

FEDERAL-POSTAL COALITION

September 28, 2011

The Honorable Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
448 Russell Senate Office Building
Washington, D.C. 20515

The Honorable Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
129 Cannon House Office Building
Washington, D.C. 20510

Dear Senator Murray and Congressman Hensarling:

On behalf of the 4.6 million federal and postal workers and annuitants represented by the national member organizations of the Federal-Postal Coalition, we respectfully urge you to consider carefully the proposals in President Obama's *Plan for Economic Growth and Deficit Reduction* before including any of them in the Committee's reported legislation. We are particularly concerned with proposals that would have an inequitable impact on federal employees and ask you to reject these initiatives. While we have serious concerns regarding changes to the federal pension system, we believe several other proposals in the President's plan affecting the federal workforce merit consideration.

We appreciate the Administration's call for "some sacrifice from all of us." However, federal employees are being disproportionately targeted in the continuing waves of deficit reduction proposals. Not only are federal employees facing layoffs and downsizing due to shrinking agency budgets, they are already subject to compensation cuts. This past November, the President called upon federal workers to help right the nation's fiscal ship by imposing a congressionally-supported two-year federal pay freeze. Despite popular opinion, federal employees are not immune to the economic woes of this country. Similar to their private sector counterparts, federal workers are confronting financial hardships due to unemployed spouses, rising health care costs and general living expenses. Many are responsible for supporting their families on a single paycheck.

The pay freeze is a steep price for federal employees to pay in these challenging economic times. It will save an estimated \$2 billion by the end of 2011 and more than \$60 billion over the next decade. The fact that the pay freeze originated before the passage of the Budget Control Act of 2011 should not prevent its recognition as a price already paid by federal workers toward deficit reduction. The President decided to impose the freeze unilaterally in late 2010 as an initial step toward reaching deficit reduction targets. The Joint Committee's deliberations should take this into account in the balancing of sacrifices and its consequences.

Increasing Federal Employee Retirement Contributions

The President's plan proposes increasing federal employee contributions to the Civil Service Retirement and Disability Fund (CSRDF) by 1.2 percent with no corresponding increase in benefits. Without a doubt, the proposed increase in federal employee pension contributions is as much a payroll tax increase as any Social Security payroll tax increase. At a time when the President is providing payroll tax *decreases* to other American workers in the name of stimulus and economic recovery, an increase in the federal employee retirement contribution is contrary public policy and simply unfair.

Eliminating the FERS Annuity Supplement

The President also proposes eliminating the Federal Employees Retirement System (FERS) annuity supplement for new hires. When FERS – a hallmark of bipartisanship spearheaded by then-Senator Ted Stevens (R-Alaska) – was first established in 1987, the annuity supplement was a crucial component in the transition from the Civil Service Retirement System (CSRS) to the decidedly less generous defined benefit pension under FERS. Since early retirees do not receive Social Security benefits until age 62, the annuity supplement

provides income critical to their retirement security. Eliminating the annuity supplement for early retirees, one of the legs in the “three-legged stool” of federal retirement, would be an unfair cancellation of Congress’ commitment to employees.

Eliminating Five-Day Postal Delivery

Just as our nation’s federal employees provide important services to the American people, our postal employees are relied on by every citizen in this country. The President’s plan would not only severely harm the United States Postal Service (USPS), but also the people it serves. This proposal would allow USPS to implement its plan to eliminate Saturday delivery in January 2013. Reducing the scope and quality of service is no way to save the Postal Service. Eliminating Saturday delivery, which the Postal Regulatory Commission says would save little money while disproportionately hurting rural communities, the elderly and small businesses, would be counter-productive. It will simply drive the millions of mailers who value six-day delivery from the system and open the door to competitors who will step in to provide Saturday service – and demand access to Americans’ mailboxes.

Capping Contractor Salaries

At the same time, several of the President’s proposals are not without merit. The President has proposed capping the salaries of top level contractors at approximately \$200,000, a reduction from the current cap of \$700,000. As the Administration noted in its supporting materials, “It is unfair and inappropriate for Federal contractors to be paid multiples of what Federal employees are paid.” In addition, we recommend the Joint Select Committee consider lowering the cap for all contractor employees, not just contractor executives. Federal employees and contractors often work side-by-side, doing similar jobs in support of the same projects. If less than \$200,000 is enough for the Nobel Prize-winning scientists at the National Institutes of Health and NASA, the Secretaries of Defense, State, and Health and Human Services, as well as other dedicated professionals protecting the public interest, then it is good enough for contract employees. We are encouraged by the savings this proposal could produce, as contracting costs were over \$535 billion in fiscal year 2010. In fact, a former senior Defense Contract Audit Agency executive reports that application of a \$200,000 cap to all contractor employees would save at least \$5 billion per year.

Streamlining the FEHBP Pharmacy Benefit Program

We also support the plan laid out by the President to save \$1.6 billion by streamlining the pharmacy benefit program under the Federal Employees Health Benefits Program (FEHBP). The current system is overly complex, non-transparent and results in the government paying more for prescription drugs under FEHBP than other federal programs. The Administration’s proposal has the same goal of legislation pending in Congress (H.R. 979) to save federal dollars, and would allow the Office of Personnel Management (OPM) to contract with a single Pharmacy Benefit Manager (PBM) to negotiate prescription drug prices rather than through multiple contracts. This proposal is modeled after the TRICARE plan and would help ensure lower prescription drug prices. As the Administration noted in its proposal, combining the purchasing power of the nearly eight million FEHBP participants would produce greater leverage in setting prices.

Strengthening Tax Enforcement and Compliance

The President’s deficit reduction plan also calls for providing the Internal Revenue Service (IRS) with additional funding for new tax enforcement and compliance initiatives. These programs play a critical role in preserving the fairness and integrity of the U.S. tax system and generate a positive return on investment for taxpayers of roughly seven to one. According to the Congressional Budget Office (CBO), the plan, which calls for incremental funding increases for new revenue generating tax enforcement activities beginning in FY12, is

expected to reduce the deficit by \$3.2 billion over ten years. However, the Office of Management and Budget (OMB) has stated the additional funding will have a significantly larger effect, saving an estimated \$30 billion or more.

Across-the-Board Workforce Cuts

Many budget proposals circulating on Capitol Hill include recommendations for arbitrary downsizing of the federal civil service by proposing across-the-board workforce cuts without regard to agency mission. We appreciate that the Administration's own proposal included no such recommendation. Arbitrary downsizing has historically led to wasteful privatization and the use of contractors to perform functions that are too important or sensitive to be outsourced at a much higher price. The federal government, consistent with the law, should continue to rebalance its overall federal workforce, taking advantage of opportunities to use federal employees in lieu of contractors for reasons of cost and performance.

In conclusion, more than anyone, our nation's civil servants understand the constraints of the federal budget. They are already doing their part to lower government costs. During these tough economic times, when citizens are demanding more from the federal government, America cannot afford a second-class civil service. The undersigned organizations urge you to reject any further cuts to the compensation of federal employees and retirees. Thank you for your time and attention to our views.

Sincerely,

American Federation of Government Employees
American Federation of State, County and Municipal Employees
American Foreign Service Association
American Postal Workers Union
Federal Managers Association
International Association of Fire Fighters
International Federation of Professional and Technical Engineers
Laborers' International Union of North America
National Active and Retired Federal Employees Association
National Association of Assistant United States Attorneys
National Association of Federal Veterinarians
National Association of Government Employees
National Association of Letter Carriers
National Association of Postal Supervisors
National Federation of Federal Employees
National League of Postmasters
National Postal Mail Handlers Union
National Rural Letter Carriers Association
National Treasury Employees Union
Organization of Professional Employees at the U.S. Dept. of Agriculture
Professional Managers Association

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cc: Members of the Joint Select Committee on Deficit Reduction