CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 9, 2004

H.R. 2751
GAO Human Capital Reform Act of 2004

As cleared by the Congress on June 24, 2004,
and signed by the President on July 7, 2004

SUMMARY

H.R. 2751, enacted as Public Law 108-271, authorizes the Government Accountability Office (GAO) to modify its personnel and workforce practices to allow greater flexibility in determining pay increases, pay retention rules, and other compensation matters. The act also permanently extends GAO's authority to offer separation (buyout) payments and early retirement to employees who voluntarily leave GAO.

CBO estimates that Public Law 108-271 will increase direct spending for retirement annuities and related health benefits by about $1 million in fiscal year 2005, by $18 million over the 2005-2009 period, and by $40 million over the 2005-2014 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of Public Law 108-271 on direct spending is shown in the following table. The changes in direct spending fall within budget functions 550 (health) and 600 (income security). The act will not affect federal revenues.

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	0	1	3	5	5	5	5	5	4	4	4
Estimated Outlays	0	1	3	5	5	5	5	5	4	4	4

BASIS OF ESTIMATE

Public Law 108-271 gives GAO permanent authority to offer retirement benefit to employees who voluntarily leave the agency early. Like GAO's previous buyout authority, which expired on December 31, 2003, the act allows the agency 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 (whether they collect a separation payment or not) are entitled to receive immediate retirement annuities earlier than they would have otherwise. CBO estimates that renewing this authority will increase direct spending by $1 million in 2005, by $18 million over the 2005-2009 period, and by $40 million over the 2005-2014 period.

Based on information provided by GAO about use of its early retirement authority over the past several years, CBO estimates that each year about 35 agency employees will begin receiving retirement benefits an average of two years earlier than they would have under prior law. Inducing some employees to retire early initially results in higher-than-expected benefits from the Civil Service Retirement and Disability Fund. This is mitigated somewhat in later years because those retirees will receive less on an annual basis than had they retired as expected without enactment of Public Law 108-271. CBO estimates that the additional retirement benefits will increase direct spending by $1 million in 2005, by $16 million over the 2005-2009 period, and by $33 million over the 2005-2014 period.

Extending GAO's buyout and early retirement authority also will increase direct spending for federal retiree health benefits. Many employees who retire early will continue to be eligible for coverage under the Federal Employees' Health Benefits (FEHB) program. The government's share of the premium for retirees is classified as mandatory spending. Because many of those accepting the buyouts under the bill will retire earlier than under prior law, mandatory spending on FEHB premiums will increase. CBO estimates these additional benefits will increase direct spending by less than $500,000 in 2005, by $2 million over the 2005-2009 period, and by $7 million over the 2005-2014 period.

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