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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

JUL 2 1975

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Need For A Comparability Policy For Both Pay And Benefits Of Federal Civilian Employees

Civil Service Commission
Office of Management and Budget

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

FPCD-75-62

JULY 1, 1975

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

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

This report discusses the need for legislation requiring that both the pay and benefits of Federal employees be assessed and adjusted on the basis of comparability with the pay and benefits received by non-Federal employees. The comparability principle is now limited to pay rates, and there is no standard or method for assessing the adequacy of Federal employee benefit programs. However, benefits are a growing and increasingly important element of compensation in both the Federal and non-Federal sectors.

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).

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

A handwritten signature in cursive script that reads "Thomas B. Staats".

Comptroller General
of the United States

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ABBREVIATIONS

BLS Bureau of Labor Statistics
CPI Consumer Price Index
CSC Civil Service Commission
GAO General Accounting Office
OMB Office of Management and Budget

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

NEED FOR A COMPARABILITY POLICY
FOR BOTH PAY AND BENEFITS OF
FEDERAL CIVILIAN EMPLOYEES
Civil Service Commission
Office of Management and Budget

D I G E S T

Legislation should be enacted requiring that the pay and benefits of Federal Government employees be assessed and adjusted on the basis of comparability with pay and benefits received by non-Federal employees.

Various laws establish the principle that pay rates for Federal employees shall be comparable with the pay rates of their counterparts in the private sector. These laws prescribe processes for annual review and adjustment by administrative action.

However, there is no standard or method for assessing the adequacy of Federal employee benefit programs. Benefits are considered and adjusted by law on a piecemeal basis.

Total compensation comparability cannot be achieved under current law

The pay comparability principle was adopted to

- provide an objective standard on which to assess and adjust pay rates and provide equity for the Federal employee with his private sector counterparts,
- enable the Government to be a fair competitor in the labor market, and
- assure that Government pay rates are neither more nor less than the going market rate. (See p. 9.)

Since the pay comparability processes do not recognize the benefit element of compensation, the processes do not meet the purposes for which the comparability principle was adopted.

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Benefits are a growing and increasingly important part of both Federal and non-Federal employees' compensation. In recent years benefit expenditures in both sectors have increased proportionally more than pay. (See pp. 7 to 9.)

Major non-Federal employers view benefit programs generally as equal in importance to pay in determining compensation packages. They have adopted definitive policies and procedures to govern their processes for determining benefits. (See pp. 10 to 14.)

Decisions must be made on the best way to achieve total compensation comparability

Many issues must be considered in developing a viable, reasonable, and credible policy to achieve total compensation comparability. For example:

--What standard should be used to measure the comparability of Federal employee benefits? With whose benefits and how should benefit programs be compared? (See pp. 15 to 22.)

--What pay and benefit adjustment process would satisfy a total compensation comparability policy? Should pay and benefit adjustments be integrated? What should be the roles of all interested parties in the adjustment process? (See pp. 22 to 24.)

What is being done?

Throughout the 13 years the white-collar pay comparability process has been in effect, it has been recognized that the comparability principle should be applied to both pay and benefits. However, little progress has been made toward achieving this longstanding objective. (See pp. 4 and 5.)

The Civil Service Commission is conducting various compensation studies on the

desirability and feasibility of expanding the comparability principle and processes to include benefits. Similarly, the fiscal year 1976 budget submitted by the President included an announcement that a top-level review of the matter would be undertaken. (See p. 5.)

Recommendations

The Chairman of the Civil Service Commission, in coordination with the Director, Office of Management and Budget, should

- develop a policy of total compensation comparability for determining Federal employees' pay and benefits and
- propose legislation to establish the objectives, standards, criteria, and processes for achieving total compensation comparability.

Primary attention should be given to

- considering a policy and process requiring use of the same survey universe for both pay and benefit determinations;
- evaluating comparative costs of Federal and non-Federal benefit levels rather than benefit expenditures;
- integrating pay and benefit adjustments; and
- continuing similar roles for the Congress, the executive branch, and employee representatives as now assigned in the pay comparability processes.

The Commission also should evaluate the degree to which employees understand their benefit program provisions and take any necessary measures to assure employee awareness of the importance of benefits in the compensation package.

GAO recommends that the appropriate congressional committees hold hearings concerning the issues discussed in this report for the purpose of developing the legislative changes necessary to establish a policy of total compensation comparability for Federal employees.

CHAPTER 1

INTRODUCTION

The executive branch's civilian work force numbers about 2.7 million and required 1974 payroll expenditures of about \$41 billion, of which \$11 billion was for employee fringe benefits. The Civil Service Commission (CSC) estimated that by 1983 benefit expenditures would increase to \$13 billion even if benefit programs, pay, employment, and retirement annuities did not change from their June 30, 1973, levels. If pay and the cost of living were to increase at their 1973 rates (5.2 percent and 5.9 percent, respectively) and benefit programs and employment levels did not change, CSC estimates that annual benefit expenditures would be about \$24 billion by 1983.

Various laws establish the principle that pay rates for Federal employees shall be comparable with the pay rates of their counterparts in the private sector and prescribe processes for annual reviews and adjustments by administrative action. There is neither a statutory policy to guide employee benefit determinations nor a systematic process for evaluating and adjusting benefit provisions. Benefits are established and adjusted by legislative action on a piecemeal basis.

FEDERAL EMPLOYEE BENEFITS

The Government's fiscal year 1974 expenditures by type of benefits provided executive branch employees follow.

	(billions)	
Pay for time not worked:		
Annual leave	\$2.68	
Sick leave	1.12	
Holidays	1.16	
Civic and personal leave	<u>.36</u>	\$ 5.32
Government contributions to:		
Retirement programs (civil service retirement, social security, etc.)	4.70	
Insurance programs (health, life, accident, workman's compensation)	<u>1.07</u>	5.77
Other (severance pay, awards, etc.)		<u>.16</u>
		<u>\$11.25</u>

Annual leave is based on length of creditable military and civilian Government service--13 days a year for less than 3 years' service, 20 days for 3 to 15 years' service, and 26 days for 15 or more years' service. In general, a maximum of 30 days of unused leave may be carried forward to succeeding years. Employees receive lump-sum cash payments for unused leave at termination of Government service. Annual leave used, including termination leave paid for, averaged about 21.5 days for each employee in calendar year 1973.

Employees, regardless of length of service, are granted 13 days of sick leave a year. Unused leave may be accumulated and at retirement added to employees' service time in annuity computations. Employees used an average of 9.5 days of sick leave in 1973.

Federal employees are entitled to nine legal holidays each year. Leave is also granted for employees to fulfill civic obligations such as jury and military reserve duties--an average of 1.8 days each in 1973.

Most full-time employees are covered by the Federal Civil Service Retirement System. Temporary and intermittent employees are covered by social security. The costs of the retirement programs are shared by the Government and employees. An annuity is based on the employee's highest average annual pay for any 3 consecutive years and on length of service, with the maximum annuity being 80 percent of the "high 3" pay average. Employees retiring at age 55 with at least 30 years' service, age 60 with at least 20 years' service, or age 62 with at least 5 years' service are eligible for an immediate annuity. Retiring employees may also assure annuities to their survivors by electing, at the time of retirement, to accept a reduced annuity.

After completing 5 years' service, an employee has vested rights in the retirement program. If service is terminated after vesting but before he is eligible for an immediate annuity, the employee is eligible for a deferred annuity beginning at age 62. An immediate disability annuity is available at any age after vesting. In the event of the death of an employee before retirement and after at least 18 months of service, certain survivors are entitled to annuities.

A 1965 law, 5 U.S.C. 8340, provided that annuities would be adjusted whenever the Consumer Price Index (CPI) increased as much as 3 percent over the CPI at the time of the previous annuity adjustment and remained at the higher level for 3 consecutive months. The annuity increase would be the highest CPI percentage increase attained during the 3-month period. A 1969 amendment, 5 U.S.C. 8340(b), provided that such increases would be further increased by an additional 1 percent.

Since 1965 there have been 11 cost-of-living adjustments, as follows.

<u>Date</u>	<u>Percentage increase</u>
January 1, 1967	3.9
May 1, 1968	3.9
March 1, 1969	3.9
November 1, 1969	a/5.0
August 1, 1970	5.6
June 1, 1971	4.5
July 1, 1972	4.8
July 1, 1973	6.1
January 1, 1974	5.5
July 1, 1974	6.3
January 1, 1975	7.3

a/The 1-percent additive to the highest CPI percentage increase attained during the 3-month period became effective with this adjustment.

A variety of group health insurance plans are available for selection by employees and may be retained during retirement. Under a sharing formula the Government pays about 60 percent of the insurance premiums.

Employees may elect to be covered by group life insurance in amounts equal to their annual rate of pay rounded to the next highest \$1,000, plus \$2,000, with a minimum coverage of \$10,000 and a maximum coverage of \$45,000. The Government pays one-third of the premium. Additional coverage of \$10,000 may be purchased by employees with no Government contribution. Life insurance may be retained after retirement, but coverage is reduced after age 65. Retirees receive the regular insurance at no cost, but they pay for the optional insurance until age 65.

SCOPE OF STUDY

Our study was conducted at the headquarters of the Office of Management and Budget (OMB); CSC; and the Bureau of Labor Statistics (BLS), Department of Labor. The study included examinations of pay and benefit legislation and related documents, records, studies, and reports. We visited major employers in both the public and private sectors to discuss their pay and benefit programs, policies, and procedures and met with various benefit consultants. We also analyzed benefit surveys conducted by other organizations such as the U.S. Chamber of Commerce, The Conference Board, BLS, and CSC. During the course of the study, we discussed pertinent matters with CSC and OMB officials and considered their views in preparing this report.

CHAPTER 2

LONGSTANDING OBJECTIVE: COMPARABILITY OF TOTAL COMPENSATION

During development of the Federal white-collar pay comparability process and throughout the 13 years the process has been in effect, it has been recognized that the comparability principle should be applied to both pay and benefits. However, little progress has been made to achieve this objective.

Toward the end of the 1950s, the problems of Federal personnel administration under the white-collar salary structures had become a matter of great concern. The President, in proposing the comparability principle, said that Federal salaries and benefits should be comparable with private enterprise salaries and benefits.

The Interdepartmental Committee on Civilian Compensation studied civilian compensation in 1957. After a preliminary study the steering committee for the study restricted further consideration to salary. The steering committee stated that its decision to eliminate benefits from further consideration represented no conclusions about the relative importance of benefits--it was simply a practical limit on the scope of the study. The study recommended that salary rates for Federal white-collar employees be adjusted annually to reflect the general levels of non-Federal salaries as determined by an annual survey. An interagency special work group designed a survey of non-Federal white-collar salaries, and in 1959 BLS began the survey program.

In the early 1960s the executive branch developed plans for civilian pay reform which confined the comparability principle to salary only because (1) available information indicated benefits in the Government and private sector tended to balance out and (2) the task of obtaining the necessary private enterprise benefit data was difficult. In a February 1962 report to the President, the President's Advisory Panel on Federal Pay Systems stated that steps should be taken to insure that Federal employees' compensation was comparable to that of their private sector counterparts. The Panel, an independent group of representatives from industry, education, labor, and professional organizations which was established to review pay reform plans, endorsed the pay comparability principle stating that salary comparability was an objective that deserved high priority.

However, the Panel recommended that, as successive annual pay comparability studies were made, the process could and should be continually refined to encompass the increasingly important benefit element of compensation.

On February 19, 1962, the President recommended, and the Congress enacted, Federal salary reform for white-collar employees which established the principle that their salaries should be comparable with private enterprise salaries.

In 1966 a Cabinet committee reported to the President that the comparability principle should be applied to both pay and benefits to insure equity for Federal employees with their equals throughout the economy. Also, the Bureau of the Budget (now OMB) and CSC reported to the President that there were indications that Federal and private sector expenditures for benefits were increasing at different rates. The President advised the Congress that better information on benefit compensation was needed to continue modernizing Federal compensation policy and requested funds for collection and evaluation of information on non-Federal benefits by BLS. The Congress approved the appropriation request.

BLS surveyed private sector benefit expenditures and compared them with Federal expenditures in 1966, 1968, 1970, and 1972. Benefit expenditures as a percentage of pay by the Government were less than the private sector in 1966 and 1968, but Federal expenditures were greater in 1970 and 1972 primarily because of increased retirement system expenditures. However, no plan was developed to meet the longstanding objective of total compensation comparability.

In September 1973 CSC requested and obtained funds from the Congress to conduct various compensation studies, including one on the desirability and feasibility of expanding the comparability principle and processes to include benefits. At the time of our fieldwork, the CSC staff had not completed its studies. However, its research had reaffirmed the desirability of total compensation comparability, and the staff planned to formulate recommendations on the feasibility of developing such an approach by June 1975.

The fiscal year 1976 budget, submitted to the Congress in January 1975, stated that a top-level review would be undertaken to make a policy recommendation to the President on how the Federal Government could best determine the future levels of total compensation for

its employees under the principle of comparability. We are hopeful that this executive branch review will consider the issues raised in this report and result in a recommendation to the Congress of a policy and process for achieving total compensation comparability.

CHAPTER 3

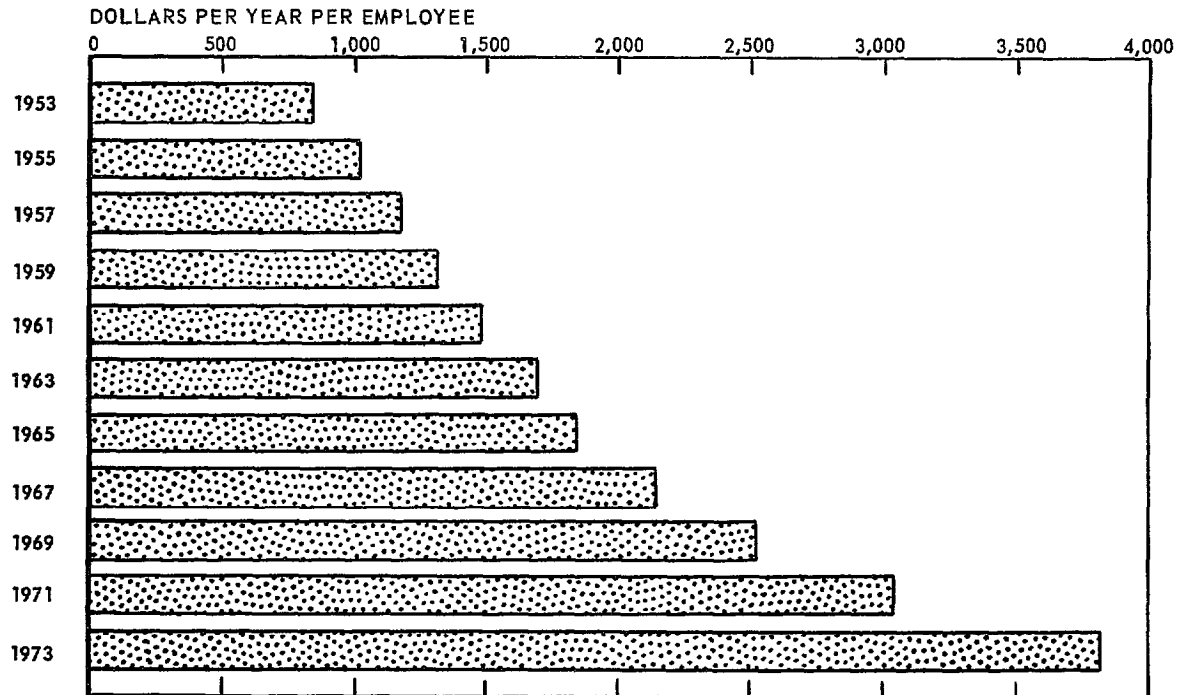
WHY THE COMPARABILITY PRINCIPLE

SHOULD INCLUDE BENEFITS

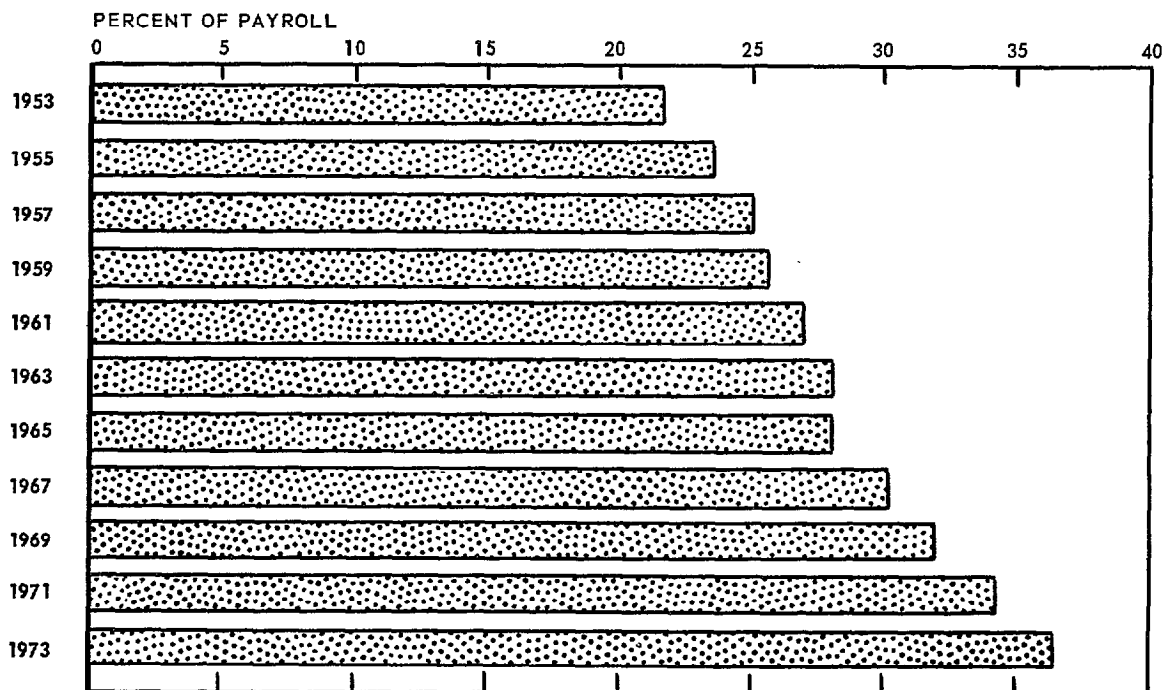
A rational compensation policy is needed to guide the development of both pay and benefits in a coordinated and consistent movement towards a common goal. The present pay comparability processes do not recognize the benefit element of employee compensation. Benefits are adjusted on a piecemeal basis without a prescribed standard or consideration of pay levels. Accordingly, the processes are not accomplishing the primary purposes for which the comparability principle was adopted--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. Establishing a uniform standard to assess the adequacy of both pay and fringe benefits and appropriate adjustment processes would help promote greater confidence in the Government's compensation policies and determination processes.

GROWTH OF BENEFITS

Benefits are an increasingly important part of employee compensation in both the private and Federal sectors. U.S. Chamber of Commerce surveys from 1953 to 1973 show the growth in benefit expenditures per employee for 155 rather large companies. The following chart presents the results of those surveys.



Benefit expenditures have increased proportionately more than pay as shown in the following chart of benefits as a percent of employers' payroll expenditures.



BLS surveys of private and Federal sector benefit expenditures show a similar pattern. (See app. I.) In the private sector, benefit expenditures grew from 24.5 percent of basic pay in 1966 to 28.7 percent in 1972, but the growth rate was faster in the Federal sector. Expenditures for Federal employee benefits grew from 23.8 percent of basic pay in 1966 to 32.1 percent in 1972. The BLS studies further show that private sector benefit expenditures, as a percentage of basic pay, were greater than the Federal sector's in 1966 and 1968 but that the Federal sector was ahead in 1970 and 1972.

Another indication of the relative standing of Federal employee benefits is found in a 1973 CSC comparison of benefit levels of 25 leading non-Federal employers' programs with the Federal program. (See app. II.) CSC concluded that 1 employer provided benefits more liberal than the Government's, 5 were comparable, and 19 were less liberal.

INCONGRUITY OF LIMITING COMPARABILITY TO PAY RATES

The pay comparability principle was adopted to provide an objective standard on which to assess and adjust pay rates of the various Federal pay systems. In February 1962 the purposes and logic of a pay comparability principle were clearly stated by the President in a special message on Federal salary reform for white-collar employees, as follows:

"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 with private firms for qualified personnel--and provide at last a logical and factual standard for setting Federal salaries. Reflected in this single standard are such legitimate private enterprise pay considerations as cost of living, standard of living and productivity, to the same extent that those factors are resolved into the 'going rate' over bargaining tables and other salary determining processes in private enterprise throughout the country."

The resulting legislation declared that the salary rates for white-collar employees would be based on the principle that such rates would be comparable with private enterprise rates. There is also a comparability process for adjusting Federal blue-collar wage rates.

Pay and benefit adjustments are often interrelated in the non-Federal compensation determination processes. Emphasis

may be placed on adjustments of fringe benefits rather than pay rates in arriving at a compensation package acceptable to both the employer and the employees. By focusing only on pay adjustments in the private sector, the Federal pay comparability processes recognize only one component of the settlement and do not recognize the many critical decisions coming from settlements which concern benefits.

Another incongruity of limiting comparability to pay is that annual pay rates encompass a substantial element of benefits--paid nonworkdays for vacations, sickness, etc. OMB and BLS data shows that the average number of paid nonworkdays in the Federal sector is probably greater than in the private sector. If productivity in both sectors is the same for each day worked, the Government's pay rates for each day of productive time may be greater than the private sector's rates. Another consideration not recognized in the establishment of white-collar pay rates is that the scheduled Federal workweek is 40 hours and BLS data shows that the private sector's workweek is somewhat less. This condition would somewhat offset the paid nonworkday problem.

BENEFIT POLICIES AND PROGRAMS IN THE NON-FEDERAL SECTOR

Major non-Federal employers generally have adopted definitive policies and procedures to govern their benefit determination processes. Non-Federal employers tend to view employee benefit programs as equal in importance to pay and consider both in determining compensation packages. There is widespread use of other employers' benefit program information in benefit analysis and planning. In benefit program development, employee needs and benefit costs are among the primary considerations.

Benefit policies

In visits to several major private and non-Federal governmental employers, we noted that the establishment of a clear, definitive policy on the role and objective of the benefit program was frequently considered to be an essential element in compensation planning. As a general rule these policies include statements which commit the organization to meet certain employee needs in accordance with a standard which is usually related to prevailing practice. Policies frequently set forth principles or objectives covering such matters as assignment of priority to satisfying employee needs for financial security, economy, equity, and support of the organization's personnel policies.

Such benefit policies can be stated simply. For example, the benefit policy of a leading petroleum company states that its benefit programs will be designed primarily to meet the financial security needs of employees, be uniform throughout the organization, and be among the best in the petroleum industry.

Development of the compensation package

While the non-Federal employers used various methods to establish pay and benefits for their employees, each employer viewed pay and benefits to be equally important components of the compensation package and followed prescribed procedures to assure that pay and benefit objectives were accomplished.

For example, one major private employer's policy is that its benefit program will be comparable to the programs provided by the leaders of a group of 50 employers. The employer evaluates the comparative values of each of the 50 other programs and its own program, both by benefit element and total benefits, and determines the changes needed to retain the employer's desired benefit program ranking. The expenditure necessary for the proposed changes is not at issue in the evaluation but is determined and considered along with proposed pay increases in developing the compensation package to be offered. Tradeoffs are made between pay and benefit changes to arrive at an affordable compensation package which is appropriate for employee needs. The benefit program evaluations are conducted every 3 years to coincide with the employer's labor contract negotiation cycle.

Methods used to adjust benefit programs

None of the employers we visited followed the Federal practice of piecemeal benefit adjustment. In contrast, they considered benefit improvements and changes along with pay changes in periodically revising employees' compensation amounts either on an annual basis or as required by the contract negotiation cycle. Many employers negotiate both pay and benefit changes as a package with employee unions. During the negotiations the employer is primarily concerned with keeping expenditures for the negotiated package within the limits set for the package originally proposed. Moreover, it may be desirable under certain conditions to emphasize adjustments of fringe benefits rather than pay rates. An example of interrelated pay and benefit negotiations is the contract negotiated in 1973 by most of the Nation's railroads and 15 unions. The agreement provided a 10.7-percent increase in pay and benefits consisting of a pay increase of 4 percent and a benefit increase of about 6.7 percent. However, the

employees' take-home pay actually went up by about 9 percent because the railroads assumed a greater share of the expenditure for retirement benefits.

A somewhat different approach is used by one employer. Through day-to-day contacts with union representatives and other employees the employer attempts to predict whether the employee emphasis during negotiations will be on pay or benefits and what the principal benefit desires will be. The employer then prepares a pay and benefit package designed to respond to the broadest segment of employees possible. Separate negotiating sessions are held on pay and benefits--with benefits being negotiated first. This split approach is used because the employer believes it is important that, during pay negotiations, the employees consider the recent benefit improvements.

In some instances employers have separate benefit policies for their represented and nonrepresented employees. However, benefits negotiated with employee unions generally form the basis for the benefit program provided to nonunion employees.

Communication of benefit provisions and values to employees

Employees customarily are well aware of the pay they receive for duties they perform. However, they may not be as familiar with the provisions or significance of the benefit elements of their compensation packages or of the expenditures being made by their employers to finance the benefit programs. The importance of communicating the value of benefit programs to employees was clearly stated in the following remarks made by an executive of a large company in responding to a questionnaire from the Bureau of National Affairs:

"I believe that all of us in personnel, whether representing unions or companies, should change our terminology when discussing 'fringe benefits.' When our benefit program adds another \$1.00 of cost to the company for each \$3.00 per hour in employee wages, that \$1.00 of benefits is no longer a 'fringe.' It is indirect compensation and should be called such. Both unions and companies should be quick to take full credit for the stupendous expenditures for indirect compensation programs. To do otherwise is to mislead one's employees or union members. Our company is working very hard in cooperation with our unions to explain our indirect compensation program and the amount of money it's worth to each employee."

Many of the employers we visited attached significance to making employees aware of the importance of their benefits and used varying means to communicate to employees the value of the programs provided. The communications techniques included discussions with employee groups and preparation of booklets and brochures. The technique considered most successful was a personalized benefits statement submitted annually to each employee showing the actual dollar value of each benefit. For example, an employee could learn from his benefits statement the payments he would receive if he became disabled and unable to work, the amounts payable to his beneficiaries if he died, and the monthly annuity he will receive at retirement. Employers who used benefits statements believed that they were useful in assisting employees to evaluate and make personal financial plans and to achieve the desired understanding of benefit program value.

CALIFORNIA'S APPROACH TO TOTAL COMPENSATION COMPARABILITY

California recently reformed its compensation determination policy and process to consider prevailing practice in setting both salaries and benefits. Before the new approach, called "total equivalent compensation," was adopted, only pay was based on prevailing practice. We believe that, since the State is a public employer, the concepts of the benefit determination process may be of interest in considering redesign of the Federal program.

California law provides that State employees' compensation be based on the principle of equivalency with the total compensation--both pay and benefits--that prevails in private industry and other public agencies. The law provides that annual pay and benefit surveys be made and that the Governor's annual budget include recommendations on the comparability increases needed for the legislature's consideration.

California's executive branch developed a benefit model which embodies long-range benefit objectives and principles. The model stipulates, among other things, that (1) benefit design should be focused on career employees, (2) the maximum retirement allowance, including social security, should approximate final take-home pay, (3) employee contributions are desirable but should be kept to a minimum, and (4) all employees should receive approximately the same level of benefits. In constructing the model the executive branch assured that employee desires were considered by working with employee organizations and conducting an employee fringe benefit preference survey. Benefit levels inherent in the State's model program substantially exceed present benefit levels.

Annually the fringe benefit programs of a sample of the larger employers in California are analyzed actuarially to determine what they would cost if adopted for State employees. The difference between these costs and the costs actually being incurred by the State for its benefit programs is the dollar amount of the benefit lag or lead for a given year. If a lag exists, benefit improvements sufficient to fill the lag are developed using the State's benefit model. This is done through conferences with representatives of the State's major employee organizations. These conferences determine, within the dollar limit established by the lag in benefits, improvements which meet the model's objectives and the employees' most pressing needs. These benefit improvements are then included in the Governor's budget for the legislature's consideration.

California has initiated an intensive effort to insure full recognition by employees of the State's benefit program. This effort includes:

- A payroll insert accompanying the first paycheck after a benefit adjustment which explains the change.
- A booklet for employees explaining the total compensation concept and benefits.
- An annual personalized benefit statement summarizing each employee's particular benefits and amount the State spent for those benefits.

- - - -

We believe the importance attached to benefits by non-Federal employers and their integration into the non-Federal compensation-determining processes indicate that the application of the comparability principle to Federal benefits in a framework of total compensation comparability would be consistent with non-Federal practices.

CHAPTER 4

ISSUES INVOLVED IN DEVELOPING A

TOTAL COMPENSATION COMPARABILITY POLICY

Many interrelated issues must be considered in establishing a viable, reasonable, and credible policy to achieve total compensation comparability. The issues include:

- What standard should be used to measure comparability of Federal employee benefits?
- What adjustment process should be adopted to insure that Federal employee benefits satisfy a policy of total compensation comparability?

WHAT STANDARD SHOULD BE USED?

Benefits play a role in securing a work force of desired characteristics, but there are limits on the resources the Government can devote to benefits. It is important to both the Government and its employees that a standard of benefit adequacy be adopted. We believe that the standard of benefit adequacy, just as the standard of pay adequacy, should be based on an interpretation of the concept of prevailing practice. Development of a standard involves:

- With whose benefits should Federal benefits be compared?
- How should benefits be compared?

With whose benefits should Federal benefits be compared?

Since determining prevailing practice requires evaluating benefits of other employers, a determination of the non-Federal sector employers with which Federal comparisons should be made is required.

Non-Federal benefit programs vary widely--by industry, size of establishment, region, and type of employees (i.e., blue-collar or white-collar). According to the 1973 U.S. Chamber of Commerce survey, employer benefit expenditures as a percentage of payroll were nearly 50 percent higher in the petroleum industry than in the textile industry.

Firms with 5,000 or more employees spent over the average for benefits in 13 of the industries surveyed and less than the average in 3 industries, while firms with 500 to 999 employees made higher-than-average expenditures in only 3 industries and lower-than-average expenditures in 12 industries. Benefit expenditures were highest in the Northeast and lowest in the Southeast.

A previous GAO report, (B-167266, May 11, 1973) entitled "Improvements Needed in the Survey of Non-Federal Salaries Used As Basis For Adjusting Federal White-Collar Salaries," indicated that private enterprise salary levels varied considerably throughout the United States and that care was necessary in selecting employers for the sample so that survey results would be representative of prevailing pay practice. We believe similar care is required in selecting the employers for the sample used in a benefit survey. Factors such as size and type of establishment, industry representativeness, and geographic dispersion require special attention to insure that survey results accurately portray prevailing benefit practice.

Since Federal pay is based on non-Federal pay and non-Federal pay and benefits are interrelated, we believe the same survey universe should be used to determine both pay and benefits.

Also, a nationwide survey universe is used to determine Federal white-collar salaries, while blue-collar workers' wages are established on a locality basis. Since BLS studies and other studies indicate differences between non-Federal blue-collar and white-collar benefits, the question of whether white-collar and blue-collar benefit programs should be the same in the Federal sector is raised.

How should benefit programs be compared?

Fringe benefit programs may be looked at from the standpoint of employer expenditures to finance the programs or from the level of benefits provided employees. Each may produce different results.

Comparisons based on employer expenditures

BLS, the U.S. Chamber of Commerce, and others measure employer expenditures for benefits provided. A survey of employer benefit expenditures is easier to design and undertake than a survey of benefit levels. Employer expenditures is a relatively simple method of quantifying the extent of fringe benefits.

However, this measurement method presents problems. Many employers will not provide such data. Also, the expenditures by two different employers for identical benefits may vary substantially for many reasons, such as differences in the average length of service or age of employees in the two work forces. For example, the expenditures for life and health insurance programs might vary with the negotiating ability of various employers along with differences in the size and characteristics of the employee groups involved. One employer might be able to purchase group life insurance covering a young work force for much less than another employer could obtain the same coverage for an older work force. Further, employer expenditures for retirement programs may vary considerably depending on the funding policies, investment policies, and the rates of return received on the investments from year to year, even though benefits paid to employees may be the same.

A critical problem concerns the treatment of employer expenditures for unfunded liabilities of retirement funds. The following is a BLS comparison of Federal expenditures for retirement programs as a percent of basic pay for 1970 and 1972.

	<u>1970</u>	<u>1972</u>
Contributions to social security	.2%	.2%
Agency contributions	7.0	7.0
Payments on past unfunded liabilities	1.0	3.3
Amortization of benefit improvements	1.8	2.4
	<u>10.0%</u>	<u>12.9%</u>

Federal employee union representatives have strongly objected to including expenditures from unfunded liabilities and amortization of benefit improvements in comparisons of Federal and non-Federal retirement programs.

The Civil Service Retirement System is financed, in part, by equal agency and employee contributions. Over the years, however, the retirement fund had built up large unfunded liabilities, and there was concern over the financial integrity of the fund. Some causes of the liabilities were (1) crediting service for which neither the Government nor the employees contributed, (2) not funding liabilities resulting from employee pay increases, cost-of-living adjustments to annuities, and benefit liberalizations, and (3) loss of interest income which would have been earned if the accrued liability had been fully funded.

In 1969 the Congress enacted a law which requires the Government to make two types of additional annual payments into the Civil Service Retirement Fund--interest payments on the amount of past unfunded liabilities (about \$77 billion as of June 30, 1974) and amortization payments to fund liabilities created by certain future benefit improvements.

The purpose of interest payments is to provide the same income to the fund as if the liability had been funded. These payments are increasing rapidly because (1) cost-of-living increases in annuities are occurring frequently and are not funded and (2) the 1969 law said that 10 percent of the annual interest was payable in fiscal year 1971 and that payments must increase by 10-percent increments each fiscal year until 1980 when payments of 100 percent of the interest will be required each year.

The purpose of amortization payments is to fund new liabilities created by employee pay increases, liberalization of retirement benefits, or extensions of retirement system coverage to new groups of employees. The 1969 law requires that these payments be made in 30 annual installments.

BLS includes all benefit expenditures made by employers in its survey of Federal and private sector benefit programs. The BLS surveys showed that Federal expenditures for retirement programs increased from 6.8 percent of pay in 1966 and 1968 to 10 percent in 1970 and 12.9 percent in 1972. These dramatic increases resulted primarily from the additional interest and principal expenditures to the retirement fund. In 1972 these expenditures amounted to about \$1,760 million--interest of \$1,023 million and principal of \$737 million.

Federal employee union leaders object to including expenditures for interest on unfunded liabilities and principal payments on benefit improvements in the Government's benefit comparisons. The leaders say that unfunded liabilities are a responsibility of the employer and such expenditures are not properly chargeable as a benefit of current employees. BLS pointed out that private employers with funded pension plans must also pay interest on unfunded liabilities to comply with the Internal Revenue Code and that most private employers make additional expenditures to amortize past service liabilities. BLS said that Federal and private sector outlays compared in its study included all amounts spent by employers for retirement plans during the year. BLS, however, does not know the extent of interest and amortization expenditures included in the private sector amounts. In this regard, the enactment of the Employee Retirement Income Security Act

of 1974 (Public Law 93-406, 88 Stat. 829) changed the minimum funding requirements for private pension plans. Private employers now must fund their unfunded liabilities over a stated number of years and will no longer be allowed to pay only the interest on the liabilities.

It should also be recognized that a different method is used to finance the social security program, which represents a major portion of private employers' retirement plan expenditures. In social security no fund is accumulated to guarantee future benefit payments to past and present employees. Current liabilities are financed by contributions of past and present, as well as future, employers and employees. Therefore, additional payments for unfunded liabilities and amortization of benefit improvements are not made in the social security program.

Since retirement system funding requirements represent substantial and rapidly increasing outlays to assure the financial integrity of retirement funds, equitable and comparable treatment of these expenditures is crucial to a meaningful comparison of expenditures for Federal and non-Federal benefit programs.

In addressing this problem, it must be recognized that much of the present Federal retirement system's unfunded liability resulted from the lack of financing of higher benefits payable because of pay increases to employees and cost-of-living increases to annuitants.

Increased benefits payable because of future pay increases and annuity adjustments are not considered in the actuarial determination of the "normal cost"^{1/} of the retirement system on which the present 7-percent rates of agency and employee contributions are based. It is apparent that such increases, if continued, will have a dramatic influence on the retirement benefits to be received by present employees. Each \$1 pay raise increases the retirement fund liability by about \$2. The minimum cost-of-living adjustment of 4 percent increases the liability by about \$2 billion. Increased liability resulting from employee pay raises is to be funded over 30 years in accordance with the 1969 legislation. For cost-of-living adjustments to annuities, only the annual interest payments are required. CSC estimates that, if the cost of living increases at an annual rate of 5.9 percent, the

^{1/}The average percentage of the salaries of new employees that is required to be paid into the fund from the time they enter service until they leave service in order to accumulate sufficient funds to pay their benefits.

unfunded liability of the retirement fund will grow from \$69 billion in 1973 to about \$138 billion in 1983. Assuming annual increases of 5.2 percent in pay, along with 5.9-percent annual cost-of-living increases, CSC estimates that the Government contribution, including interest payments, to the retirement fund would grow from \$3.8 billion in 1973 to about \$13.9 billion annually by 1983.

Even if compromises were reached on the treatment of retirement expenditures, a doubt would remain about whether the benefit expenditures of one employer could produce the same benefit levels if expended by a second employer.

Comparisons based on levels of benefits

In benefit level comparisons, the actual programs provided to employees are compared and evaluated. For example, the face values of life insurance policies provided to employees are compared rather than the employer's life insurance expenditures. Such benefit level comparisons eliminate differences in comparison results caused by differences in work force characteristics and allow a manager to determine how competitive his benefit program is likely to be with other employers' programs.

Benefit level comparisons, such as the CSC study (app. II), tend to be subjective because of difficulties encountered in measuring programs in a common unit. For example, from the benefit level point of view, the unit of measure for vacation is usually days or weeks of vacation each year, while for life insurance it is usually the face value of the policy. Days or weeks of vacation cannot be directly added to dollars of life insurance coverage. Therefore, when evaluating two or more benefits which are measured differently, subjective judgments are necessary.

In appendix III we have described and compared the Federal benefit program and the typical benefit practice among 1,800 major employers as determined from our review of the survey conducted by The Conference Board, an independent, nonprofit business research organization. This comparison demonstrates that benefit programs are extensive and that some benefits are highly complex. The substantial differences between the Federal and the typical benefit program reviewed show that too much subjective judgment is required in this type of benefit comparison to be used in a systematic benefit adjustment process.

Improving benefit level comparisons

Benefit levels may be objectively quantified by using recently developed advanced analytical techniques.

For example, an actuarial consultant has developed a method by which the benefit program of an employer may be compared with the benefit programs of a selected group of other employers. The number and type of employers included in the base may be tailored to suit the client's needs. The output of the comparison is a set of index numbers which describe the standing of the employer's benefit program among the plans it is compared with in terms of both the total benefit value and the value of the employer-paid portion. In the analysis each employer's benefit program is applied to a standard population designed to represent a typical work force's characteristics of age, sex, pay rates, years of service, etc. The value of the benefits is actuarially determined by considering the probabilities that various events will happen to each employee in the standard population and the present value of benefit payments that would be received. For comparison purposes the average benefit level of all other employers' programs is set at 100 and the benefits of the employer being compared are related in index form to the average. In this manner an employer can readily determine where and why its benefit programs are above or below the average programs of the other employers.

Another method of objectively quantifying benefit levels is the costing method. In this method a complete description of benefit programs of establishments in the sample is obtained. The benefit programs are analyzed actuarially to determine what they would cost the employer (Federal Government) if adopted. The costs of programs in the sample are averaged and this average cost becomes the benefit cost standard for use in the comparability determination. (See p. 14.)

Conclusion

We believe that the same survey universe should be used for both pay and benefit evaluations because of the interrelation of pay and benefit determinations in the non-Federal sector. Further, it appears that the benefit level is the more appropriate viewpoint from which to measure and compare benefit programs. Until recently evaluating benefits from the benefit level point of view required too much subjective judgment for use in a systematic adjustment process. However, the new analytical tools for measuring benefit levels provide objective means

for evaluating benefits in a systematic process designed to achieve total compensation comparability. We believe a benefit level evaluation method which utilizes cost comparisons would be better suited for use in a total compensation comparability process since both pay and benefits would be measured in dollar terms, thereby allowing more meaningful comparisons and adjustments.

WHAT ADJUSTMENT PROCESS SHOULD BE ADOPTED?

If a policy of total compensation comparability is adopted, a responsive process must be established to insure that this standard is maintained. To resolve this problem we believe the following issues need to be addressed:

--Should adjustment of benefits be integrated with pay adjustments?

--What roles should the Congress, the executive branch, and employee representatives have in the adjustment process?

Should adjustment of benefits be integrated with pay adjustments?

There are two basic methods for achieving total compensation comparability. In the first, the standard is at the total compensation level and pay and/or benefits are adjusted as long as the total meets the standard. In the second method, individual standards are established for pay and benefits, with the tacit understanding that meeting both these standards will establish total compensation at an appropriate level. To illustrate the differences between the two methods, assume the following comparative compensation data for the same job in the Federal and non-Federal sectors.

<u>Compensation element</u>	<u>Federal</u>	<u>Non-Federal</u>	<u>Difference</u>
Salary	\$29,000	\$30,000	-\$1,000
Total benefit program	\$11,000	\$10,000	
Less employee contributions for:			
Retirement fund	\$2,030	(a)	
Social security	-	\$825	
Medical insurance	335	(a)	
Life insurance	<u>300</u>	<u>(a)</u>	
	\$ <u>2,665</u>	\$ <u>825</u>	
Net benefits	<u>8,335</u>	<u>9,175</u>	-840
Total compensation	<u>\$37,335</u>	<u>\$39,175</u>	-1,840

a/Assume these programs are supported entirely by the employer.

If a total compensation standard and process were in effect, the total compensation of the Federal job (\$37,335) would be increased by \$1,840 to meet the total standard of \$39,175. This increase may be applied to salary and/or benefits in any proportion deemed most desirable.

If individual standards for pay and benefits were used, the Federal salary would be increased by \$1,000 to meet the \$30,000 salary standard and Federal net benefits would be increased by \$840 to meet the \$9,175 benefit standard. When both adjustments are made, total compensation comparability should result just as it did using the total compensation standard.

Note that the level of the total benefit program (\$10,000) is not used as a standard. Since the adjustment process is concerned with the compensation provided by the employer, the portion of the program purchased with the employee's money must be removed from the data before assessment can begin.

We believe that a single standard at the total compensation level is the more desirable alternative. Interaction can occur between pay and benefit adjustments because their levels are not constrained to meet individual standards and may be adjusted to reflect a variety of factors considered during the adjustment process.

We believe the independent pay and benefit standard method is less flexible than the single standard method. If the independent method is considered, it should be viewed as a transition method with the goal of progressing to the single standard method at a future date.

What roles should the Congress, the executive branch, and employee representatives have in the total compensation adjustment process?

Changes to the Federal employee benefit program now occur only through the traditional legislative processes in which all interested parties--the Congress, the executive branch, and employee organizations--have important roles. Generally, these processes include considering proposed legislation for changes in individual benefit elements, or portions thereof, introduced by Members of Congress of their own accord or at the request of the executive branch or employee organizations. Representatives of both the executive branch and employee organizations have the opportunity to express their views on the merits of the proposed changes during congressional hearings;

however, the Congress makes the final decisions. In the design of a systematic benefit adjustment process, a redefinition of these roles may be desirable.

One possibility could be for the executive branch, with some participation by employee representatives, to periodically assess and adjust pay and benefits within prescribed legislative policy and guidelines. These are essentially the role assignments in the present pay comparability process.

Another possibility could be a process which requires periodic reporting by the executive branch to the Congress concerning (1) comparison of Federal and non-Federal pay and benefit levels, (2) projection of the effect of approved or proposed changes, and (3) suggestions or recommendations for revision in the Federal pay and benefit program considered appropriate after consultation with employee representatives. Unlike in the piecemeal approach to total compensation, using the periodic reporting approach the Congress would have an objective basis for making decisions on the merits of both pay and benefit improvements.

A third possibility could be the establishment of an independent board of representatives from the Congress, the executive branch, employee organizations, and the public who could consider the results of pay and benefit surveys and comparisons and determine pay and benefit levels deemed appropriate to maintain total compensation comparability for Federal employees.

We believe primary consideration should be given to the first possibility noted since the roles of the various parties would be similar to the roles assigned to each party under the current pay comparability processes.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

There is 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 benefit development and improvement.

In contrast, Federal employee pay rates must 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 review and adjustment has generally advanced the evolution of Federal pay. By focusing only on pay in the private sector, however, the pay 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 those in the private sector.

We believe it is important that a standard and process be developed which include the benefit element of Federal compensation.

Benefit standards have been enacted for certain groups. Legislation establishing the Postal Service in 1970 provides, in general, that the Postal Service's officer and employee compensation and benefits be maintained "on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy." (See 39 U.S.C. 1003(a).) Also, compensation plans for foreign nationals employed overseas by the Government are required to be based upon prevailing wage rates and compensation practices of the locality.

At the time of our review, CSC was conducting various studies of Federal employee compensation matters, including the total compensation comparability concept, and the President had announced his intention to appoint a top-level review panel to make appropriate recommendations. Our review identified a number of considerations which we believe should be given primary attention in the development of a plan, including:

- Using the same universe of non-Federal employers in both pay and benefit determinations.
- Evaluating comparative costs of benefit levels rather than benefit expenditures.
- Adopting an adjustment process with a total compensation standard permitting integrated pay and benefit adjustments.
- Using somewhat similar roles for the Congress, the executive branch, and employee representatives as now assigned in the pay comparability processes.

Since these matters directly affect employees, we believe that employee representatives should participate in development of the plan. This participation would assure that mutual interests are considered and possibly enable a mutually acceptable plan to be presented to the Congress for its consideration.

RECOMMENDATIONS

We recommend that the Chairman, CSC, in coordination with the Director, OMB:

- Develop a policy of total compensation comparability for determining Federal employees' pay and benefits.
- Propose legislation to establish the objectives, standards, criteria, and processes for achieving total compensation comparability.

In conducting its studies, CSC should assure that the issues relating to pay and benefit standards, methods of benefit comparison, integration of pay and benefit adjustments, and the roles of all interested parties are thoroughly researched and resolved for inclusion in the proposed policy and process. Primary attention should be given to considering a policy and process requiring use of the same survey universe for both pay and benefit determinations; evaluation of comparative costs of Federal and non-Federal benefit levels; integration of pay and benefit adjustments; and continuation of similar roles for the Congress, the executive branch, and employee representatives as now assigned in the pay comparability processes. CSC should also evaluate the degree to which employees understand their benefit program provisions and take any necessary measures to assure employee awareness of the importance of benefits in the compensation package.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We recommend that the appropriate committees of the Congress hold hearings about the issues discussed in this report for the purpose of developing the legislative changes necessary to establish a policy of total compensation comparability for Federal employees. We believe such hearings could be quite useful in keeping the Congress advised of executive branch progress and in assuring that recommendations are submitted in a timely manner.

BLS COMPARISONS OF BENEFIT EXPENDITURES

(PERCENT OF BASIC PAY)

	1966		1968		1970		1972 (note a)	
	<u>Federal</u>	<u>Private</u>	<u>Federal</u>	<u>Private</u>	<u>Federal</u>	<u>Private</u>	<u>Federal</u>	<u>Private</u>
Total, all benefits	<u>23.8</u>	<u>24.5</u>	<u>24.3</u>	<u>25.1</u>	<u>27.8</u>	<u>26.6</u>	<u>32.1</u>	<u>28.7</u>
Pay for leave time (excluding sick leave)	<u>11.5</u>	<u>8.1</u>	<u>11.7</u>	<u>8.4</u>	<u>11.6</u>	<u>8.8</u>	<u>12.2</u>	<u>8.9</u>
Vacations	8.2	5.0	8.2	5.0	8.1	5.3	8.1	5.4
Holidays	3.0	2.8	3.0	3.0	2.9	3.2	3.2	3.2
Civic and personal leave	.4	.2	.5	.3	.6	.3	.9	.3
Health and insurance programs	<u>5.2</u>	<u>4.9</u>	<u>5.4</u>	<u>5.3</u>	<u>5.6</u>	<u>6.3</u>	<u>6.4</u>	<u>6.9</u>
Workman's compensation Life, accident, and health insurance	.4	.7	.4	.7	.5	.8	.7	.7
Sick leave	1.4	3.3	1.6	3.6	1.8	4.4	2.3	5.0
Retirement programs	<u>6.8</u>	<u>8.6</u>	<u>6.8</u>	<u>8.9</u>	<u>10.0</u>	<u>9.1</u>	<u>12.9</u>	<u>10.2</u>
Social security and railroad retirement	.3	3.9	.2	4.2	.2	4.3	.2	4.6
Private retirement plans	6.5	4.7	6.6	4.7	9.8	4.9	12.7	5.7
Unemployment programs	<u>.3</u>	<u>1.5</u>	<u>.3</u>	<u>1.1</u>	<u>.5</u>	<u>1.1</u>	<u>.5</u>	<u>1.4</u>
Legally required programs	.2	1.3	.2	.9	.4	.8	.4	1.1
Payments to employees	.1	.1	.1	.1	.1	.1	.1	.1
Payments to funds	.0	.1	.0	.1	.0	.1	.0	.2
Bonuses and awards	<u>.1</u>	<u>1.1</u>	<u>.1</u>	<u>1.1</u>	<u>.1</u>	<u>.9</u>	<u>.1</u>	<u>.9</u>
Savings and thrift plans	<u>.0</u>	<u>.3</u>	<u>.0</u>	<u>.3</u>	<u>.0</u>	<u>.4</u>	<u>.0</u>	<u>.4</u>

a/ BLS changed the format of its 1972 report to show benefit expenditures as a percentage of total compensation rather than basic pay. To facilitate comparisons among years, we recalculated the 1972 percentages using basic pay as the base.

NOTE: Because of rounding, sums of individual items may not equal totals.

SUMMARY, CSC STUDY
OF COMPARATIVE BENEFIT VALUES

In 1973 CSC studied retirement, life insurance, health benefits, holidays, and sick and annual leave programs provided by 25 non-Federal employers, all of whom were known to offer a substantial benefit package to their employees. CSC wanted to find out how the Government compared with these other employers on the basis of six benefits, individually and overall. The employers included in the study were:

PRIVATE EMPLOYERS

Bank of America	E. I. DuPont de Nemours and Co.
Exxon Corp.	International Business Machine Corp.
General Electric	Prudential Insurance Company of America
General Motors Corp.	Pacific Gas and Electric Co.
J. C. Penney Company, Inc.	Traveler's Insurance Co.
United Airlines	United States Steel Corp.

PUBLIC EMPLOYERS

<u>Cities</u>	<u>States</u>	
Baltimore	California	Mississippi
Dallas	Georgia	Minnesota
Phoenix	Maryland	New York
St. Louis	Michigan	Virginia
		Wisconsin

Various features of these employers' benefit programs were compared to the Federal counterpart and subjectively rated as being comparable, more liberal, or less liberal. A rating was made for each benefit and for the total benefits package. The results were:

<u>Benefit</u>	<u>Number of employers</u>		
	<u>More liberal than Federal</u>	<u>Comparable with Federal</u>	<u>Less liberal than Federal</u>
Retirement	<u>a/1</u>	14	10
Holidays, sick leave, vacations	3	3	19
Health benefits	1	7	17
Life insurance	5	3	17
Overall package	<u>a/1</u>	5	19

a/ After completion of the CSC study, this employer adopted a new retirement program with less liberal benefits for future employees. This change could alter the employer's relative position in later comparisons.

The apparent conclusion of the CSC study was that, overall, the value of Federal benefits was at least comparable and possibly more than comparable to benefits of employers used in the study.

COMPARISON OF TYPICAL BENEFIT PRACTICES
OF 1,800 PRIVATE EMPLOYERS WITH FEDERAL PRACTICES (note a)

Benefit provision	Private		Federal (all employees)
	Office employees	Nonoffice employees	
Retirement:			
Normal retirement:	87% provide pension plans for all employees; all are in covered employment for social security.		Civil service retirement only; no social security coverage.
Requirements	Age 65 with 10 years' service is normally required.		Age 55; 30 years' service. Age 60; 20 years' service. Age 62; 5 years' service.
Benefit calculation base	96% of the plans use earnings and years of service.	63% of the plans use earnings and years of service. 37% use only years of service.	Average earnings in 3 consecutive highest paid years and years of service.
Early retirement:	96% provide for early retirement for all employees.		None except for involuntary separations (reductions in force, installation closings, etc.).
Requirements	Age 55 with 10 years' service is normally required.		Age 50 and 20 years' service or any age and 25 years' service, if applicable.
Benefit calculation	Actuarial reduction of normal benefit.		Actuarial reduction.
Disability retirement:	47% of the plans.	62% of the plans.	
Eligibility	Employee must be totally disabled for the rest of his life.		Employee must be disabled for his job.
Requirements	49% specify a service requirement of 10 to 15 years. Other plans require age 40 to 55 with 10 to 15 years' service.	60% specify a service requirement of 10 to 15 years.	5 years' service; no age requirement.
Vesting (eligibility for a retirement benefit):	b/ 84% of the plans provide for vesting.		
Requirements	Age 45 with 15 years' service is normally required.		5 years' service; no age requirement.
Spouse's pension upon employee's death:	48% of the plans.	40% of the plans.	
Requirements	Age 55 with 10 or 15 years' service is normally required.		18 months' service; no age requirement.
Financing	80% of the plans are fully paid by the employer.		Employees contribute 7% of pay. Government pays remaining cost (12.7% of pay in FY 1973).
Annuity adjustments	4% of the plans provide for pensions to vary with an index of prices. 17% provide for variable annuities which increase or decrease with fluctuations in an equity fund.		Annuities are automatically adjusted when the CPI goes up by as much as 3% over the CPI at the last adjustment and stays up for 3 consecutive months. The adjustment equals the CPI percentage increase plus 1%.
Deferred profit sharing:			
Prevalence	32% of the companies.	17% of the companies.	None.
Vesting	Pull vesting normally occurs after 10 years' service.		
Employee savings plans:			
Prevalence	18% of the companies.	12% of the companies.	None.
Savings allowed	The typical plan allows savings up to 6% of pay.		

<u>Benefit provision</u>	<u>Private</u>		<u>Federal</u> <u>(all employees)</u>
	<u>Office employees</u>	<u>Nonoffice employees</u>	
Employer contributions	The typical employer contribution is \$.50 for each dollar saved by the employee.		
Stock purchase plans:			
Prevalence	27% of the companies provide for payroll deductions for purchase of company stock.		None.
Employer contributions	46% of the plans provide for regular employer contributions of 20% to 25% of employees' payroll deductions.		
Holiday practices	The average company grants 9 holidays yearly; 34% grant 10 holidays.		9
Vacation practices	Average vacation schedule:		
	<u>Yearly vacation</u>	<u>Service requirements</u>	<u>Annual leave (note c)</u> <u>Service requirements</u>
	1 week.	6 months--office employees; 1 year--nonoffice employees	13 workdays. None.
	2 weeks.	1 year--office employees; 2 years--nonoffice employees.	20 workdays. 3 years.
	3 weeks.	10 years--all employees.	26 workdays. 15 years.
	4 weeks.	20 years--all employees.	
Civic and personal leave practices:			
Jury duty	96% of the companies. 90% of the companies.		Provided.
Trial witness	68% " " " Not determined.		"
Military reserve duty	74% " " " " "		"
Civil emergency	52% " " " " "		"
Bereavement for death in family	97% " " " 90% of the companies.		d/No special provision.
Medical and dental appointments	70% " " " 20% of the companies.		e/ " " "
Care for sick family member	38% " " " Not generally granted.		f/ " " "
Religious observances	35% " " " " " "		" " "
Marriage	25% " " " " " "		d/
Personal "floating" holiday	13% " " " " " "		d/ " " "
Employee's birthday	9% " " " 18% of the companies.		d/ " " "
Short term disability benefits:			
Accident and sickness insurance:			
Prevalence	39% of the companies. 66% of the companies.		None.
Benefit amounts	Weekly benefits generally range from \$50 to \$100 or 50% to 70% of pay.		
	13% of the plans pay full salary. 4% of the plans pay full salary.		
Duration of benefits	55% of the plans pay for 26 weeks; 23% pay for 52 weeks.		
Waiting period	90% of the plans specify a waiting period which is usually 7 days. Only 1/3 of the plans specify a waiting period if the employee is hospitalized or unable to work because of an accident.		
Salary continuation (sick leave):			
Prevalence	85% of the companies. 46% of the companies.		
Benefit amount	Usually 1 or 2 weeks' pay each year but 25% of the plans provide up to 6 months' pay or more.		13 days each year.

APPENDIX III

APPENDIX III

Benefit provision	Private		Federal (all employees)
	Office employees	Nonoffice employees	
Service eligibility requirement	1 year or less. 1 to 5 years. 5 to 10 years. Over 10 years.	45% of the companies. 17% " " " 18% " " " 20% " " "	No service requirement.
Carryover of unused sick leave	33% of the plans.	40% of the plans.	No limit on carryover.
Payment for unused sick leave	6% of the plans.	11% of the plans.	No cash payment is made, but unused sick leave is used as service time for retirement annuity calculations.
Long-term disability insurance: Prevalence	62% of the companies. 28% of the companies.		No program. Employee may either use accumulated sick and annual leave or retire under disability provisions of the retirement plan, if approved.
Financing	Employer pays full cost in 50% of the plans; employer and employee share cost in 25% of the plans; employee pays entire cost in 25% of the plans.		
Benefit amounts	Maximum is generally 50% or 60% of pay or \$1,000 to \$2,000 a month.		
Duration of payments	Payments are usually continued to age 65, if necessary.		
Waiting period	Payments usually begin after 6 months of disability.		
Health insurance (note g):			
Base plans (hospital charges, surgeon fees, and physician charges for hospital visits):			
Hospital coverage	Median length of covered stay is 120 days. 20% cover 1 year.	25% cover 1 year.	1 year.
Room and board allowance	73% pay the usual rate for a semi-private room.	69% pay the usual rate for a semiprivate room.	Semiprivate room rate.
Surgical fees	75% of the plans pay on the basis of a fee schedule. 22% pay reasonable and customary charges.	28% pay reasonable and customary charges.	reasonable and customary charges.
Maternity	Average maximum allowance is \$225.		Same as for base plans.
Supplemental plans (major medical):			
Deductible	\$100	\$100	\$100
Coinsurance	80%	80%	80%
Financing	Employer pays full cost for 60% of the base and supplemental plans.	Employer pays full cost for 74% of the base plans and 69% of the supplemental plans.	Government and employees share costs on approximately a 60/40 basis.
Dental coverage: Prevalence	9% of the plans.	13% of the plans.	No coverage.
Financing	Employer pays cost in 73% of the employee plans and 53% of dependent plans.	Employer pays cost in 90% of employee plans and 77% of dependent plans.	
Retiree coverage: Prevalence	About 50% of the companies extend some medical expense coverage to retirement.		Same as employee coverage.
Financing	Employer pays cost in 55% of base plans and 51% of supplemental plans.	Employer pays cost in 64% of base plans and 66% of supplemental plans.	Same as active employees.
Life insurance: Employee coverage	Generally increases as salary increases; median benefit is twice base salary. In plans where all employees receive the same coverage regardless of salary (10% of office plans and 35% of nonoffice plans), the median benefit is \$5,000.		Salary rounded to next higher \$1,000, plus \$2,000. Additional optional coverage of \$10,000 is also available.

Benefit provision	Private		Federal (all employees)
	Office employees	Nonoffice employees	
Retiree coverage	67% of the plans extend coverage to retirees at a reduced level. Median benefit is 1/3 of preretirement coverage.		After age 65, regular insurance coverage is reduced 2% a month until coverage reaches 25% of preretirement amount. Optional \$10,000 coverage is reduced 2% a month after age 65 until coverage reaches \$2,500.
Financing	66% of the plans require employee contributions. 23% of the plans require retiree contributions.	55% of the plans require employee contributions. 18% of the plans require retiree contributions.	Employees pay 2/3 of the cost of regular insurance and the full cost of optional insurance. Retirees receive regular insurance at no cost and, after age 65, receive optional insurance at no cost.
Accidental death and dismemberment insurance: Coverage	Provided by 75% of the companies. 75% of the plans base benefits on salary level. Median benefit is 1.5% of base pay. In uniform-benefit plans, the typical benefit is \$6,200.		Coverage is equal to the total amount of life insurance in effect.
Financing	Employer pays full cost in 75% of the plans.		Cost included in cost of regular and optional insurance.
Severance pay: Prevalence	56% of the companies provide severance pay.	36% of the companies provide severance pay.	
Eligibility requirement	45% of the plans are designed for short-term employees and no benefits are paid after 5 years' service.	31% of the plans are designed for short-term employees and no benefits are paid after 5 years' service.	1 year's service.
Benefit amounts	Typical minimum benefit is 1 or 2 weeks' pay. For plans covering long-term employees, benefits range from 10 to 15 weeks' pay.		1 week's pay for each year of service up to 10 years; 2 weeks' pay for each year of service over 10 years; and 10% additional for each year of age over 40.

a/Data on the benefit practices of 1,800 private employers is a summarization of the findings of a 1974 survey by The Conference Board to which we have added information on Federal practices for comparison purposes.

b/The Employee Retirement Income Security Act of 1974 prescribes minimum vesting schedules for all private pension plans. The legislation offers three choices of vesting schedules:

10 years vesting - 100 percent vesting upon reaching 10 years of service.

Graded 5 to 15 years vesting - 25 percent vesting after 5 years of service; then 5 percent additional vesting each year to 50 percent vesting at 10 years of service; then 10 percent additional vesting each year to 100 percent vesting after 15 or more years of service.

Rule of 45 - If 5 years of service, 50 percent vesting when age and service equal 45, then 10 percent additional vesting each year thereafter to 100 percent vesting after 5 more years. However, if 10 years of service, must be at least 50 percent vested (even if age and years of service do not equal 45), then 10 percent additional vesting for each additional year thereafter.

c/Time off for personal business is charged as annual leave. In private sector, vacation time normally does not include time off for any other purpose.

d/Employee may take annual leave.

e/Employee should take sick leave.

f/In the event of a contagious sickness, employee may take sick leave; otherwise, annual leave may be taken.

g/Many different health insurance plans are available to Federal employees. The features of a popular plan, Blue Cross/Blue Shield, are used in this comparison.

PRINCIPAL OFFICIALS RESPONSIBLE FOR THE
ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

Tenure of office
From To

CIVIL SERVICE COMMISSION

CHAIRMAN:

Robert E. Hampton	Jan. 1969	Present
John W. Macy, Jr.	Jan. 1961	Jan. 1969

OFFICE OF MANAGEMENT AND BUDGET

DIRECTOR:

James T. Lynn	Feb. 1975	Present
Roy L. Ash	Feb. 1973	Feb. 1975
Caspar W. Weinberger	June 1972	Feb. 1973
George P. Shultz	July 1970	June 1972
Robert P. Mayo	Jan. 1969	June 1970
Charles J. Zwick	Jan. 1968	Jan. 1969
Charles L. Schultze	June 1965	Jan. 1968
Kermit Gordon	Dec. 1962	June 1965
David E. Bell	Jan. 1961	Dec. 1962

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