



CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

October 19, 2000

H.R. 4642

An act to make certain personnel flexibilities available with respect to the General Accounting Office, and for other purposes

As cleared by the Congress on October 4, 2000, and signed by the President on October 13, 2000

SUMMARY

H.R. 4642, enacted as Public Law 106-303 (P.L. 106-303), provides the General Accounting Office (GAO) with authority to offer its employees early retirement annuities as well as separation incentive payments to employees who voluntarily retire or resign. This authority, which would last through December 31, 2003, allows the GAO to offer certain employees a lump-sum payment of up to \$25,000 to voluntarily leave the agency. In addition, certain qualified employees who leave are entitled to collect immediate retirement annuities. Unlike traditional buyout authority, which is usually used to reduce an agency's workforce, P.L. 106-303 would permit GAO to offer its employees buyouts and early retirement for reasons such as realigning the workforce or correcting skill imbalances.

Under the act, up to 10 percent of GAO employees per year are eligible for immediate annuities and up to 5 percent of the agency's workforce per year may take buyout payments. CBO estimates that this act will increase direct spending by \$29 million over the 2001-2005 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of P.L. 106-303 on direct spending is shown in Table 1. Only the estimated changes in the budget year and the succeeding four years are counted for pay-as-you-go purposes. The costs of this legislation fall within budget functions 550 (health) and 600 (income security).

TABLE 1. ESTIMATED EFFECTS OF P.L. 106-303 (H.R. 4642) ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	9	10	8	2	-2	-3	-3	-3	-3
Changes in receipts	Not applicable									

BASIS OF ESTIMATE

P.L. 106-303 will increase direct spending from both the Civil Service Retirement and Disability Fund (CSRDF) and the Federal Employee Health Benefits (FEHB) program. As shown in Table 2, CBO estimates that spending on retirement benefits will increase by \$14 million during the 2001-2010 period and spending on health benefits will increase by \$3 million over the decade.

TABLE 2. ESTIMATED EFFECTS OF P.L. 106-303 ON DIRECT SPENDING, BY TYPE OF SPENDING

	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Federal retirement benefits	4	8	9	7	1	-3	-3	-3	-3	-3
Federal health benefits	*	1	1	1	*	*	0	0	0	0
Deposit in the Civil Service trust fund ^a	-4	0	0	0	0	0	0	0	0	0

a. Payments in future years (after 2001) are subject to appropriation.

* = Less than \$500,000.

Federal Retirement Benefits

CBO assumes that annually just over 5 percent of the agency's approximately 3,200 employees will accept early retirement benefits and that just under 5 percent of the workforce will take buyout payments. CBO further assumes employees retire an average of two years earlier than they would have otherwise and that everyone who takes early retirement will also take a buyout payment. Inducing some employees to retire earlier than they would have otherwise results initially in higher than expected retirement benefits being paid from the CSRDF. In later years, annual federal retirement outlays will be lower than under prior law because the employees who retire early receive smaller annuity payments than they would have received had they retired later. CBO estimates that the additional retirement benefits will increase direct spending by \$29 million during the 2001-2005 period. Starting in 2006, CBO estimates the CSRDF will pay less in retirement benefits than under prior law. CBO estimates that federal retirement benefits will increase by \$14 million over the 2001-2010 period.

Payments in the Civil Service trust fund

P.L. 106-303 requires GAO to make payments to the CSRDF for every employee who accepts a buyout. The payment is calculated as a percentage of the worker's final basic pay. CBO assumes GAO will make a payment to the trust fund equal to 45 percent of final basic pay for each employee who accepts a buyout payment. While the payment to the trust fund is paid out of the agency's appropriation, the payment received by the CSRDF is considered an offsetting receipt. Because the bill that provides funding for GAO in 2001 has been cleared by the Congress, CBO counts the expected 2001 payments to the CSRDF as direct spending. CBO estimates payments to the fund will total \$4 million in 2001.

Retiree health benefits

P.L. 106-303 will also increase direct spending on federal retiree health benefits. Many employees who accept the buyouts will continue to be eligible for coverage under the FEHB program. The government's share of the premium for retirees—as opposed to current employees—is classified as mandatory spending. Since many of those accepting buyouts would have retired later under prior law, spending for the new retirees' premiums is accelerated to the years in which the buyouts are accepted. CBO estimates these additional benefits will increase direct spending by less than \$500,000 in 2001 and by a total of \$3 million during the 2001-2005 period.

ESTIMATE PREPARED BY: Geoffrey Gerhardt

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis