

DOCUMENT RESUME

06574 - [B2087097]

Federal Compensation Comparability: Need for Congressional Action. FPCD-78-60; B-167266. July 21, 1978. 4 pp. + 6 appendices (23 pp.).

Report to the Congress; by Elmer E. Staats, Comptroller General.

Issue Area: Personnel Management and Compensation: Compensation (305).

Contact: Federal Personnel and Compensation Div.

Budget Function: Income Security: Federal Employee Retirement and Disability (602).

Organization Concerned: Civil Service Commission; Department of Labor.

Congressional Relevance: House Committee on Post Office and Civil Service; Congress.

Authority: (P.L. 92-392; 5 U.S.C. 53). Federal Salary Act of 1967 (2 U.S.C. 351).

Most Federal employees' pay is governed by the legislated principle of comparability with pay in the private sector. Non-Federal pay rates vary among geographic areas, types of industries, size of establishments, and occupations. Provisions of the Federal pay-setting processes generally prevent the Government from considering such variances. This results in overpayment or underpayment of Federal employees in specific occupations or localities and affects the credibility of the concept of comparability. Findings/Conclusions: The President plans to set a 5.5% cap on the 1978 comparability adjustment for Federal white-collar employees, but pay increases could also be reduced by improving comparability processes. Changes have been made to the Federal white-collar pay-setting process which have saved about \$3.7 billion annually, but congressional action is needed to include State and local government employees in the pay surveys and to compare benefits and pay with private sector compensation. For Federal white-collar employees under the general schedule, action is needed to: establish salary schedules that are more in line with labor market characteristics, eliminate cost-of-living allowances paid to employees in nonforeign areas, develop a method to reduce or compensate for the 6-month time lag between the reference date of comparability data and the date of the pay adjustment, and develop a method for granting within-grade salary increases based on merit. For Federal blue-collar employees under the Federal wage system, action is needed to revise the five-step system for nonsupervisory grades, wage rates based on private sector rates paid in another wage area, and night-shift differentials. Action is also needed to establish a new salary system for top Federal executives. (HTW)

7097

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Federal Compensation Comparability: Need For Congressional Action

Non-Federal pay rates vary among geographic areas, types of industries, size of establishments, and occupations. The Federal pay-setting processes do not always consider such variances when setting Federal pay. This causes the Government to pay some employees either more or less than market rates and has resulted in criticism and a lack of confidence in Federal compensation systems. Congressional support is needed to resolve these shortcomings and to provide needed credibility to the Federal pay-setting processes.



FPCD-78-60
JULY 21, 1978



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-167266

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses shortcomings in the Federal pay-setting processes, which only the Congress can address. We and many other study groups have recommended improvements. The Civil Service Commission has made or initiated studies and improvements covering most of these issues. However, to resolve the shortcomings, congressional action is required.

Most Federal employees' pay is governed by the legislated principle of comparability with pay in the private sector. To compete in the labor market for capable people, the Government must achieve and maintain reasonable and equitable compensation levels for its work force. Non-Federal pay rates vary among geographic areas, types of industries, size of establishments, and occupations. Provisions of the Federal pay-setting processes generally prevent the Government from considering variances in the non-Federal sector when setting Federal pay rates. As a result, the Government overpays or underpays its employees compared to specific occupations in specific localities. This affects the credibility of the concept of comparability and has resulted in criticism and a lack of confidence in the Federal compensation-setting processes.

The President plans to set a 5.5-percent cap on the 1978 comparability adjustment for Federal white-collar employees to set an example for the private sector in controlling inflation. However, many of the needed improvements cited in this report would also reduce Federal pay increases and make Federal employees pay more comparable to their private sector counterparts. For example, the proposed changes to the Federal wage system alone will save the Government about \$2.5 billion in the first 5 years. On the other hand if the private sector does not follow the President's example and needed changes are not made, it will result in even higher Federal pay increases for 1979 as well as increased criticisms of the Federal comparability systems.

To insure a high degree of confidence in the Federal pay determination processes, improvements are needed. These changes will provide credibility to the comparability processes and, in some instances, result in substantial savings to the Government.

Many studies of the Federal compensation systems have made similar conclusions and recommendations. For example, the Job Evaluation and Pay Review Task Force in 1972, the President's Panel on Federal Compensation in December 1975, and the President's Federal Personnel Management Task Force in December 1977 made recommendations for improvements that are similar to needed improvements cited in this report. The Congress, however, is the only body which can make the changes.

In response to recommended improvements, the executive branch made many significant administrative changes to the Federal white-collar pay-setting process which have saved about \$3.7 billion annually.

- In August 1973 the President's agent adopted a new payline technique which related private sector average rates to average general schedule rates, with annual savings of about \$1 billion.
- In October 1976 the process was changed to (1) include salary data for secretaries and computer operators, (2) introduce weighted averages to reflect the composition of the Federal work force, and (3) develop a new payline to produce a better fit to the survey data and to provide proper regularity in the pattern for intergrade differentials. These changes resulted in annual savings of about \$2.5 billion.
- For 1977 the survey scope was expanded by adding additional industries to the survey and by lowering the size-of-establishment cutoff from 250 to 100 employees for certain manufacturing industries. This expanded scope saved about \$200 million annually.

Congressional action is needed to

- include State and local government employees in the pay surveys (see p. 4) and
- compare benefits and pay with private sector compensation (see p. 5).

For Federal white-collar employees under the general schedule, congressional action is needed to

- establish Federal salary schedules that are more in line with labor market characteristics and pay practices of non-Federal employees (see p. 7),
- eliminate cost-of-living allowances paid to Federal white-collar employees in nonforeign areas (see p. 9),
- develop a method to reduce or compensate for the 6-month time lag between the reference date of the comparability data and the date of the pay adjustment (see p. 10), and
- develop a method for granting within-grade salary increases based on merit (see p. 10).

For Federal blue-collar employees under the Federal wage system, congressional action is needed to revise

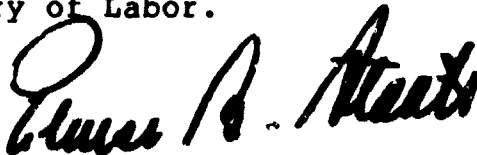
- the five-step system for each nonsupervisory grade with the average local prevailing rate equated to the second Federal blue-collar wage step even though 80 percent of the employees are above step two (see p. 14),
- wage rates which are set based on private sector rates paid in another wage area (see p. 15), and
- night-shift differentials that are not determined in accordance with prevailing industry practices but are set from a percentage of the scheduled wage rate (see p. 15).

Congressional action is also needed to establish a new salary system for top Federal executives (see p. 20).

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

B-167266

We are sending copies of this report to the Director, Office of Management and Budget; Chairman, Civil Service Commission; and the Secretary of Labor.

A handwritten signature in black ink, appearing to read "James B. Stewart". The signature is written in a cursive, slightly slanted style.

Comptroller General
of the United States

C o n t e n t s

		<u>Page</u>
<u>APPENDIX</u>		
I	Comparability concept lacks credibility	1
II	Need to broaden comparability principle	4
III	Comparability process for white-collar employees needs to be more precise	7
IV	Legislation needed to better obtain comparability for Federal blue-collar employees	14
V	A better method for compensating Federal executives is needed	17
VI	GAC reports issued on Federal compensation issues	22

COMPARABILITY CONCEPT LACKS CREDIBILITY

The Federal Government employs about 2.8 million civilians at an annual cost of about \$59 billion for pay and benefits. These employees are in many different pay and retirement systems. In general, pay is governed by the legislated principle of comparability with pay in the private sector and is established by administrative action. However, benefits are, for the most part, established by law without any legislated standard.

In recent years we have reported on the compensation policies and the pay-setting processes of various Federal pay systems. One of our first and most important observations was that the Government's compensation policies, structures, and practices require continual evaluation and research to keep up with the constantly changing nature and composition of the labor markets as well as the Government's needs. Improvements were needed to achieve more reasonable comparability with the non-Federal sector in line with the basic purposes of comparability. Therefore, we recommended that more emphasis be given to compensation evaluation and research to effect timely changes.

The Civil Service Commission has made or initiated studies and improvements covering most of our concerns; however, more significant improvements will require legislative action.

COMPARABILITY CONCEPT

To effectively carry out its programs, the Government must obtain and retain capable people by achieving and maintaining equitable compensation levels. Federal pay is governed by the principle of comparability with private sector pay. We believe comparability provides a sound conceptual basis for setting pay in the Federal sector. President Kennedy, in a February 1962 message to the Congress on salary reform for Federal white-collar employees, stated the logic and purposes for the comparability principle.

"Adoption of the principle of comparability will assure equity for the Federal employee with his equals throughout the national economy--enable the Government to compete fairly * * * for qualified personnel--and provide * * * a logical and factual standard for setting Federal salaries. Reflected in this single standard are such legitimate * * * pay considerations as cost of living, standard of living, and productivity, to the same

extent that these factors are resolved into the going rate over bargaining tables and other salary determining processes * * * throughout the country."

Pay standards should be in line with the non-Federal sector pay of the Nation. The Government should be a good employer. It should not pay less than other employers, but it cannot afford to be a more generous employer than the rest of the economy. The discipline of the market sets a limit on what industry can pay. Non-Federal pay rates vary, often significantly, among geographic areas, types of industries, size of establishments, and occupations.

The Federal pay systems and pay-setting processes should permit realistic pay alignment between comparable positions in the Federal and non-Federal sectors. They should provide the framework in which employees at different skill levels, occupations, and geographic areas can be reasonably compensated; they must recognize that the labor market consists of distinctive major groupings which have different pay treatments. Unless the Federal pay practices recognize the existence of the various labor markets, the Government will be paying more or less than the labor market rates for certain employees.

Such a situation could place the Government in a non-competitive or overly competitive position with other employers for recruiting and retaining competent employees. In high-paying occupations or high-wage areas, the Government could be at a competitive disadvantage, and an undesirable side effect could be created by overclassifying Federal jobs in order to pay higher salaries to be competitive. In low-paying occupations or low-wage areas, high Government salaries could exert upward pressure on compensation in the non-Federal sector.

In addition, such situations could create gross inequities between the Federal employee and the non-Federal sector counterpart.

COMPARABILITY PROCESSES LACK CREDIBILITY

The credibility of the comparability processes has become suspect since employers, employees, and taxpayers can cite many instances of inequities between Federal and non-Federal sector pay in individual labor markets. We believe that a high degree of confidence in the pay determination processes is essential to the effectiveness of any pay policy. The Government's compensation policies and practices should be in accord with other employers'.

We believe the Federal compensation-setting policies need improvement. Many other study groups have also recognized that such improvements are needed. For example, in 1975 the President's Panel on Federal Compensation, chaired by the Vice President, reviewed Federal compensation issues and made many of the same recommendations. More recently, in June 1977 President Carter established the Personnel Management Project to review the Federal personnel system. Since the compensation system should support the personnel management systems, the study covered the Federal pay and benefit systems. In its December 1977 staff report, the Personnel Management Project had similar conclusions and recommendations to improve Federal compensation.

Moreover, Federal compensation has been coming under increasing attack from the public. Some believe the Federal work force receives higher pay and better benefits than the non-Federal sector.

The President has proposed limiting the comparability increase for Federal employees to serve as a model for the private sector in controlling inflation. 1/ On the other hand, some Federal employees believe they are being short-changed in relation to their non-Federal counterparts and/or other Federal employees.

We believe that the many independent and Presidential mandated studies have conclusively shown that confidence in the Federal compensation-setting process needs to be restored. But how long can we wait? What is needed is strong Presidential and congressional support to initiate and enact the necessary legislation to improve the compensation policies and practices.

1/According to preliminary data from the 1978 Federal white-collar pay survey, the average salaries for white-collar occupations increased 7.9 percent during the year ended March 1978.

NEED TO BROADEN COMPARABILITY PRINCIPLE

The Government's principle of comparability with the private sector should include comparability with as much of the non-Federal sector as possible and include benefits as well as pay in the comparison.

STATE AND LOCAL GOVERNMENTS
SHOULD BE INCLUDED

The legislated pay principle of comparability with the private sector is too restrictive. In presenting the white-collar pay comparability concept to the Congress in 1962, administration representatives stated that the average salaries paid by private enterprise would represent a "fair-wage" standard that the economy places as the proper value of Federal employees' services. They stated that such salaries gave objective and proper weights to all legitimate pay factors, which were resolved into the "going rate" in the labor-management bargaining process. State and local government salaries were considered to be "administered" rates lacking the economic characteristics of private enterprise salaries. The executive branch reasoned that State and local government salaries would have little effect on national averages since their weight would be lost in the overwhelming weight of private enterprise data. State and local government employees, however, now make up a significant portion of the labor force--over 12 million employees representing about 14 percent of the total civilian work force.

The significant increase in the number of State and local government employees and the changes in salary determination processes--rising importance of labor bargaining--have, in our opinion, negated the original rationale for the survey restriction. In a May 1973 report, 1/ we pointed out that State and local governments are major Federal competitors in the labor markets and recommended that the comparability principle be broadened to the entire non-Federal sector to include State and local governments so that the comparability rates obtained would reflect the proportionate influence of pay for each of the major segments of the non-Federal sector.

As under the white-collar pay surveys, blue-collar wage surveys are restricted to those of private employers. In a

1/"Improvements Needed in the Survey of Non-Federal Salaries Used as Basis for Adjusting Federal White-Collar Salaries," B-167266, May 11, 1973.

June 1975 report 1/ we also recommended that the principle be broadened to include State and local governments.

TOTAL COMPENSATION COMPARABILITY

Benefits are a growing and important part of both Federal and non-Federal employees compensation. Data from the Department of Labor's Bureau of Labor Statistics showed that in 1974 Federal benefit expenditures were 31 percent of total compensation while private sector's were 25 percent.

Major non-Federal employers view benefit programs generally as equally important as pay in determining compensation packages. They have adopted definitive policies and procedures to govern their processes for determining benefits. The Government, however, has no policy to guide the development of both pay and benefits in a coordinated and consistent movement towards a common goal. Federal benefits are established on a piecemeal basis by law without policy objectives and principles to guide benefits development and improvement.

In contrast, various laws establish the principle that Federal pay rates shall be comparable with their private sector counterpart rates, and processes have been established for annual review and adjustment by administrative action. The adoption of an objective standard and provision for annual reviews and adjustments have generally advanced the evolution of Federal pay. By focusing only on pay, however, the comparability processes do not meet their primary purposes--to provide equity for the Federal employee with his private sector counterparts, to enable the Government to be a fair competitor in the labor market, and to provide a logical and factual standard for setting Federal pay. Moreover, the credibility of the pay comparability processes becomes suspect if Federal benefits, and hence total compensation, exceed or lag behind the private sector's.

The Civil Service Commission, in response to a recommendation in our July 1975 report 2/ has developed and is testing a total compensation comparability process. We believe the

1/"Improving the Pay Determination Process For Federal Blue Collar Employees," FPCD-75-122, June 3, 1975.

2/"Need For A Comparability Policy For Both Pay And Benefits of Federal Civilian Employees," FPCD-75-62, July 1, 1975.

implementation of a total compensation system is critical in attaining the public's confidence in the Government's compensation-setting processes. Therefore, we believe a need exists not only for the Commission to expedite its development and testing of a total compensation process but also for the Congress to enact appropriate legislation to insure the timely implementation of this concept.

COMPARABILITY PROCESS FOR WHITE-COLLAR
EMPLOYEES NEEDS TO BE MORE PRECISE

The pay comparability principle was established for Federal white-collar employees under the statutory pay systems (general schedule, foreign service schedules, and the Department of Medicine and Surgery schedules in the Veterans Administration) by the Federal Salary Reform Act of 1962. This act declared that "Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work." The act also restated the internal equity pay principles embodied in earlier legislation: equal pay for substantially equal work and that pay distinctions would be maintained in keeping with work and performance distinctions. The law, as amended, prescribes a method for annual review and adjustment of the employees' salaries by the President. When white-collar pay is increased, another law requires a comparable increase in pay to the military forces.

In the last 4 years there have been some major improvements in the pay-setting process that have narrowed the gap between Federal white-collar and private sector salaries. However, there are still a number of improvements that we and others have recommended which should be made.

- More rational pay systems are needed to be designed around more logical groupings of occupations, and pay rates should be based on the rates existing in the labor market in which each group competes.
- There is a need to reduce and/or devise a means to compensate for the 6-month time lag between date of comparability data and the Federal pay adjustment.
- Within-grade salary increases should emphasize performance rather than longevity.
- Continued emphasis needs to be placed on insuring the proper classification of Federal positions.

MAJOR STRUCTURAL CHANGES NEEDED

The non-Federal labor market consists of distinctive major groupings of employees and occupations. Thus, there are deviations from precise comparability because

- comparability is by level of work, not by specific jobs, and

--Federal salary rates for all white-collar jobs are nationwide, disregarding locality differentials.

The fixed structure of the general schedule does not permit realistic pay alignment between comparable positions in the Federal and private sectors. The general schedule pay system covers 1.4 million employees throughout the United States, its possessions, and many foreign countries. The many varied and nonhomogeneous occupations are grouped into 18 grade levels with uniform national pay rates. This structure is ill-equipped to serve the needs of the work force, which is shifting toward higher skilled occupations. It does not provide the framework in which employees at many different skill levels and in a broad spectrum of occupations and geographic areas can be reasonably compensated; it fails to recognize that the labor market consists of distinctive major groupings, which have different pay treatments. In the private sector, economic and other considerations cause occupations at equivalent Federal work levels to receive different rates of pay, often substantial. For example, the 1977 Federal pay survey showed a 54 percent, or \$5,150, spread between the lowest (computer operator II) and highest (engineer I) job surveyed at the GS-5 equivalent level. Also, there was a \$4,083 spread between the highest (engineer II \$16,221) and lowest (secretary IV, \$12,138) paid jobs at the GS-7 equivalent level. Pay rates often vary substantially from one geographic area to another. For example, according to the Bureau of Labor Statistics 1975 Area Wage Survey, general stenographers' weekly salaries were \$121.50 in the Providence, Rhode Island, area and \$170 in Baltimore, Maryland.

In an October 1975 report, 1/ we recommended that separate pay systems be designed around more logical homogeneous groupings of white-collar occupations and that pay should be based on the rates existing in the geographic labor market in which each group competes--national, regional, or locality rates. We feel this would provide a more equitable balance for both internal and external relationships.

In an August 1976 report, 2/ we recommended that a uniform compensation plan be developed for all Federal physicians and dentists. We pointed out that 39,400 physicians

1/"Federal White-Collar Pay Systems Need Fundamental Changes," FPCD-76-9, Oct. 30, 1975.

2/"Recruiting and Retaining Federal Physicians and Dentists: Problems, Progress, and Actions Needed for the Future," HRD-76-162, Aug. 30, 1976.

and dentists throughout many Federal agencies are employed under many different pay systems, receive different fringe benefits and allowances, enter the systems at different levels, and progress at a different pace within the system, and thus receive compensation which varies significantly among individuals and systems.

The Office of Management and Budget has sent out to Federal agencies for comment proposed legislation for a permanent pay plan for physicians and dentists.

We also reported in a May 1976 report 1/ that variances in salaries and training for persons providing protective services at Federal agencies needs to be corrected. In a January 1978 report, 2/ we recommended that the District of Columbia Government establish its own pay and benefit systems for its employees who are subject to Federal compensation systems and also that certain Federal employees in the District's pay system should be covered by Federal pay and benefit systems.

In a February 1976 report, 3/ we also recommended the elimination of cost-of-living allowances paid to Federal white-collar employees in nonforeign areas (Alaska, Hawaii, Guam, Puerto Rico, and the Virgin Islands). We feel that a more equitable means should be developed for compensating these Federal employees, such as special pay rates based on the prevailing private sector rates or special rates to overcome recruitment and retention problems. We believe this cost-of-living allowance is inconsistent with the comparability principle, and is discriminatory because it is not given in other high cost-of-living areas in the United States nor is pay adjusted downward in low cost-of-living areas.

1/Report to Senator Charles H. Percy on pay and training of police and guards at a number of Federal agencies, GGD-76-82, May 5, 1976.

2/"Federal and District of Columbia Employees Need To Be in Separate Pay and Benefit Systems," FPCD-77-71, Jan. 12, 1978.

3/"Policy of Paying Cost-of-Living Allowances to Federal Employees in Nonforeign Areas Should be Changed," FPCD-75-161, Feb. 12, 1976.

NEED TO COMPENSATE FOR
6-MONTH TIME LAG

We do not believe that comparability is being sufficiently achieved because there is a 6-month time lag between the date of comparability data and the Federal pay adjustment. Since comparability was conceived as the "going rate," we recommended in a July 1974 report 1/ that CSC develop a method for reducing or compensating for the 6-month time lag.

The Bureau of Labor Statistics collects private enterprise data from January through May with a data reference date of March. After the data is tabulated and reviewed, the Bureau submits it to the President's agent for translation into recommended Federal pay adjustments for the October effective date for a comparability increase. Thus, the Federal pay adjustment is based on private enterprise data which is not current.

The President's Agent has opposed compensating for the time lag because it believes Federal pay adjustments must be based on factual data, not estimates or projections. The Agent also contends that the Congress knew there would be a time lag between the comparability survey and pay rate adjustment and did not act to eliminate the time lag. In addition, officials at both the Commission and the Office of Management and Budget pointed out that compensating for the time lag for the general schedule adjustment could set a precedent for many other Federal pay and benefit systems with similar time lags between reference and effective dates.

Federal employee organizations, on the other hand, have consistently supported methods of compensating for the time lag. For the October 1977 adjustment, the Federal Employees Pay Council recommended an additional 1.35-percent pay increase to compensate for 3 months of the time lag. We continue to believe that a reasonable method can be devised.

NEED FOR PAY INCREASES
BASED ON PERFORMANCE

Within-grade salary increases provided to Federal employees are virtually automatic and emphasize longevity rather

1/Report to the Director of the Office of Management and Budget and the Chairman of the Civil Service Commission on translating survey data into Federal pay rates, B-167266, July 12, 1974.

than performance. These increases are in addition to the annual comparability adjustments and are applied on a regular basis for each general schedule grade up to 15. For grades 1 through 15, it takes 18 years to advance from the first step through to the tenth step (1 year for the first three increases, 2 years for the next three increases, and 3 years for the last three increases). Grades 16 and 17 have less than 10 steps and progression at these levels is also affected by the legislated ceiling, which is discussed in appendix V.

We and other groups have recommended alternatives to the present method of granting within-grade salary increases. In an October 1975 report, ^{1/} we recommended developing a method of granting within-grade salary increases which adequately reflect an individual's contribution to the job and which is integrated with a performance appraisal system. In its December 1975 report, the President's Panel on Federal Compensation also recommended a new system for within-grade increases for employees in a proposed new professional/administrative/managerial/executive service. The new system was not to apply to a proposed new clerical technical service, which would continue to receive within-grade increases based on length of service and satisfactory performance.

One of the legislative proposals of the Civil Service Reform Bill includes a new system for providing increases based on performance for employees in general schedule grades 13 through 15. These employees will not receive the virtually automatic within-grade increases, but will be eligible, however, to receive performance pay increases based on actual performance. These increases may be as much as 12 percent or more of their base salary.

We agree with the concept of a merit pay system for Federal employees. We also endorse the provision to eliminate the automatic within-grade salary increases. We do have some concern over why managers and supervisors in other grade levels, such as grades 9 through 12, were not included under this system.

We believe it would be more equitable if it covered employees in other grades and included all employees in affected grades rather than just managers and supervisors.

^{1/}"Federal White-Collar Pay Systems Need Fundamental Changes," FPCD-76-9, Oct. 30, 1975.

NEED FOR CONTINUED EMPHASIS
ON JOB EVALUATIONS

The success of the pay comparability system--equal pay for equal work and comparability with the private sector--depends upon the proper classification of Federal jobs according to duties, responsibilities, and qualifications. Improper classification adversely affects employee morale, the Government's competitive posture, and the integrity of classification and pay systems.

The average general schedule grade increased 50 percent from 1949 to 1976, from GS-5.25 to GS-8.6. This increase was caused largely because the Government employed fewer clerical and lower skilled personnel and more professionals and highly trained technicians. Greater skills were needed because of technological changes and more complex Government programs. Some of the increase in the average general schedule grade, however, was the result of overgrading.

In a December 1975 report, ^{1/} we pointed out that many Federal positions were overgraded; and because of some agencies' weak controls and pressures exerted on classification, we felt the problem warranted considerably more management attention. In its June 1977 report, the Subcommittee on Investigations, House Committee on Post Office and Civil Service, estimated that there may be as many as 50,000 to 100,000 overgraded positions. The Civil Service Commission estimates overgrading in the general schedule to be about 10 percent.

To lessen the effect that misclassification can have on Federal employees, a number of bills have been introduced to liberalize the salary retention provisions now provided to Federal employees. Certain of these bills would provide that when an employee's position is found to be overgraded the employee would be entitled to his grade for as long as he serves in that position.

We do not believe that providing overgraded employees with permanent entitlement to their grades is an equitable solution. Under current same pay provisions it is only in rare cases that an employee suffers a significant loss in pay as a result of downgrading. Providing permanent entitlement could prove to be an expensive solution.

^{1/}"Classification of Federal White-Collar Jobs Should Be Better Controlled," FPCD-75-173, Dec. 4, 1975.

The Civil Service Commission is implementing new position classification standards for nonsupervisory positions in grades 1 through 15 using the Factor Evaluation System. Under this system, positions are placed in grades on the basis of duties, responsibilities, and qualifications and evaluated in terms of nine factors common to nonsupervisory positions in general schedule occupations. The Factor Evaluation System does not apply to supervisory positions. Revisions were made to the Supervisory Grade Evaluation Guide in January 1976; however, in view of the greater complexity and skills required by Federal employees, supervisory standards may also need to be revised. Until the integrity of the classification system is insured, it will affect the credibility of the pay process. In view of this, we believe the Civil Service Commission must continue its emphasis on reviewing and revising position classification standards as well as its reviews of position classifications.

LEGISLATION NEEDED TO BETTER OBTAIN COMPARABILITYFOR FEDERAL BLUE-COLLAR EMPLOYEES

Public Law 92-392 (subchapter IV, chapter 53, title 5, U.S.C.) established the comparability principle for blue-collar employees. It provided that their pay be fixed in accordance with prevailing rates for comparable work in local wage areas. As with the general schedule, the law specified equal pay for substantially equal work and that there be pay distinctions in keeping with work and performance distinctions. To carry out these principles, annual wage surveys of representative jobs and pay are made in 135 areas of the United States.

The law contains several provisions which, in our view, prevent attainment of comparability and which, if changed, could save the Government an estimated \$2.5 billion in the first 5 years.

As discussed in appendix II, wages surveyed for the Federal Wage System are restricted to those of private employers thus excluding the growing work force in State and local governments. The law also directed that the pay range at each regular nonsupervisory grade be 16 percent with five equal steps. In contrast the prevailing practice in the private sector is three or fewer step rates. Moreover, the law directs that the average prevailing rate of an area, as determined from the survey, be designated as step 2 of the Federal blue-collar schedule. As of June 1977 almost 80 percent of the employees were above step 2 and their pay was thereby automatically boosted 4 to 12 percent above the local prevailing rate because of this provision.

Despite the principle that pay shall be based on wages in the local area, another provision known as the "Monroney Amendment" requires that at times rates must be brought in from outside the local area to determine Federal rates.

Finally, Public Law 92-392 specifies that night shift differentials be based on specified percentages of the scheduled wage rate which does not necessarily represent prevailing practices.

WITHIN-GRADE PAY RANGE TOO GREAT AND DOES NOT RELATE TO PREVAILING RATES

The 1972 Federal Wage System legislation broadened the pay range at each grade from 8 percent with three uniform steps to 16 percent with five uniform steps. The law also provided that the average local prevailing private sector

rate be equated to the second step of the blue-collar schedule and that the first, third, fourth, and fifth steps be set at 96, 104, 108, and 112 percent, respectively of the second step.

In May 1973, when the five-step system became effective, about 75 percent of the Federal blue-collar employees moved into step 4, which pays 8 percent more than local prevailing rates. As of June 1977 almost 80 percent of the employees were above step 2.

Studies of the private sector step rate practices show the private sector differs from Federal practices. These studies show that many employers use single-rate schedules and that most employers used three or fewer steps.

The Federal five-step wage schedule, with the second step designated as the prevailing private sector rate, results in Federal pay being above the local prevailing rate and thus gives the Government a competitive advantage in the labor market.

PREVAILING RATES OF OTHER LOCALITIES USED TO SET FEDERAL RATES

Public Law 92-392 provides that under certain conditions Federal wages can be set from wage data obtained outside the particular wage area. This provision, commonly referred to as the Monroney Amendment, was to provide a procedure whereby Federal blue-collar jobs requiring special skills that were not found locally could be equated with comparable private enterprise positions in other similar areas.

If there is an insufficient number of comparable positions in private industry in an area, the law requires that pay rates be based on the rates paid for comparable positions in the nearest wage area which is most similar in population, employment, staffing, and industry. Wage data obtained from the nearest similar area, however, may not be used to reduce the pay rates for any grade below that which would have been established without the use of the out-of-area survey data.

NIGHT SHIFT DIFFERENTIAL NOT RELATED TO PREVAILING INDUSTRY PRACTICES

The Federal wage law provides that blue-collar employees be paid their scheduled wage plus (1) a 7.5-percent differential when the majority of nonovertime hours are worked between 3 p.m. and midnight and (2) a 10-percent differential when the majority of the work hours fall between 11 p.m. and 8 a.m.

Before the 1972 legislation, night shift differentials were determined in accordance with prevailing industry practices in the local wage area. In a June 1975 report, 1/ we noted that the Federal shift differentials of 7.5 and 10 percent were substantially above rates prevailing in many wage areas. Previous studies of private sector establishments show that most employers use a flat cent-per-hour amount in compensating for night differentials rather than a percentage differential.

PROPOSED LEGISLATION

The administration has proposed legislation to the Congress to correct the provisions of the Federal blue-collar law, which result in Federal rates exceeding local prevailing rates, but the Congress has not acted on this proposal. This legislation would

- permit the use of State and local wage rates in wage surveys,
- eliminate the five-step system with the second step representing the payline and allowing the establishment of a step-rate structure consistent with industry practices,
- abolish the Monroney Amendment provision for using wage rates from other areas, and
- replace the 7-1/2 and 10 percent night shift differentials with appropriate differentials based on industry practices.

We endorse the administration's amendments to revise these features of Public Law 92-392, and believe the Congress should favorably consider them. Their enactment would satisfy the major criticisms we have of the blue-collar system and also result in substantial savings to the Government.

1/"Improving the Pay Determination Process For Federal Blue-Collar Employees," FPCD-75-122, June 3, 1975.

A BETTER METHOD FOR COMPENSATING
FEDERAL EXECUTIVES IS NEEDED

The present system of providing adjustments to executive, legislative, and judicial salaries has not been effective in providing salaries to Government executives commensurate with their responsibilities. In addition, because the salary rate for level V of the executive schedule is the ceiling on salary rates for most of the other Federal pay systems, a problem of pay compression has developed at senior levels of other Federal pay schedules. For example, all GS-18s and 17s, and some GS-16s, representing about 70 percent of the total supergrades, now receive the same \$47,500 salary that is paid to executive level V positions.

The present circumstances create a situation where many levels of responsibility receive the same rate of pay and is not consistent with the basic principles that govern Federal pay practices:

- Comparability with pay rates in private enterprise.
- Distinctions in keeping with work and performance levels.

EXECUTIVE SCHEDULE SALARY ADJUSTMENTS

The executive schedule covers most officials in the executive branch above the GS-18 level and consists of five levels of pay. With the exception of certain positions in the two lowest levels, positions under the executive schedule are created by statute and have specific responsibilities and authorities.

The Federal Salary Act of 1967 (2 U.S.C. 351 et seq.) provided that a Commission on executive, legislative, and judicial salaries be appointed every 4 years to review these salaries and make recommendations to the President for salary adjustments. The President appoints three of the members of this Commission; the President of the Senate, the Speaker of the House, and the Chief Justice each appoint two members.

The first Commission submitted its report to the President in December 1968. From that report, the President submitted a recommendation to the Congress, and new rates went into effect in March 1969. The second Commission was appointed in 1973, but the Congress rejected its proposed new salary rates. The third quadrennial Commission was appointed in fiscal year 1977 and a pay increase for executives became

effective in February 1977, but not without a great deal of controversy.

In February 1974, 1/ February 1975, 2/ and July 1975, 3/ we reported to the Congress that the quadrennial process for assessing and adjusting salaries of top Federal officials was not meeting its objectives. Members of Congress, judges, and Presidential and other appointees had not received a salary increase from March 1969 to October 1975, despite significant increases in the cost of living and in non-Federal executives' salaries. This had serious adverse effects on recruitment, retention, and incentives for advancement to senior positions throughout the Federal service.

We recommended that the Congress adjust these salaries automatically each year on the basis of either the annual change in the cost of living (consumer price index) or the average percentage increase in general schedule salaries. We also recommended that an independent commission periodically review and evaluate the relationships between top officials' pay levels based on their relative responsibilities.

In August 1975 a law was enacted which provided for automatic adjustment of executive, legislative, and judicial pay rates equal to the average percentage adjustment of the general schedule rates. Because of this law a 5-percent raise was given to top officials in October 1975. However, the Congress denied the executive levels the October 1976 and 1977 increases received by the general schedule.

The fiscal year 1977 Quadrennial Commission submitted its report to the President in December 1976, and noted that for the last 8 years, average private wages increased by 70 percent; the consumer price index went up by more than 60 percent; and civilian pay increased 65 percent, while top officials of the three branches of Government had received only a nominal 5-percent increase. Table 1, page 19 shows the proposed and actual increases in Federal executive salaries since 1968.

1/"Information and Observations on Need for Executive Pay Adjustment," B-101892, Feb. 19, 1974.

2/"Critical Need For a Better System For Adjusting Top Executive, Legislative, and Judicial Salaries," FPCD-75-140, Feb. 25, 1975.

3/"The Executive Pay Problem is Becoming Increasingly Critical," FPCD-76-2, July 15, 1975.

Table 1
Proposed and Actual Increases
in Federal Executive Salaries
1968 - 1977

<u>Level</u>	<u>1968 Actual</u>	<u>1969 Commission recommendations</u>	<u>1969 Rate established</u>	<u>1973 Commission recommendations (note a)</u>	<u>1975 Rate established</u>	<u>1977 Commission recommendations</u>	<u>1977 Rate established</u>
I	\$35,000	\$60,000	\$60,000	\$70,000	\$63,000	\$67,500	\$66,000
II	30,000	50,000	42,500	53,000	44,600	60,000	57,500
III	29,500	46,000	40,000	50,000	42,000	57,000	52,500
IV	28,750	43,000	38,000	47,500	39,900	53,000	50,000
V	28,000	40,000	36,000	45,000	37,800	49,000	47,500

a/The 1973 Commission's recommendations were not accepted by the Congress.

Since 1969 the salary for executive level V, the ceiling for supergrades, has increased from \$36,000 to \$47,500 (34 percent). In contrast, data from the American Management Association indicates that executive compensation in the private sector has increased about 85 percent over the same time period. (See table 2 below.)

Table 2
Increase In Private Sector Executive Compensation
1970 - 1977

<u>Year</u>	<u>Salaries</u>	<u>Bonus payments</u>	<u>Total compensation</u>
	----- (percent) -----		
1970	6.5	8.2	6.7
1971	5.5	-7.9	3.8
1972	5.1	3.9	4.9
1973	6.9	33.4	9.7
1974	8.4	22.9	10.2
1975	9.8	19.0	11.0
1976	8.6	-1.8	6.9
1977	8.5	24.5	10.9
Cumulative increases (compounded)			84.8

COMPRESSION ON OTHER PAY SYSTEMS

Because the salary rate for level V of the executive schedule is the ceiling on salary rates for most other Federal pay systems, a problem of pay compression has developed at senior levels of other Federal pay schedules. Before the 1977 increase all GS-16s, 17s, and 18s, and even some GS-15s, were at the same salary level. Even with the 1977 increases all GS-18s and 17s and some GS-16s, representing about 70 percent of the total supergrades are receiving the same \$47,500 salary.

Until the February 1977 increase and except for a 5-percent adjustment in 1975, the salary rates for these people had not changed since March 1969, while the salaries of non-Federal executives had increased substantially, and the higher cost of living had seriously eroded the purchasing power of these Federal executives. A situation in which many levels of responsibility receive the same rate of pay is a circumstance which private employers would not tolerate and is not consistent with the basic principles that, by law, govern Federal pay practices--(1) comparability with pay rates in private enterprise and (2) pay distinctions in keeping with work and performance distinctions.

NEW PAY SYSTEM NEEDED
FOR TOP FEDERAL EXECUTIVES

Because of the salary compression which currently exists with the general schedule supergrade (GS-16, 17, and 18) positions, we believe a new salary system needs to be established to give management greater flexibility in assigning pay and establishing responsibility levels. The three supergrade responsibility levels are often too restrictive to accomplish these objectives.

The President's proposed civil service reform legislation includes a senior executive service which includes employees in GS-16 through 18, as well as some executive level IV and V positions. Entrance into this service would be voluntary for persons presently at those levels. Employees who elect to enter this service could be assigned anywhere they are needed, would be eligible for annual bonuses for superior performance, and could also be removed for poor performance.

The senior executive service would include both career and noncareer employees, with a statutory limit of no more than 10 percent noncareer executives. Major provisions of the proposed senior executive service include:

- Setting base salaries at rates determined by agency heads within a range set by legislation (\$42,400 to \$50,000 a year).
- Distributing bonuses of up to 20 percent to not more than 50 percent of the senior executives each year in recognition of superior performance. Total salary and bonuses cannot exceed 95 percent of the salary rate for executive level III, or \$54,625.
- Providing incentive awards and ranks for up to \$5,000 for limited numbers of executives.
- Removing employees from the senior executive service as a result of unsatisfactory performance.

Since most of these employees are already at the \$47,500 ceiling and could reach the \$54,625 ceiling by receiving less than the maximum 20-percent increase, there may not be enough of a pay differential to provide an incentive for executives to join the service or for it to be successful. This 20 percent does not include incentive awards--\$2,500 and \$5,000--which are also subject to the \$54,625 ceiling. For example, if an employee at the \$47,500 ceiling was granted the rank of distinguished executive (\$5,000), his pay for performance awards would be limited to less than 5 percent, or \$2,125 (\$54,625 minus \$52,500).

We believed the proposed salary range would be more effective if the ceiling was raised to the comparability rate for GS-18s, which is now \$58,245, which would at least permit employees at the \$47,500 salary range to receive the full 20-percent performance pay increase. Another alternative would be to provide that performance and incentive awards are not subject to ceilings. While both of these alternatives require breaking the linkage between executive and congressional salaries, we believe it is necessary in order to provide sufficient incentive for the new executive service.

GAO REPORTS ISSUED ON FEDERAL PAY ISSUES

Need to Take Action on Salary Compression Problem of the Federal Work Force, B-101892, February 19, 1973.

Improvements Needed in the Survey of Non-Federal Salaries Used as Basis for Adjusting Federal White-Collar Salaries, May 11, 1973.

Information and Observations on Need for Executive Pay Adjustment, B-101892, February 19, 1974.

Letter Report to the Director of the Office of Management and Budget and the Chairman of the Civil Service Commission on translating survey data into Federal pay rates, B-167266, July 12, 1974.

Critical Need For a Better System For Adjusting Top Executive, Legislative, and Judicial Salaries, FPCD-75-190, February 25, 1975.

Improving the Pay Determination Process For Federal Blue Collar Employees, FPCD-75-122, June 3, 1975.

Need For a Comparability Policy For Both Pay And Benefits of Federal Civilian Employees, FPCD-75-66, July 1, 1975.

The Executive Pay Problem is Becoming Increasingly Critical, FPC-76-2, July 15, 1975.

Federal White Collar Pay Systems Need Fundamental Changes, FPCD-76-9, October 30, 1975.

Classification of Federal White-Collar Jobs Should be Better Controlled, FPCD-75-173, December 4, 1975.

Tax-Free Salaries of the International Development Banks Exceed Those of Member Governments, ID-76-38, January 19, 1976.

Policy of Paying Cost-of-Living Allowances to Federal Employees in Nonforeign Areas Should be Changed, FPCD-75-161, February 12, 1976.

Letter report to Senator Charles H. Percy on pay and training of police and guards at a number of federal agencies, GGD-76-82, May 5, 1976.

Recruiting and Retaining Federal Physician's and Dentist's: Problems, Progress, and Actions Needed For Future, HRD-76-169, August 30, 1976.

Pay Setting Process of the Government Printing Office, FPCD-75-164, September 14, 1976.

Increases Needed in Executive Pay, FPCD-77-31, February 8, 1977.

Letter report to Representatives Robert W. Daniels, Jr., and G. William Whitehurst on the 1976 blue-collar wage survey in the Tidewater area of Virginia, FPCD-77-32, March 9, 1977.

Department of Defense Should Change Pay Setting For Korean Nationals, FPCD-77-69, September 30, 1977.

Department of Defense Should Change Pay Setting For Filipino Nationals, FPCD-77-70, October 5, 1977.

Department of Defense Pay Practices For German Nationals Should Be Changed, FPCD-77-86, December 2, 1977.

Methods of Setting Pay For Nonappropriated Fund Employees Should Be Improved, FPCD-77-51, December 14, 1977.

Federal District of Columbia Employees Need to Be in Separate Pay and Benefit Systems, FPCD-77-71, January 12, 1978.

Possible Savings for Department of Defense Personnel Costs in Italy, FPCD-78-9, March 1, 1978.