 1). However, had the GS-8 stayed in the government and not received any grade or step increases, the average grade would have increased by two grades to GS-11 (the average of GS-8, step 1, and GS-14, step 1).

Employee's Average Age and Length of Service Increased at a Greater Rate Due to Hiring and Separation Patterns

During the downsizing period, the average age and years of service of federal employees increased by 1.7 and 1.6 years to 45.1 and 16.0 years, respectively, at the end of fiscal year 1997. These increases were respectively 55 and 100 percent greater than the 1.1 and 0.8 year increases in the average age and years of service experienced during the previous 5-year period. We did not analyze the ages and years of service for the employees leaving and entering the federal government during downsizing. However, the accelerated increase in the average age and service of federal employees indicated that the combination of ages and years of service of the employees separated and hired during downsizing, and the reduced level of hiring, contributed to an older, more experienced workforce.

Hiring and Separation Patterns Had Limited Impact on the Proportion of Employees in Occupational Categories

Although the total number of employees in individual occupational series sometimes changed fairly substantially, shifts in the proportion of federal employees in broader occupational categories—another measure of the composition of the workforce—were much less pronounced. For example, the secretarial occupation within the clerical category decreased by 28,721 employees. While this represented about a 31-percent decrease in the number of secretaries in the government, the clerical category decreased overall by only 3.2 percentage points.

Within broad occupational categories, the more highly paid professional and administrative categories experienced the greatest increases. As table 4.2 shows, the percentage of employees governmentwide in the administrative and professional categories increased by 3.6 and 1.8 percentage points, respectively, from January 1, 1993, to March 31, 1998. These increases were small primarily because, while the administrative and professional occupations comprised about 25 and 22 percent of employees governmentwide as of January 1, 1993, only 21 and 19 percent of these employees, respectively, separated during downsizing.

Table 4.2: Proportion of Employees in, Separated From, and Newly Hired Into Occupational Categories During Downsizing

Occupational category	Percentage as of 1/01/93	Percentage of employees separating	Percentage of new hires	Percentage as of 3/31/98	Percentage difference between 1/01/93 and 3/31/98
Professional	22.3	18.9	17.9	24.1	1.8
Administrative	25.0	21.0	10.6	28.6	3.6
Technical	18.6	19.2	22.2	19.0	0.4
Clerical	15.5	18.9	28.2	12.3	(3.2)
Other	2.5	3.9	6.1	2.6	0.1
Blue collar	16.1	18.1	15.0	13.4	(2.7)
Total	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**

Source: GAO calculations based on data in OPM's CPDF.

Non-DOD agencies experienced most of the changes in the administrative and professional occupational categories. Non-DOD agencies' employees in the two categories increased by 3.1 and 1.8 percentage points during the governmentwide downsizing period. DOD agencies' employees in the administrative and professional occupations increased by 0.5 and 0.1 percentage points, respectively, during the same period.

The Department of Transportation experienced the highest percentage increase in administrative employees due in part to the transfer of about 6,300 employees from a clerical occupation to the newly established administrative occupation of airway transportation systems specialist in the Federal Aviation Administration (FAA). According to FAA officials, the new occupational series more closely matched the transferred employees' duties and responsibilities.

The proportion of employees in the blue collar and clerical occupations in the overall workforce decreased by 2.7 and 3.2 percentage points, respectively, from January 1, 1993, to March 31, 1998. Blue collar and clerical occupations comprised 16.1 and 15.5 percent of the workforce, respectively, as of January 1, 1993, but experienced 18.1 and 18.9 percent, respectively, of the separations during downsizing. And while 15.0 and 28.2 percent of the new hires entered these occupations, respectively, they were fewer in number than the employees separating. For example, there were 74,446 new hires in the clerical category, while 127,431 employees separated.

DOD agencies experienced the greatest change in the clerical and blue collar occupations, with decreases of 1.9 and 2.6 percentage points, respectively, while non-DOD agencies' employees in these categories decreased by 1.3 and 0.1 percentage points, respectively, from January 1, 1993, to March 31, 1998. Defense Logistics Agency officials told us that the reduction in the proportion of blue collar employees occurred because of base closures of depot activities heavily populated with blue collar employees. The Department of Navy also cited base closures as a primary reason. During the downsizing period, a number of DOD bases were closed, and the contracting out of services increased.

Changes in the occupational categories continued a trend that existed during the 5-year period before downsizing. The same occupational categories increased (administrative, professional, technical, and other) and decreased (clerical and blue collar) during the downsizing period as during the preceding period, with the only variation being the extent of the change. For example, the professional category increased by 3.3 percentage points before downsizing compared with 1.8 percentage points during downsizing.

Decrease in Number of Supervisors and Managers Had Limited Payroll Impact

During downsizing, the number of supervisors and managers decreased and the ratio of staff to supervisors increased governmentwide, but the effect on the federal payroll was limited. While the staff-to-supervisor/manager ratio did not meet the former National Performance Review's goal of 15 to 1, the governmentwide ratio did increase from 6.6 to 7.7 employees per supervisor or manager during downsizing.[2]

The number of supervisors and managers declined by 88,162, or 26.5 percent, from 332,100 to 243,938 governmentwide from the beginning of fiscal year 1993 through fiscal year 1997. The net decrease was composed of (1) 202,626 employees who left supervisory and management positions, and (2) 114,464 employees who became supervisors and managers through hiring, promotion of other staff, and other personnel actions. Of the 202,626 employees who left their supervisory and management positions during downsizing, 74,757, or 36.9 percent, left the federal government. The remaining 127,869 employees were reclassified as nonsupervisory or nonmanagement, 59,080 of whom were either transferred or downgraded to other positions; OPM data did not indicate how the other 68,789 were reclassified.

Many of the supervisors and managers were reclassified as team leaders. An OPM official said that, although our analysis indicated there were 2,295 such reclassifications, the number may be understated because, through

[2]The National Performance Review was established by the Clinton administration to reinvent the federal government. The Review was replaced by the National Partnership for Reinventing Government in 1998.

fiscal year 1997, many agencies were not yet using any code for identifying team leaders when submitting data to OPM.

In several respects, team leaders perform duties similar to those of supervisors and managers, as indicated by OPM's General Schedule Leader Grade Evaluation Guide, which defines the duties an employee must perform to be classified as a team leader. The guide states that leadership and supervision may be thought of as points along a continuum from nonsupervisory to managerial work. The range of duties a team leader may be assigned is very flexible—for example, duties may be just sufficient to meet the minimum for classification as a team leader to almost sufficient to warrant a supervisory classification. Team leaders are responsible for coordinating and supporting the work of their assigned teams to ensure that the work is completed. Their specific duties and responsibilities include ensuring that the organization's mission is communicated to the team and integrated into the team's work plans and products, and leading the team in balancing the workload among team members according to skill levels.

The reclassifications and separations of supervisors and managers, combined with the addition of newly hired or designated supervisors and managers, resulted in a small increase in payroll. Over 50 percent, or 1 of every 2 supervisors and managers, was replaced through new hires, promotions of other staff, and other personnel actions. The basic pay of these replacements, combined with the promotions received by some of those reclassified from supervisory and managerial positions, exceeded the total basic pay for supervisors and managers who left government plus the total reduction in basic pay experienced by some of those who were reclassified.

Table 4.3 shows the estimated increase in the federal payroll during downsizing due to the situation described above. The estimate assumes that most of the new supervisors and managers who were not hired from outside government were either replaced in their previous positions by new hires or that, somewhere in the line of succession caused by the vacancy in their former position, an employee from outside the government was hired. We assumed that, based on the governmentwide employee reduction rate of about 14 percent, 14 percent of the new supervisors and managers were not replaced in their former positions. We could not verify our assumption because the CPDF did not have information with which to determine whether newly appointed supervisors or managers or other employees were replaced in their former positions by new hires or existing employees.

Table 4.3: Effect of Acquiring and Separating or Reclassifying Supervisors and Managers Governmentwide During Downsizing

Personnel action	Number of supervisors and managers	Total increase or (decrease) in basic pay (in thousands)
New supervisors and managers[a]	114,464	$4,694,688
Former supervisors and managers		
Separated supervisors and managers	(74,757)	(4,533,121)
Reclassified supervisors and managers whose pay remained the same	(114,711)	
Reclassified supervisors and managers whose pay decreased[b]	(13,096)	(53,496)
Reclassified supervisors and managers whose pay increased[c]	(62)	229
Net increase or (decrease)	**(88,162)**	**$108,300**

[a]Amount attributed to new supervisors' and managers' basic pay was adjusted based on assumption that 14 percent were not replaced in their former jobs.

[b]Since reclassified supervisors and managers remained in the government, only the amounts of decreases in their basic pay were considered in computing reductions in the federal payroll.

[c]Reclassified supervisors and managers who received promotions within 2 weeks of having their position changed or of being downgraded.

Source: GAO calculations based on data in OPM's CPDF.

The impact on the federal payroll of the reduction in the number and proportion of supervisors and managers can also be considered from another perspective. While the number of supervisors and managers decreased, the number of employees in the grade and pay levels usually occupied by supervisors and managers—GS-12 and above—increased by 3,580 employees, from 554,419 to 557,999, during downsizing. This indicates that, while the supervisory and management positions decreased, similarly graded and paid positions increased during downsizing. This was partially due to the fact that most former supervisors and managers retained their grade and pay levels.

The results of our governmentwide review are consistent with changes at the Social Security Administration (SSA) during fiscal years 1994 through 1998.[3] SSA, while reducing its supervisor to employee ratio, at the same time created 1,900 new nonsupervisory positions, most of which were filled by former supervisors. Consistent with OPM guidance, the GS grades and salaries of these former supervisors did not change. The total number of SSA employees in grades GS-12 and above increased by over 900 employees during this time.

Agency Comments

DOD and OPM concurred with our findings. OPM noted that the changes in the composition of the federal workforce likely reflected the continuation of a long-term trend away from a technical and clerical workforce toward a more professional and administrative workforce.

[3]Social Security Administration: Compliance With Presidential Directive to Reduce Management-to-Staff Ratio (GAO/HEHS-99-43R, Jan. 22, 1999).

Comparison of Benefit Costs and Premium Pays per Employee for the 5-Year Periods Before and During Downsizing

Table I.1: Changes in Annual Average Cost of Benefits per Employee During Downsizing Due to Changes in Benefits and Comparability and Other Pay Actions

Benefit	Annual average change per employee before downsizing	Annual average change per employee during downsizing	Amount of the change between the periods	Amount of change per employee due to benefits	Amount of change per employee due to comparability and other pay actions
Health insurance	$194.68	$49.77	$(144.91)	$(144.91)	$0.00
Life insurance	1.51	1.46	(0.05)	0.25	(0.30)
Retirement	290.04	275.39	(14.65)	(44.99)	30.34
Social Security	144.13	116.53	(27.60)	(43.07)	15.47
Workers' compensation	3.48	31.21	27.73	28.61	(0.88)
Overseas allowance	20.79	(4.59)	(25.38)	(23.12)	(2.26)
Severance/separation pay	4.90	92.12	87.22	74.43	12.79
Other benefits[a]	19.81	36.49	16.68	17.69	(1.01)
Miscellaneous benefits[b]	6.64	16.47	9.83	5.92	3.91
Total	**$685.98**	**$614.85**	**$(71.13)**	**$(129.19)**	**$58.06**

[a]Other benefits include costs charged to the agency for employee's retirement, and other benefits under special plans for non-U.S. citizens in foreign areas. Also includes relocation and other expenses related to permanent change of station.

[b]Miscellaneous benefits include uniform allowances, nonforeign COLAs, retention allowances, and recruitment and relocation bonuses.

Source: GAO calculations based on OPM data.

Table I.2: Changes in Annual Average Cost of Premium Pays per Employee During Downsizing Due to Changes in Premium Pays and Comparability and Other Pay Actions

Premium pay	Annual average change per employee before downsizing	Annual average change per employee during downsizing	Amount of the change between periods	Amount of change per employee due to premium pays	Amount of change per employee due to comparability and other pay actions
Overtime	$76.58	$79.73	$3.15	$(3.89)	$7.04
Holiday	2.99	4.48	1.49	1.03	0.46
Sunday	4.63	6.26	1.63	0.90	0.73
Night differential	5.61	2.58	(3.03)	(2.83)	(0.20)
Hazardous duty	0.70	0.89	0.19	(0.20)	0.39
Post differential	2.09	(1.90)	(3.99)	(3.81)	(0.18)
Supervisory differential	0.13	1.37	1.24	0.15	1.09
Physicians' comparability allowances	30.55	13.87	(16.68)	(24.61)	7.93
Cash awards	35.42	11.34	(24.08)	(26.11)	2.03
Other premium pay[a]	7.59	(1.14)	(8.73)	(3.82)	(4.91)
Miscellaneous premium pay[b]	0.32	(0.28)	(0.60)	(0.64)	0.04
Total	**$166.61**	**$117.20**	**$(49.41)**	**$(63.83)**	**$14.42**

[a]Other premium pay includes payments above the basic rates for any other premium pay, such as annual premium pay for regularly scheduled standby duty.

[b]Miscellaneous premium pays include staffing differential and remote site allowance pay.

Source: GAO calculations based on OPM data.

Comments From OPM

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

APR 29 1999

Mr. Michael Brostek
Associate Director
Federal Management and Workforce Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Brostek:

Thank you for the opportunity to comment on your draft report, *Federal Workforce: Analyses of Payroll Increases During Downsizing*.

We believe the report reflects the success of the Administration's efforts to slow the rate of growth in Federal employment and concomitant payroll costs. Although the combination of pay adjustments, increased benefits costs, and changes in the composition of the Federal workforce have produced a higher Federal payroll in spite of downsizing, the growth would have been much greater if the Federal workforce had not been reduced by 300,000 employees during the time period covered by your study.

In general, we share your conclusions that much of the increase in payroll cost over the time period was probably due to pay raises, with smaller increases due to changes in both the composition of the workforce and benefits costs. Changes in the composition of the Federal workforce likely reflect the continuation of a long-term trend away from a technical and clerical workforce toward a more professional and administrative workforce. The increased cost of benefits is driven mainly by increases in direct agency payments for retirement contributions and health insurance that would have occurred anyway.

We appreciate the difficulty of estimating the effect of various factors on payroll over time for a dynamic workforce, and we have just a few technical comments on the methods and data sources used by the Government Accounting Office. Our comments are enclosed.

Sincerely,

Janice R. Lachance
Director

Enclosure

GAO Contacts and Staff Acknowledgments

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