

FEDERAL-POSTAL COALITION

September 15, 2011

The Honorable Jacob J. Lew
Director
Office of Management and Budget
Eisenhower Executive Office Building
Washington, DC 20503

Dear Director Lew:

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 reject proposals that will prove damaging to federal employees in the Administration's submission to the Joint Select Committee on Deficit Reduction on September 19th.

We particularly oppose proposals aimed at the federal workforce, such as the House-passed Fiscal Year 2012 Budget Resolution, as well as the proposal of the co-chairs of the National Commission on Fiscal Responsibility and Reform. We oppose the inclusion of these and other initiatives that would require federal civil servants and retirees to shoulder cuts to reduce the deficit that are not shared by other Americans with similar incomes. The hardworking, dedicated Americans who make up the federal workforce had no part in creating the budget problems that the Administration and the Congress are trying to address, and undermining their livelihoods should play no part in resolving these problems.

Federal employees have already made a \$60 billion sacrifice.

We appreciate the Administration's call for "some sacrifice from all of us;" however, not only are federal employees disproportionately harmed by staffing reductions caused by drastically declining agency budgets, they have already done their share by experiencing compensation cuts as well. Federal civil servants are under a two-year pay freeze, despite the fact that the nation's debt crisis did not arise because of federal civil service pay or benefits. The pay freeze is a steep price for federal employees to pay, but it will save an estimated \$2 billion by the end of FY2011 and more than \$60 billion over the next ten years.

It is imperative that the timing of the Administration's pay freeze decision not be held against federal employees in the current negotiations. While we were deeply unhappy about the freeze itself, our greater objection was to its timing. Because it was issued unilaterally in late 2010, well before a larger budget deal, federal employees are now vulnerable to another attack on compensation during super committee negotiations.

Far too many policy makers have already forgotten this sacrifice by the nation's civil servants, but when reminded of it, are surprised to learn of the \$60 billion price tag.

Federal agencies have already cut back significantly on hiring employees and many are planning furloughs and reductions-in-force.

Stage I of the recently-enacted debt ceiling legislation will result in massive spending and program cuts for federal agencies across the country. The size of the federal workforce has declined from one federal worker per 78 U.S. residents in 1953 to one federal worker per 155 residents in 2008. The men and women who make up the federal workforce are performing increasingly vital – and often dangerous – tasks but with fewer resources and insufficient staffing. These reductions have a direct impact on the citizens served by federal employees as evidenced by the backlog of cases at the Social Security Administration, the Department of Veterans' Affairs, and numerous other federal agencies.

Recent proposals place a hugely disproportionate burden on federal employee retirement benefits.

Recent budget proposals, ranging from Simpson-Bowles to the House-passed budget resolution, have dealt federal employees and retirees a tough hand. Most recently, bipartisan Congressional talks with Vice President Biden raised damaging proposals that would unfairly single out federal employees. The last proposal discussed would cut federal retirement by \$30 billion over ten years:

- Current employees' contributions to their pension would increase by 1.2 percent of salary, a 150 percent increase;
- future employees' contributions would increase to 4 percent;
- benefits would be cut by reducing the salary used to calculate annuities from an average of the highest three years of service to the highest five; and
- benefits would also be cut by reducing the multiplier used to calculate annuities from 1.1 percent to 0.7 percent, a decrease in benefits by over one-third.

The last two combined changes would reduce benefits for future federal retirees by a whopping 41 percent. This would be absolutely devastating to future retirees and would be a major disincentive to join the federal workforce.

Federal employees are patriots who protect America overseas, at the borders, and in the interior. They serve as Social Security claims representatives to the elderly and the disabled. They are federal inspectors who ensure the safety of the food our families eat, the doctors and nurses who provide health care to veterans, the regulators who prevent the next nuclear disaster from happening on U.S. soil, the IRS staff who process tax refunds, the prosecutors and law enforcement agents who bring dangerous criminals to justice, and the consular officers who rescue Americans caught in foreign disasters. It is unthinkable that any worthy candidates would fill these – or thousands of other critical

positions – if they had to pay four times more into their pensions while working and get 41 percent less in benefits when they retire.

Federal employee retirement already lags behind private sector plans.

The Social Security Administration's Office of Policy conducted a comprehensive study comparing the Federal Employees Retirement System (FERS) and private sector retirement benefits. The study concluded that private sector employees have more generous retirement plans, receiving 47.3 percent of a retiree's final salary while FERS employees receive only 36 percent. This is too wide a gap and it will widen further if any of the proposed cuts to federal retirement are enacted.

While federal and postal employees have always made contributions from their salary to their civil service pensions, Bureau of Labor Statistics data show that 96 percent of all employers with a defined benefit pension require no employee contribution at all.

Increasing the employee contribution to the pension without any corresponding increase in benefits represents a selective payroll tax increase on the income of federal workers, and would be a violation of the President's campaign pledge not to raise any taxes on those earning less than \$250,000. Without a doubt, the proposed increase in federal employee pension contributions is a payroll tax increase as surely as any payroll tax increase to Social Security would be.

Federal employees and retirees have already endured large health insurance premium increases.

Over the past decade, federal employees and retirees have endured large increases in their health care premiums every year. In 2010, the enrollee portion of the Federal Employees Health Benefits Program (FEHBP) premium increased, on average, almost nine percent. In 2009, it was 13 percent. Last year, nearly four million enrollees in the largest plan, Blue Cross Blue Shield, paid increases of 12-15 percent.

Yet proposals have circulated which favor changing FEHBP into a defined contribution, or "voucher" plan in which enrollees would be given a lump sum to shop for health insurance. The final Simpson-Bowles report proposed a pilot project for a "defined contribution premium support plan" that drew from an earlier proposal by the House Budget Committee, limiting enrollees to a fixed subsidy that would grow by no more than the Gross Domestic Product (GDP) plus one percent each year.

Right now the government, as the employer, pays an average of 70 percent of the premium with enrollees paying the rest. Premium support plans and vouchers tied to GDP, not medical inflation, would simply shift the cost of health insurance onto the backs of federal employees and retirees. Program enrollees would see their premium contribution grow from 30 percent to 43 percent – an increase of \$2,850 – by 2020.

Changing the rules on health insurance premiums paid by FEHBP enrollees, especially retirees living on fixed incomes, is wrong. While some private sector companies have reneged on their commitment to health insurance and other employee benefits, the federal government has not, and should not.

The Administration's FY 2012 budget estimated that streamlining the process for prescription drug acquisition in FEHBP would save \$69 million in FY 2012, and more than \$1.76 billion over ten years. Areas like this should be examined before any consideration is given to further increasing health care costs for FEHBP enrollees.

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 in your submission to the Joint Committee. 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
Federally Employed Women
FAA Managers Association
Federal Managers Association
International Association of Fire Fighters
International Association of Machinists and Aerospace Workers
International Federation of Professional and Technical Engineers
National Active and Retired Federal Employees Association
National Air Traffic Controllers 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 Association of Postmasters of the United States
National Council of Social Security Management Associations
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 Aviation Safety Specialists
Professional Managers Association
Senior Executives Association

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