



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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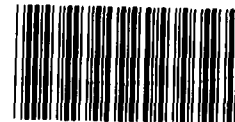
FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-125037

SEPTEMBER 28, 1982

The Honorable Caspar W. Weinberger
The Secretary of Defense

Attention: Director, GAO Affairs



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Dear Mr. Secretary:

Subject: Observations on the April 15, 1982, Joint
Services Report, "Military Pay Adjustment
Mechanism Study" (GAO/FPCD-82-78)

The appropriate mechanism for annually adjusting military pay levels has been debated with varying degrees of intensity for years. In September 1980, the Congress directed the President to submit, not later than April 1, 1981, recommendations to "improve the method for determining adjustments in the pay and allowances for members of the uniformed services." In response to this directive, the Secretary of Defense reported that, in his opinion, there is a fundamental problem with the current adjustment process--the problem being the absence of a direct link between military and private sector pay--and that this problem should ultimately be resolved. However, the Department of Defense (DOD) declined to recommend changes to the military pay adjustment mechanism until further evaluations could be made.

In January 1982, a Joint Services Study Group was formed to continue evaluating alternative pay adjustment mechanisms and to recommend a more appropriate adjustment mechanism than the current indirect link with private sector pay through the Federal white-collar pay system. The Joint Study Group report, dated April 15, 1982 (released in June 1982), recommended that DOD propose legislation which would

- sever the existing link between military basic pay adjustments and the Federal white-collar pay adjustment process and
- establish a direct link with private and non-Federal public sector pay changes by using the Bureau of Labor Statistics'

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Employment Cost Index (ECI) wage and salary series 1/ to annually adjust military basic pay and allowances measured on a March-to-March basis with annual adjustment being effective on October 1 of each year.

As you know, we have taken the position 2/ that DOD should abandon the more costly traditional across-the-board approach to setting and adjusting basic pay and allowances levels. Instead, we believe DOD should adopt the more economical approach of structuring pay by occupation on the basis of an established pay standard to enable the services to compete efficiently in the labor market--what we have called the "targeting" approach.

We continue to hold this view regardless of which, if any, index is used to adjust military pay. However, so long as DOD holds to its more costly across-the-board approach of setting and adjusting military pay without the benefit of an established pay standard, we agree with the Study Group's recommendation that the ECI is probably the most suitable index currently available for annually adjusting military pay. The ECI includes 417 civilian occupations which represent over 70 percent of the military work force--a better representation than other available indexes--and it would provide an understandable and uncomplicated way

1/The ECI, published quarterly, measures the rate of change in employee compensation, but it does not measure levels of compensation. It is published in two series: (1) the wage and salary series, which is limited to changes in wage and salary rates, defined as straight-time hourly earnings (excluding premium pay for overtime, etc.) plus production bonuses, incentive pay, commissions, and cost-of-living adjustments and (2) the compensation series, which includes employers' total cost for employees, including benefits and wages and salaries.

2/"Defense Budget Increases: How Well Are They Planned and Spent?" (PLRD-82-62, ch. 5, Apr. 13, 1982). Letter from the Comptroller General to the Secretary of Defense concerning potential areas for cost savings (B-202082, June 24, 1982). Testimony before the House Committee on the Budget (Mar. 10, 1981); the Senate Committee on the Budget (Mar. 31, 1981); Subcommittee on Manpower and Personnel, Senate Committee on Armed Service (May 8, 1981, Nov. 19, 1981, and Aug. 10, 1982); and the Subcommittee on Defense, House Committee on Appropriations (June 1, 1982).

to adjust military pay. In a previous report ^{1/} which discussed alternative mechanisms for directly linking military pay to private sector pay, we said the ECI would be more reflective of overall private sector wage changes and, thus, a better alternative for adjusting military pay than by indirectly linking military pay adjustments to the Professional, Administrative, Technical, and Clerical (PATC) index. Two adjustments to the proposed use of ECI, however, need to be considered--need for an alternate pay system and need to reduce the time lag between the ECI measurements and ECI's use in pay adjustments.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the recommendations contained in the Study Group report. We (1) interviewed the Director and other Study Group members, (2) examined the Study Group report and related documentation, (3) interviewed Bureau of Labor Statistics officials responsible for developing and maintaining the ECI, and (4) reviewed documents describing ECI data sources and collection methods, survey design, index computation, and index uses and limitations.

We also reviewed studies performed by various research organizations and previous studies done by us relevant to questions concerning military pay structures, pay adjustment mechanisms, and military occupational staffing problems. We did not independently validate the Bureau of Labor Statistics methodology for constructing the ECI or test its statistical validity.

Our survey was performed during May through July 1982 and was conducted in accordance with our Office's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

BACKGROUND

The existing military pay adjustment mechanism evolved from Public Law 90-206, enacted in 1967, which reaffirmed the comparability principle for Federal civilian employees--a concept designed to equate salaries for Federal civilian white-collar workers with those of private enterprise workers performing similar work. In the same year, Public Law 90-207 (the Rivers' Amendment) was also enacted which provided the tie between Federal civilian white-collar pay and military pay. The Rivers' Amendment did not establish a level of comparability between military and private

^{1/}"Proposal to Lower the Federal Compensation Comparability Standard Has Not Been Substantiated," (FPCD-82-4, Jan. 26, 1982).

sector pay levels of work, but it did assure that whenever civil service general schedule pay went up, military pay would also increase by a like percentage. The Rivers' Amendment indirect linkage to the private/non-Federal salary survey--through PATC--was intended to serve only as a temporary mechanism until a military pay standard could be established and a pay adjustment mechanism more suited to military needs could be developed. So far, this has not been done. Although the October 1980 and 1981 military pay increases were de-linked from the civil service pay raise on an ad hoc basis--and the October 1982 military pay raises may again be de-linked--military pay standards have not been developed and the linking procedure established by the Rivers' Amendment has remained in effect, with several modifications, until today.

There are several reasons to de-link the military pay adjustment process from the Federal white-collar annual adjustment process--for example, the PATC survey represents only about 11 percent of military occupations. However, pressure to de-link has come primarily from the fact that Federal white-collar pay has been frequently capped at a percentage lower than that indicated by the PATC survey. Because military and Federal white-collar pay adjustments have been linked, military pay raises have also been frequently capped.

FACTORS DESERVING OF CONSIDERATION

There are advantages to using the ECI over other available indexes--such as the PATC index, Area Wage Surveys, the Professional, Technical, and Kindred workers earnings index, and others described by the Study Group--for adjusting military pay. The primary advantages are that the occupations surveyed for the ECI represent over 70 percent of the military work force--higher than other existing surveys--the ECI is easily understood by military members, and, because it is a quarterly index, it has a high degree of predictability. However, there are also disadvantages which we believe should be considered when deciding whether to prepare legislative changes to how military pay is adjusted.

The Study Group argues that now is a good time to begin using the ECI because military pay is currently roughly comparable to private sector pay. Despite popular misconceptions, the statutory concept of pay comparability with the private sector, as applied to the Civil Service, does not now and never has applied to military compensation. Consequently, even though the Study Group may believe that military pay is roughly comparable to private sector pay, it has not defined comparability in terms of a pay standard. Nevertheless, despite this failure to define what is meant by comparability, since the ECI measures change in private and non-Federal public sector pay rates rather than actual pay rates for comparable levels of work, the use of the ECI could

be construed as a departure from the popular notion that military and private sector pay rates should be generally the same for the same levels of work. The ECI will only maintain compatibility with private sector pay if pay levels are already compatible when the military begins using the ECI to adjust pay levels, and also only if pay changes for various segments of the economy occur at the same rate. However, this problem is not peculiar to the ECI, and, in fact, will occur if any index--even one based on a survey of actual pay rates--is developed without the benefit of a pay standard and applied across-the-board to all military occupations.

Need for an alternative pay plan option

According to Study Group members, their legislative approach for a new military pay adjustment mechanism does not include an alternative pay plan option. While we have expressed concern that the frequent use by Presidents of the alternative plan authority has threatened the viability of the Federal white-collar comparability principle, 1/ we also recognize that Presidents need such authority to deal with unusual economic situations.

In commenting on our concerns about the frequent Presidential use of alternative pay plans, the President's Pay Agent stated that:

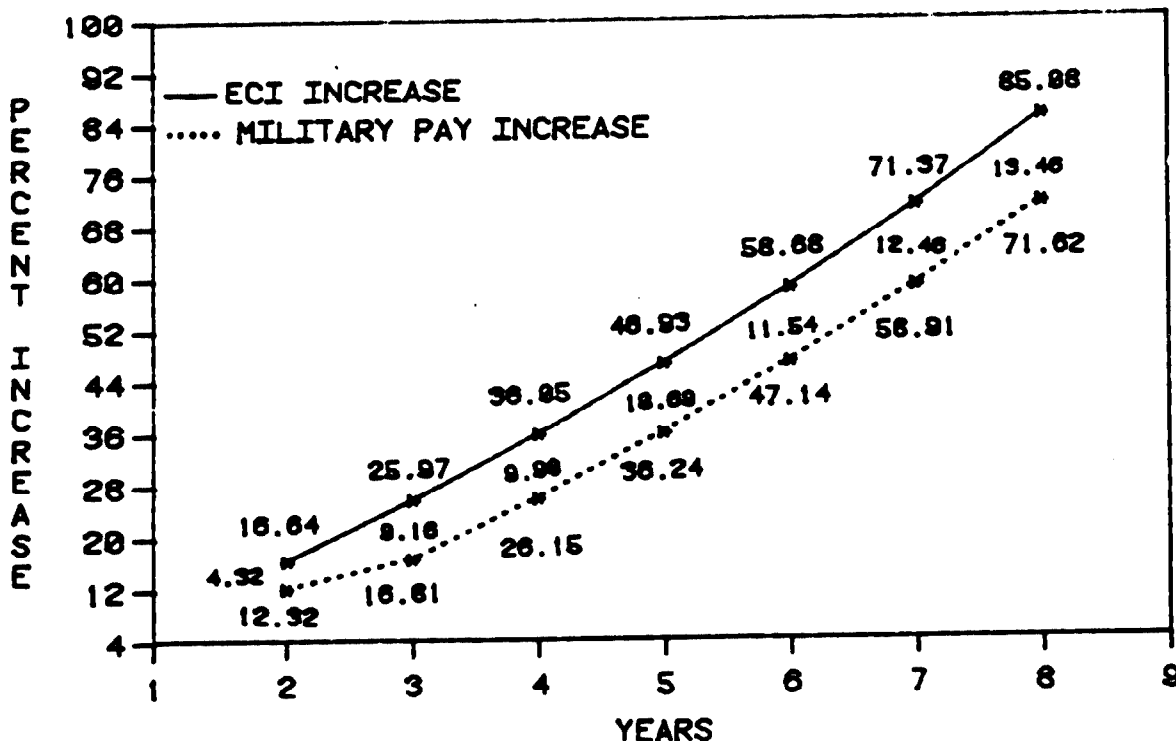
"it would be unwise to limit the flexibility of the Government, as an employer, to respond to unusual conditions."

We agree with this viewpoint and believe that any legislative proposal to de-link military pay adjustments from the Federal white-collar pay adjustment process should contain authority for the President to propose an alternative pay plan. However, we believe it should not be any more or less difficult for the Congress to override the President's alternative plan for military pay raises than it is currently to override an alternative plan for other Federal workers. At the present time, the Congress can overturn a President's alternative pay plan proposed for Federal white-collar employees by a single majority vote in either House.

We also believe that, along with an alternative plan authority, any proposed legislation to switch to the ECI should include a catchup provision. Because the ECI measures change in rates

1/"Determining Federal Compensation: Changes Needed to Make the Process More Equitable and Credible" (FPCD-80-17, Nov. 13, 1979).

of pay rather than actual rates of pay, if, for whatever reason, military pay levels ever fall behind the rate of private sector pay change as measured by the ECI, military pay would continue to fall further behind private sector pay levels unless some provision is made to catch up. The following hypothetical example demonstrates this problem. The example assumes (1) a constant annual 8-percent ECI increase, (2) a 4-percent legislative or Presidential cap on military pay in years 2 and 3, and (3) no pay cap and no catchup in years 4 through 8.



As can be seen, without a catchup provision, the gap between military pay and the ECI increases and the military pay adjustment would continue to widen even after pay is no longer capped. This is because subsequent ECI adjustments to military pay would be applied to an increasingly lower base. Without a catchup provision, this gap could then only be remedied through special legislation. In theory, indexes based on actual pay rates for various levels of work rather than on rates of changes--such as the PATC index, Area Wage Surveys, or Professional, Technical, and Kindred workers earnings index--would preclude such a situation from occurring.

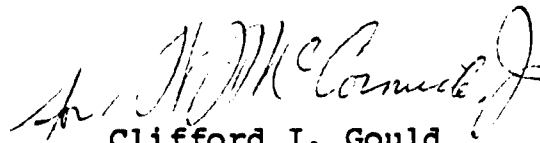
Potential for reducing the
time lag between the index
and pay raise dates

The Study Group report recommends that the March 31 ECI rate be used to adjust military pay effective October 1 of each year. This represents a 6-month time lag between the date of the index and the effective pay adjustment date. We noted that, because the ECI is published quarterly and the June 30 rates are published in time for the October 1 pay raise, the use of the June 30 ECI offers the potential for reducing the time lag between the index date and the pay raise date from 6 to 3 months. We have recommended in the past 1/ that the current 6-month time lag between the March PATC survey index and the Federal white-collar pay raise either be shortened or compensated for in order to maintain closer comparability with private sector pay and, in our opinion, the desirability of shortening the time lag also applies to military pay raises.

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We appreciate the courtesies and cooperation given to our staff by members of the Joint Services Study Group. We are sending copies of this report to the Secretaries of the Army, Navy, and Air Force; the Director, Office of Management and Budget; and the Chairmen, House and Senate Committees on Appropriations and Armed Services; and the Commissioner of Labor Statistics. We will also make copies available to the public and other interested persons.

Sincerely yours,


Clifford I. Gould
Director

1/"Federal Pay-Setting Surveys Could Be Performed More Efficiently" (FPCD-81-50, June 23, 1981).