NTEU

The National Treasury Employees Union

Statement of

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On

Federal Personnel Issues

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Chairman Davis, Ranking Member Marchant, and members of the Subcommittee; I commend the subcommittee for this hearing and am submitting this statement for the record on the important subject of federal personnel and workforce issues. As President of the National Treasury Employees Union, I have the honor of representing over 150,000 federal workers in 30 agencies and departments throughout the government.

Administration's Fiscal Year 2008 Budget

I would like to address some provisions in the President's Fiscal Year 2008 budget that directly affect federal workers. As the Subcommittee with jurisdiction over the federal workforce, I know you will examine the Administration's proposals, a number of which are harmful to federal employees and their families. Proposals surrounding the proposed federal pay raise, pay-for-performance, health insurance cutbacks, and IRS staffing are major problematic areas.

Pay Raise

The President's Fiscal Year 2008 budget includes a 3.0 percent pay raise for both civil servants and the military. While at first blush, this looks like a reasonable increase from the 2.2 percent afforded to federal employees and the military in FY 2007, it is important to remember that last year's average 2.2 percent increase for both groups amounts to the lowest pay increase in eighteen years and most federal employees received only a 1.8 percent pay raise at the end of the day. The 3 percent proposed raise, reflecting the Employment Cost Index (ECI), does nothing to close the 13 percent gap between private sector and public sector pay, the stated goal of the 1990 Federal Employees Pay Comparability Act (FEPCA) which created a system of locality pay still not yet implemented. Last year the House Appropriations Committee and full House passed a half percent increase to the recommended level and although the Senate reported an additional half percent for federal employees, the bills died before adjournment.

Now, the President is recommending another inadequate pay raise for FY 2008. If we are serious about addressing the federal workforce, fair and adequate pay is the first place to start. Our calculations are that federal civil servants and the military deserve another half percent above the recommended level to bring the pay raise to 3.5 percent to at least make a small dent in the pay gap. It is important to remember that ECI plus ½ percent has been the amount enacted in every year of the current Administration until 2007.

With the impending retirement tsunami soon to engulf the federal government it makes no sense to keep depressing the wages of federal employees. Soon there will be fewer and fewer people interested in applying for jobs with federal agencies or keeping them, and the capacity and the ability for these agencies to perform their missions will be severely diminished. Let's not forget that federal and military employees keep our government systems running, protect our homeland and health, and defend our borders. While I am aware the appropriations committee authors the legislative vehicle that includes the pay raise, I urge each of you as members of the key oversight subcommittee

with jurisdiction over federal personnel, to lend your support for a 3.5 percent increase as well. This is a step toward restoring fairness to federal workers while taking a small step to close the pay gap.

Another pay problem with the FY 2008 budget submission is the President's proposal to fund special rate pay out of the increase. Special rate pay is used for hard to fill positions by occupation or geographical area. It has traditionally been funded by agencies, not out of the funds appropriated for the annual pay raise. This is a back door approach to reducing federal pay and it should be rejected as it has been in the past.

Pay- for-Performance

Included in the Administration's FY 2008 budget submission is language to continue pay-for-performance projects with the ultimate goal of replacing the current General Schedule, the system by which most federal employees are currently paid. The idea of alternative pay and personnel systems using a new pay and performance management system has been one promoted by the Administration for several years. But there is no hard evidence that these alternative pay systems work.

I am glad to see that the subcommittee is seeking to hear all points of view on a change of such magnitude. To quote Robert Behn, author and lecturer at Harvard University's John F. Kennedy School of Government, "Systems don't improve performance; leaders do." In his book, *The Human Equation: Building Profits by Putting People First,* Jeffrey Pfeffer, of Harvard Business School says, "Although variable pay systems that attempt to differentially reward individuals are clearly currently on the increase, such systems are frequently fraught with problems. Incentives that reward groups of employees or even the entire organization...are customarily preferable." (p.203)

I believe that leadership that solicits, values and acts on the ideas of frontline employees in efforts to achieve agency missions is missing in many agencies today. Providing that kind of leadership would do more to improve the quality of applicants and performance of employees than alternative personnel systems and pay for performance projects as proposed by this Administration.

NTEU has been involved with a couple of alternative pay systems: The Department of Homeland Security (DHS) and the Internal Revenue Service (IRS). I would like to offer NTEU's comments from our experiences.

Despite being ranked at the bottom of the Partnership for Public Service's annual survey of "Best Government Places to Work," DHS is insistent on moving forward on its alternative personnel and pay system. While the pay for performance system at DHS has not yet been implemented, we are very concerned that it will push employees who are already demoralized out of the agency when the importance of keeping experienced, skilled employees is greater than ever. Let me be clear. The employee opposition to the proposed DHS system is not about "fear of change," as some have tried to portray it. I

know firsthand that this group of employees, entrusted with protecting our country from terrorists and other criminals, is not a fearful group. What they most object to about the proposed DHS system is that it will make it harder, not easier, to accomplish the critical mission of the agency.

There are several reasons for this: 1) The system is not set by statute or subject to collective bargaining, so there is nothing to provide it credibility among employees; 2) The system will have employees competing against each other over small amounts of money, discouraging teamwork, which is critically important in law enforcement; 3) The system is subjective, which will lead to at least the appearance of favoritism; 4) The system is enormously complex, the administration of which will require huge amounts of money that is so much more desperately needed in frontline functions, not to mention siphoning off money that could go for more pay in a less administratively burdensome system; 5) the draft competencies for the new DHS system do not recognize or reward the real work that these employees do to keep our country safe.

With respect to the IRS and pay for performance, while bargaining unit employees represented by NTEU are not covered by a pay banding performance based system, managers are. As the subcommittee knows, The Hay Group did a Senior Manager Payband Evaluation on this system for the IRS in 2004. Here are some of the results: 1) 76% of covered employees felt the system had a negative or no impact on their motivation to perform their best; 2) 63% said it had a negative or no impact on the overall performance of senior managers; 3) "Only one in four senior managers agree that the SMPB is a fair system for rewarding job performance or that ratings are handled fairly under the system;" 4) "Increased organizational performance is not attributed to the SMPB."

The results of this system are dismal, yet it is pointed to as a model for moving the whole federal government to a similar system. In fact, there is a dearth of information to indicate that alternative pay systems have had any significant impact on recruitment, retention or performance. A GAO report on "Human Capital, Implementing Pay for Performance at Selected Personnel Demonstration Projects" from January 2004 included virtually no evidence that the systems improved any of those measures. In fact, the Civilian Acquisition Personnel Demonstration Project, reviewed in that report, had as one of its main purposes, to "attract, motivate, and retain a high-quality acquisition workforce." Yet, attrition rates increased across the board under the pilot.

NTEU is not averse to change. We have welcomed, including at the FDIC where we have bargaining unit employees, and elsewhere, the opportunity to try new ways of doing things. Based on my experience, these are the things I believe will have the most impact on the quality of applicants and the motivation, performance, loyalty and success of federal workers.

1) Leadership. Rules and systems don't motivate people. Leaders do.

2) Opportunities for employees to have input into decisions that affect them and the functioning of their agencies. They have good ideas that management is currently ignoring.

3) A fair compensation system that has credibility among employees, promotes teamwork and is not administratively burdensome.

Unfortunately, I do not believe the systems currently being pursued by this Administration follow these standards.

Health Insurance Reductions

I regret to report the FY 2008 budget contains language that allegedly makes a "technical change" to federal workers' health benefits by reducing the amount of the government contribution for new annuitants with fewer than ten years of service. On the one hand, the Administration purports to seek innovative ways to attract new workers, but on the other hand it seeks to cut the very benefits that might attract them. While legislation must be passed to implement this proposal, this is not a new idea and is one NTEU will vehemently oppose.

Changing the rules now and reducing the government contribution in these cases will only raise the premiums for retirees. This is a misguided attempt by the administration to generate revenues on the backs of retired federal employees. It affects retirees and active workers at numerous federal agencies and should be defeated.

Finally, on a less ominous note, the Administration did include language in its budget which could correct the calculation of retirement annuities for individuals with part-time service. Thousands of civil servants who are eligible under the Civil Service Retirement System (CSRS) and have worked part-time in their careers are in jeopardy of losing credits for the years they worked full-time, because of a glitch in a 1986 law which changed the formula calculation. I have long supported correcting this problem which affects thousands of employees who choose to work part-time, often because of family obligations or illness. They should certainly receive the proper credit for their earlier full-time service.

While the President deserves commendation for indicating he will send corrective legislation, we need to hold him to this promise. Last year's budget also included this proposal and no legislation materialized.

Additional Health Care Needs

Mr. Chairman, in addition to these health care changes addressed in the President's budget, NTEU stands ready to work with the subcommittee save funds in the Federal Employee Health Benefits Program (FEHBP). This program which serves more than eight million federal employees, retirees and their families should use every

available avenue to keep costs down while continuing to offer its notable quality health care plans.

I recently wrote to the OPM Director expressing concern and asking for an explanation as to why OPM failed to apply for the Medicare drug subsidy to which it is entitled. The Government Accountability Office (GAO), recently reported that the subsidy would have lowered the average 2006 FEHBP premium by 2.6 percent had OPM received the subsidy. Some of the individual health plans that serve a high number of retirees could have realized a slowdown in premium growth by as much as 3.5 to 4 percent. These savings could have been passed on to keep the enrollee portion of the premium down.

OPM should take advantage of every opportunity to keep health costs down for employees and retirees. Instead, OPM simply turned its back on the retiree Medicare drug subsidy and enrollees in the Federal Employees Health Benefits Program are paying the price. From my viewpoint, this is an easy way to save program costs and help federal retirees at the same time.

Another FEHBP reform we will be pushing will be in support of a higher federal contribution towards premiums. Right now, the government pays roughly 72 percent of FEHBP premium costs and employees and retirees pay the remainder. This contrasts sharply with most large private sector and state and local government employers who routinely pay an average of 80% of their employees' health insurance premiums. NTEU backs 1256, the Hoyer/Wolf legislation to increase the federal share of the premium to 80%, thereby reducing costs to enrollees.

Finally, NTEU will be happy to work with you on measures to keep premium costs down for both parties. Premiums rose last year by 6.4 percent and by over fifty percent since 2001. At the current time, OPM is not allowed to directly negotiate for lower prescription drug prices. This is something we believe Congress needs to look at to see if program costs can be reduced.

Contracting Out

As you know language was enacted last year which modifies the Office of Management and Budget's (OMB) revised A-76 Circular as the guideline for competitive sourcing. In essence, the language gives federal employees the right to bid on work and affords them a step toward equal treatment. It:

- **Allows federal employees to offer their own realistic best bid** with a most efficient organization (MEO) in job functions being performed by more than 10 federal employees;

- **Requires a 10% or $10 million cost savings** by the contractor in order for the work to be contracted out; and

- **Allows executive agency heads** to conduct public-private competitions **to bring contracted work back in-house.**

These important provisions allow federal employees the ability to fairly compete. These changes, however, must be made permanent and NTEU stands ready to work with the subcommittee to make these changes permanent. Secondly, we support strengthening and improving amendments such as prohibiting contractors from receiving a cost advantage in a competition due to inferior health benefits, and providing the same legal standing before the Government Accountability Office (GAO) and the Court of Federal Claims for appeals purposes. These strengthening provisions will surely help the federal workforce compete for positions and work they are qualified to perform.

IRS Private Tax Collection

On another contracting out subject, NTEU continues to strongly oppose the Administration's private tax collection program, which began in September of last year. Under the program, the IRS is permitted to hire private sector debt collectors to collect delinquent tax debt from taxpayers and pay them a bounty of up to 25 percent of the money they collect. NTEU believes this misguided proposal is a waste of taxpayer's dollars, invites overly aggressive collection techniques, jeopardizes the financial privacy of American taxpayers and may ultimately serve to undermine efforts to close the tax gap. We anticipate its complete failure as witnessed in a similar 1996 pilot program and will continue to work towards its repeal.

Let me be very clear: NTEU strongly believes the collection of taxes is an inherently governmental function that should be restricted to properly trained and proficient IRS personnel. When supported with the tools and resources they need to do their jobs, there is no one who is more reliable and who can do the work of the IRS better than IRS employees.

Instead of rushing to privatize tax collection functions which jeopardizes taxpayer information, reduces potential revenue for the federal government and undermines efforts to close the tax gap, the IRS should increase compliance staffing levels at the IRS to ensure that the collection of taxes is restricted to properly trained and proficient IRS personnel.

OPM and Flexibilities

The Office of Personnel Management (OPM) issues a manual of authorities and flexibilities that are currently available to the different federal agencies under Title V of the US Code, entitled *Human Resources Flexibilities and Authorities in the Federal Government.* It essentially contains a list of flexibilities and authorities under which federal agencies can make personnel accommodations to attract candidates to the federal government or to offer incentives for federal employees to remain in their government jobs.

The Government Accountability Office (GAO) has undertaken a number of studies focusing on the importance of designing and using human capital flexibilities. In one report (GAO-03-02), the GAO found that the flexibilities that are most effective in managing the federal workforce are those such as time off awards and flexible work schedules. In other words, flexibilities that allow employees to take time off from work – when it is most convenient for both the agency and the employee – that better balance work life and family responsibilities.

Unfortunately, OPM has not focused extensively on advertising existing authorities and flexibilities. OPM states in the Preface of its handbook, "We serve as a resource for you as you use existing HR flexibilities to strategically align human resources management systems with your mission." *(p.i)* Yet, most federal agencies do not take advantage of existing flexibilities. Agencies can offer numerous awards as incentives to employees. These range from things like cash awards to individuals and groups; to quality step increases; to group suggestion/inventions to improve an agency; to foreign language awards; to travel incentives; to referral bonuses and others. Before Congress moves to pass new laws, it should require OPM to promote existing authorities, and aggressively require federal agencies to examine current avenues available to them to recruit and maintain their federal employees.

In addressing personnel and workforce issues, let us remember that attracting talented federal workers is important. But retaining the excellent high quality workforce is just as important and utilizing the many existing authorities and flexibilities is an easy approach.

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