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UNITED STATES GENERAL ACCOUNTING OFFICE  
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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE  
HOUSE OF REPRESENTATIVES  
ON  
FEDERAL PAY



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Madam Chair and Members of the Subcommittee:

I am pleased to be here today to discuss the issue of federal pay. As you requested, my remarks will be limited to the General Schedule, the pay system that covers 1.3 million white-collar employees. As I am sure you are aware, the General Accounting Office has conducted a number of reviews of various aspects of the General Schedule pay-setting process. My statement will highlight our major findings, summarize the corrective actions that have been taken to improve the process, and discuss the issues that we believe still need resolution. Also as requested, I have some observations on how well the pay system serves the government in employee recruitment and retention and whether alternatives to the General Schedule are appropriate to consider at this time.

A list of 15 reports we have issued since 1973 that pertain to the General Schedule pay setting process is attached to this statement. With your permission, I would like to submit copies of them for the record.

Let me say first that our main concern with the pay system is that the private sector survey results generally have been ignored in setting federal pay rates. Fiscal year 1986 marked the eighth straight year that a President has proposed, and the Congress did not disapprove, alternative pay rates instead of granting the comparability adjustments indicated by the survey data. Because of the Presidential use of alternative pay rates every year since 1978, General Schedule salaries have dropped significantly behind those in the private sector for similar levels of work. By March 1985 the difference averaged 19.15 percent. However, no pay increase was granted for fiscal year 1986, and the gap between federal and private sector pay has widened further.

We are convinced that comparability with the private sector is a logical and factual standard to follow in establishing federal pay rates. Paying federal employees amounts comparable to what their counterparts are receiving throughout the national economy will help assure employees and the taxpayers that the compensation levels are fair.

Over the years, we have identified many needed changes to improve the pay-setting process by including a more representative sample of white-collar jobs in the Bureau of Labor Statistics (BLS) salary survey, expanding the survey universe, increasing data reliability, and improving the mechanism for making the federal and private sector pay comparisons. These changes were all made and resulted in federal pay rates being somewhat lower than they otherwise would have been. In fact, the changes are saving several billion dollars each year in salary outlays.

We would characterize the changes we have proposed as "fine tuning" the process to make it more accurate. We do not believe the salary survey is seriously flawed as some have charged. As we indicated in a 1982 report, BLS has made a number of changes to improve the quality of survey data, and it has continued to do so. Beginning with the 1986 survey, BLS will survey private sector establishments with as few as 50 workers. Previous surveys excluded a large number of establishments of 250 and fewer employees. BLS plans to expand the 1987 survey to include establishments with as few as 20 workers and include industries not currently surveyed. To make the survey as broad as possible, we support surveying firms of all sizes as long as job matches can be found and it is cost effective to do so.

We also recommended that state and local governments be included in the survey. While legislation will be required to use state and local government pay rates, BLS will start

gathering this data in 1987 for information purposes. We don't know if including state and local governments will have much effect on the survey results, but we believe it should be done to give the survey more credibility.

In our June 1981 report on federal pay-setting surveys, we questioned the need for a full-scale white-collar salary survey to be done annually. We pointed out that because of (1) the frequent use of alternative pay rates rather than rates based on the pay survey results, (2) the cost of conducting annual surveys to make pay comparability determinations which are not used by the Presidents, and (3) the burden placed on private sector employers who supply salary data to BLS, a full-scale comparability survey need only be conducted every three years rather than annually. BLS' Employment Cost Index, a quarterly measure of the change in the rate of private sector employee compensation (and a principal federal economic indicator), could be used as an interim update measure for adjusting federal pay. The Index covers many more white-collar workers (43.7 million versus 10.3 million for General Schedule survey) and its results correspond closely with the General Schedule survey. Over a 7-year period ending in 1984, the Index showed a cumulative increase of 65.65 percent in average private sector salary rates while the General Schedule survey showed 65.70 percent. Because BLS expanded the scope of the General Schedule survey, it plans to use the Index to update a portion of the data beginning in 1987.

The structure of the General Schedule can hinder achievement of pay comparability. The General Schedule covers about 430 occupations each of which is slotted into one or more of the 18 grades of the salary schedule with uniform pay rates (with some exceptions) regardless of occupation or location. As we reported in 1975, this often causes significant deviations

from comparability for some occupations because in the private sector, pay rates for occupations in the same federal work level can vary substantially. For example, some entry level professionals and secretaries are classified at the GS-5 level even though the private sector pay averages at that level differ by as much as \$10,000 for some professional and clerical occupations.

Geographic pay patterns also are not recognized in the General Schedule because the pay rates are in force government-wide. By using a national average, the survey may not be reflective of prevailing salary rates in any locality. Companies with employees in various localities often recognize the characteristics of the various labor markets and set salary levels accordingly.

The federal white-collar special rate program has helped agencies be competitive in certain occupations and labor markets. Under the program, pay rates above the General Schedule are authorized when the government has a significant problem recruiting and retaining well-qualified individuals and the staffing problem is caused by substantially higher private sector pay rates. The use of special rates is increasing. We reported in March 1984 that the number of special rate positions rose from about 8,000 in fiscal year 1977 to almost 34,000. There are 37,000 now. Primary reasons for the increase are (1) General Schedule pay adjustments have been less than the amount needed to achieve comparability with private sector salaries, (2) the adjustments have been equal across-the-board pay increases rather than by grade, and (3) geographic and occupational variations in private sector pay are not recognized under the General Schedule.

We have also suggested that the comparability principle be expanded to include benefits as well as salary. As we reported

in September 1985, one comprehensive study showed federal white-collar employees' overall compensation lagged behind the private sector by 7.2 percent in 1984. The lag is now estimated to be 15.7 percent. Although federal retirement and annual leave benefits were found to be more valuable than in the private sector, this was more than offset by the lag in other federal benefits, such as health and disability benefits, and salary.

Thus, consideration of any individual compensation element in isolation can be meaningless insofar as judgments on overall compensation levels are concerned. For example, if a pay raise were granted in the full amount needed to achieve pay comparability, overall federal compensation would be superior to the typical private sector program. On the other hand, a reduction in retirement benefits would drop the overall federal compensation level further behind the private sector, unless there were offsetting improvements in other elements. If future changes and adjustments are to be made from the perspective of overall compensation, a mechanism for periodically measuring and assessing benefit program comparability will be necessary to complement the salary comparability process already required by law.

### Recruitment and Retention

While one could presume that the pay lag is having a deleterious effect on recruitment and retention, little information is available to assess the impact. The process of identifying and solving recruitment and retention problems in the federal government generally starts at the field office level. Activities and installations are expected to make known to agencies' headquarters the specific nature of their recruitment and retention problems. Staffing assistance is

available at the Office of Personnel Management (OPM) to help agencies with recruiting problems, but unless information is specially prepared, the government has little day to day information on recruitment and retention. Generally it only knows how many employees it has in various occupations and how many come on board and leave in a certain time period. Officials at OPM cited to us some recruitment and retention problems for certain engineers, metallurgists, and medical officers, but they did not believe the government had any widespread difficulties. Special salary rate authorizations are being used as the major indicator of recruitment and retention problems.

For other than special rate occupations, the government does not know what percent of its vacant positions it was able to fill during a given period. It does know how many people voluntarily leave government employment--about 5 percent for each of the last few years.

The Department of Defense, in its concern about the quality of scientific and engineering new hires, studied the mathematics Scholastic Aptitude Test scores of these hires over several years. There was some disagreement over whether these scores measured quality, but they showed that the scores for Defense's new hires decreased over a 12-year period compared to the change in the national average.

While there was little consensus about whether the quality of the government's recent hires is better or worse than before, we hear two key points repeatedly--(1) if the government wants the best qualified candidates, it must be willing to compete with private sector pay, and (2) if the pay lag between the federal and private sector continues to grow, the government could eventually become the employer of last resort.

## General Schedule Alternatives

As you know, consideration is being given to alternative pay systems for federal employees, perhaps modeled after the personnel management demonstration project being tested at two Navy research and development laboratories in California. Key features of the demonstration project include broad pay bands in place of the 18 general schedule grades, more flexibility in pay and classification programs, and pay for performance at all employee levels. We have not evaluated the demonstration project, but studies by OPM and the Navy cite several favorable results. Employees and supervisors at the demonstration locations seem to be positive about the tests, and officials believe that personnel management at these locations is more efficient, flexible, and responsive to management.

The wide interest expressed in the concepts being tested indicates that in the future the demonstration projects could have a significant impact on government-wide personnel management policies. Should this be the case, certain matters will need to be considered. For example, if agencies individually develop alternative pay and classification programs, sufficient central control needs to be maintained to ensure that agencies do not use pay differences to compete with each other for the same employees. Also, it should be recalled that pay for performance, as engendered in the recent merit pay program, failed because of its many inequities. We are currently reviewing the Performance Management and Recognition System that replaced merit pay to see if it is being any more successful.

In addition, an alternative pay system may be more expensive. Personnel costs at the Navy demonstration laboratories reportedly are almost 6 percent higher than at



counterpart laboratories not in the test. In part this is due to higher pay rates offered to new employees in order to be competitive with private industry. Entry level salaries at one of the laboratories increased by over 45 percent the year that the test started. The higher salaries may be the main reason for the popularity of the demonstration projects. In any case, Defense and OPM officials maintain that the increased personnel costs are offset by reduced efforts in administration, classification, and recruiting plus intrinsic improvements such as higher quality work and productivity and better job satisfaction.

Another concern is the establishment of an alternative system for certain occupations as some proposals would do. If this system applied to only a selected number of positions, agencies would be required to operate dual personnel systems for white-collar employees. Also, we believe wider testing is in order before alternative systems for all agencies are considered. A phased transition across the government, building on the lessons learned at the test sites, would probably be a better approach.

That concludes my prepared statement, Madam Chair. We would be happy to answer any questions you may have.

Listing of GAO Reports Issued on  
Federal Compensation Comparability

Improvements Needed In the Survey Of Non-Federal Salaries Used As Basis For Adjusting Federal White-Collar Salaries (B-167266, May 11, 1973)

Letter Report to the Director, Office of Management and Budget, on the federal white-collar pay comparability process (B-167266, July 12, 1974)

Need For A Comparability Policy For Both Pay and Benefits Of Federal Civilian Employees (FPCD-75-62, July 1, 1975)

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

Federal Compensation Comparability: Need For Congressional Action (FPCD-78-60, July 21, 1978)

Determining Federal Compensation: Changes Needed To Make The Processes More Equitable And Credible (FPCD-80-17, November 13, 1979)

Total Compensation Comparability For Federal Employees (FPCD-80-82, September 3, 1980)

Problems In Developing And Implementing A Total Compensation Plan For Federal Employees (FPCD-81-12, December 5, 1980)

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

Proposal To Lower The Federal Compensation Comparability Standard Has Not Been Substantiated (FPCD-82-4, January 26, 1982)

Additional Improvements Needed In The National Survey Of Professional, Administrative, Technical, And Clerical Pay (FPCD-82-32, April 5, 1982)

Comparison Of Collectively Bargained And Administratively Set Pay Rates For Federal Employees (FPCD-82-49, July 2, 1982)

Special Pay And Benefits Granted To Select Groups Of General Schedule Employees (FPCD-82-47, September 29, 1982)

Federal White-Collar Special Rate Program (GGD-84-54, March 30, 1984)

Comparison Of Federal And Private Sector Pay And Benefits (GGD-85-72, September 4, 1985)