REPORT BY THE

Comptroller General

OF THE UNITED STATES

RELEASED

Proposal To Lower The Federal Compensation Comparability Standard Has Not Been Substantiated

The Administration has proposed that Federal employee compensation be made comparable to 94 percent of non-Federal compensation levels. This standard was proposed to recognize features of Federal employment such as job security, job mobility, and portability of benefits which are not now considered in the pay-setting process. However, the Administration has not substantiated that differences in these features do exist between the Federal and non-Federal sectors, nor has it determined the value of any such differences.

The Administration would set a value for these features based on an examination of available information and the judgement of senior officials. This would be outside of the comparability processes. GAO disagrees with this method for adjusting Federal compensation.

FPCD-82-4
JANUARY 26, 1982

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

B-203058

The Honorable Mary Rose Oakar
Chair, Subcommittee on Compensation
and Employee Benefits
Committee on Post Office and Civil
Service
House of Representatives

Dear Madam Chair:

On March 16, 1981, you requested that we analyze President Reagan's pay reform proposal, particularly the 94-percent formula. (See app. I.) This proposal, introduced as the Federal Pay Comparability Reform Act of 1981 (H.R. 3140 and S. 838), would (1) revise the comparability standard to allow for adjusting both pay and benefits to achieve total compensation comparability between Federal and non-Federal employees performing the same levels of work, (2) set Federal compensation levels at 94 percent of non-Federal levels, (3) permit the inclusion of State and local governments in compensation surveys, and (4) allow for locality pay for some Federal white-collar employees. This proposal would increase Presidential authority in the pay and benefits area and would allow for other changes to the Federal blue-collar pay system and to military pay-setting.

Our views on the overall proposal were presented in our September 29, 1981, letter in which we provided comments on Senate bill 838 to the Chairman, Senate Committee on Governmental Affairs. (This letter is attached as app. V.) Although we have supported several of the provisions in the pay reform proposal as appropriate refinements to the comparability principle, we believe there are other provisions of the proposal which are either not ready for implementation or should not be implemented at all. We cannot, therefore, support full enactment of the proposal at this time.

You specifically requested that we analyze the proposal to set Federal compensation rates at 94 percent of what non-Federal employers provide in pay and benefits for the same levels of work. The Administration included the 94-percent standard to recognize "attractive" features of Federal employment such as job security, job mobility, and portability of benefits, particularly retirement, which are not currently considered in the Federal pay-setting

process. According to OMB, Federal jobs are more attractive than non-Federal jobs because they offer many of these intangible features which other employers do not offer. The Administration believes this attractiveness is apparent from the long queues of people seeking Federal employment.

OMB officials have stated that adequate quantitative data is not available for some of these features and, for others, data cannot be obtained on a timely basis for the annual pay adjustment process. Accordingly, a determination of their worth would have to be based on an examination of available information and the judgment of senior officials. The Administration has, therefore, proposed setting the value of these features at 6 percent of total compensation, thereby lowering the Federal compensation standard from 100 percent to 94 percent of non-Federal compensation.

We disagree with the proposed method for adjusting Federal compensation. Under the legislated principle of comparability, Federal compensation should not be adjusted without first substantiating that differences exist between the Federal and non-Federal sectors, and then determining a value for each of these differences. We do not believe that the Administration has adequately demonstrated that a change in the Federal compensation standard is justified. We would, therefore, oppose lowering the Federal compensation standard to 94 percent of non-Federal compensation.

Furthermore, if the Administration is concerned with addressing all aspects of Federal compensation, we believe it should also consider the timelag that exists between the annual pay survey reference date and the effective date of the Federal pay adjustment. This approximate 6-month timelag has maintained Federal compensation comparability at less than 100 percent. Implementing a 94-percent standard without making an adjustment for the timelag could result in Federal employees receiving much less than their non-Federal counterparts.

Our detailed comments on the 94-percent formula, its possible implementation, and the effect of the survey timelag on Federal salaries are included in appendices II through IV. An explanation of our objective, scope, and methodology appears in appendix II.

At your request, we did not obtain agency comments on the matters discussed in this report. Also, as arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from

the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

LISTING OF APPENDIXES

APPENDIX I

House of Representatives
Committee on Post Office
and Civil Service
Washington, D.C. 20515

March 16, 1981

Mr. Milton J. Socolar
Acting Comptroller General
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Socolar,

As you know, during the 96th Congress the Carter Administration proposed comprehensive reform of the federal employee compensation system. Included in that "pay reform" package were proposals for total compensation comparability, locality pay for General Schedule employees, inclusion of state and local government employees in the annual comparability survey and other modifications of the General Schedule and Wage Grade systems.

Former President Carter's Fiscal Year 1982 budget message indicated that the October 1, 1981, federal employee comparability raise would be 8.6 percent, based on the proposed total compensation formula. President Reagan has indicated that he intends to submit a similar pay reform proposal. In addition, after comparability has been determined under the revised formula, federal employee pay raises will be authorized at 94 percent of comparability. The new Administration establishes federal pay at 94 percent of comparability in order to "recognize those aspects of federal employment that make it more attractive than many comparably paid jobs in the private sector." President Reagan has stated that federal employees will be entitled to a 4.8 percent pay raise on October 1, 1981, under his proposed pay reform plan.

I would appreciate your analyzing President Reagan's pay reform proposal, particularly the 94 percent formula. I am interested in receiving your views regarding the rationale for setting federal pay at 94 percent of comparability, as well as an analysis of the formula used to compute the 94 percent adjustment.

Thank you for your assistance in this matter. If you have any questions, please contact Tom DeYulia or Marlene Kaufmann at 225-6831.

Sincerely,

Mary Rose Oakar

Mary Rose Oakar
Chair
Subcommittee on Compensation
and Employee Benefits

ANALYSIS OF THE ADMINISTRATION'S PROPOSED 94-PERCENT COMPENSATION STANDARD

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to evaluate the Administration's proposed 94-percent compensation standard. Our evaluation was performed in accordance with the U.S. Comptroller General's standards for the audit of Government activities.

We discussed the standard--what factors were included, how it was developed, and how it would be implemented--with Office of Management and Budget (OMB) officials. We obtained and analyzed Federal recruitment and examination statistics from the Office of Personnel Management (OPM), analyzed unemployment statistics of the Department of Labor, and discussed recruitment with officials of the Social Security Administration. To estimate the effect of the survey timelag on Federal salaries, we used available Federal pay survey and actual pay adjustment information.

We also discussed the general employment situation with officials of two State employment services (Virginia and Maryland). In addition, we discussed with staff of the Treasury Board of Canada how job security was incorporated into their total compensation system.

THE COMPARABILITY PRINCIPLE

The Federal Government, which employs about 2.2 million nonpostal civilians at an annual cost of about $57.5 billion for pay and benefits, must be able to obtain and retain capable people by providing and maintaining equitable compensation levels. Federal pay is generally governed by the legislated principle of comparability with the private sector. President Kennedy, in his February 1962 message to the Congress introducing pay reform, stated the logic and purposes for a comparability principle:

> "Adoption of the principle of comparability will assure equity for the Federal employee with his equals throughout the national economy--enable the Government to compete fairly 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 these factors are resolved into the 'going rate' over bargaining tables and other salary determining processes in private enterprise throughout the country."

The Federal Salary Reform Act of 1962 (76 Stat. 841) required that salary rates for Federal white-collar employees under the General Schedule and associated pay systems be comparable with salaries for the same levels of work in private enterprise. The Federal Pay Comparability Act of 1970 (5 U.S.C. 5301) reaffirmed the principle of comparability. Similarly, the Federal Wage System, established by legislation in 1972 (5 U.S.C. 5341 et. seq.), requires that Federal blue-collar wages should be comparable to prevailing wages within the local wage area. Most Federal benefits, on the other hand, continue to be established by law without any legislated standard.

Since the establishment of the comparability principle, we and others have made a number of studies of the Federal pay processes and recommended many improvements. We believe that comparability provides a sound and equitable basis for setting pay in the Federal sector and we support this principle. We further believe that a high degree of confidence in the pay determination process is essential to the effective implementation of such a pay policy.

The executive branch has made several administrative changes which have resulted in closer comparability with private sector pay rates. Many other needed changes, however, require legislative action. One major pay reform proposal--the Federal Employees Compensation Reform Bill of 1979 (S. 1340 and H.R. 4477)--was submitted by the previous Administration in June 1979 and included some needed legislative changes. It contained many of the same provisions which are included in the current Administration's proposal, with the exception of the 94-percent comparability provision.

THE 94-PERCENT COMPENSATION COMPARABILITY STANDARD

Under the pay reform proposal, Federal total compensation would be made comparable to 94 percent of non-Federal total compensation for the same levels of work. Employees under the General Schedule, the Foreign Service Schedule, the schedules for the Department of Medicine and Surgery of the Veterans Administration, and appropriated fund employees of the Federal Wage System would be covered by the 94-percent standard. This standard would apply to overall compensation (pay and benefits) (as opposed to only annual pay changes) and would be phased in over a 3-year period. (App. IV discusses how such a transition might occur.)

In the sections which follow, we discuss the development of the new standard, the valuation of job security, the appropriateness of queues as an indicator of job attractiveness, and the timelag inherent in the current pay-setting process.

The value of the selected job features has not been adequately determined

The Administration has valued the "attractive" features of Federal employment at 6 percent of the Federal total compensation package. This valuation, according to OMB officials, was not accomplished through any comprehensive study or methodology. These officials said that, because quantitative data is not available for some of these features and because for other features data cannot be obtained on a timely basis for the annual pay adjustment process, the assessment of the worth of these factors must be based on available information and the judgment of senior officials--outside of the comparability process.

Valid measurements of these particular factors may be difficult to develop. In light of the governing principle of comparability, however, we believe that it would be inequitable to adjust Federal compensation upward or downward without first

--substantiating that differences do, in fact, exist for these factors between the Federal and non-Federal sectors, and

--determining the value of these differences.

We also believe that, if a comparability standard is to have any credibility, it must be based on factual data. The importance of utilizing factual data in setting Federal pay rates was emphasized by the President's Pay Agent--the Director of OMB and the Chairman of the U.S. Civil Service Commission (now OPM)--in 1976. The Agent stated:

> "We remain convinced * * * that Federal pay adjustments, involving the massive expenditures which they do, must be solidly based upon factual data rather than estimates or projections." 1/

Job security as an attractive feature of Federal employment

The Administration believes that job security is greater in the Federal sector than it is in the non-Federal sector and thus should be considered in setting Federal compensation. We believe

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1/Comparability of the Federal Statutory Pay Systems with Private Enterprise Pay Rates, Joint Annual Report of the Director, OMB and the Chairman, U.S. Civil Service Commission, 1976. (The Secretary of Labor was added to the Pay Agent in 1977.)

that before job security is used in setting a compensation standard, a valid determination should be made that this premise is correct. This has not been done by the Administration.

In 1977, the Canadian government, which bargains collectively with its employees in about 80 occupational groups, contracted with an actuarial consulting firm to develop a model for the evaluation of job security with a view toward incorporating this element into its total compensation comparison model.

The definition of job security that was accepted by the Canadian government was

> "the effective absence of risk that the nature or the existence of the employment will be adversely affected by any employer-initiated decision to terminate, fail to renew, or modify the employment contract so as to cause the employee an uncompensated financial loss due to unemployment, underemployment, or loss of benefits."

In this model, job security was valued as the amount of a hypothetical premium that would have to be paid to insure full compensation in the event of losses caused by employer-initiated changes to the employment. Through the use of this model, it was determined that despite the general perception that Government employees enjoyed a relatively high job security, when valued, job security represented an average of 2 to 3 percent of the total compensation package for those groups of employees to whom the model was applied. It was also found that the value of job security for employees of other organizations in like occupations was not that different from the values obtained for the public service groups.

The Canadian government dropped the job security factor from its total compensation comparison model after initially applying the model to some 30 occupational groups. It was felt that the valuation of job security had a marginal impact on the overall comparability status and that the model was complex to apply. Overall, Canada's experience showed that the measurement of job security in total compensation comparisons between the public and private sectors did not always indicate an advantage to the public service employee, nor did it consistently affect the relative position of one sector over the other.

Job security in the U.S. Government and how it is perceived by those interested in Federal employment are factors that may vary each year. Between October 1, 1980, and November 18, 1981, 25,181 Federal employees received notices from their agencies indicating that their positions might be affected in a reduction-in-force; 6,012 employees were later told that their positions were being abolished. Actual involuntary separations in civilian

agencies were 2,840 in fiscal year 1981 and 1,938 in fiscal year 1982 (through November 18). Additional separations anticipated in fiscal year 1982 total 5,623.

In a September 24, 1981, address on Federal budget cuts, the President proposed the elimination of 75,000 additional Federal jobs over the next 3 years. These cuts represent 6.5 percent of the Federal nondefense payroll. Other separations could occur if the budget reductions under consideration for fiscal year 1982 are implemented.

Attractiveness of Federal job mobility and portability of benefits

According to the Administration, the opportunities available to Federal employees to change jobs or job locations within the Federal Government and to retain their same benefits package are an attractive feature of Federal employment. It is important to note, however, that the freedom to move and to retain benefits when changing jobs or locations is certainly not unique to Federal employment. For example, retirement and disability coverage under the social security program follows workers in the non-Federal sector throughout their working careers. In addition, employees in the non-Federal sector may often obtain the same or similar benefits when transferring within units of a large corporation, within State or local governmental units, or, because of multi-employer plans, to other participating employers. Workers may also, in some cases, retain a vested interest in benefits under their former employer's retirement plan. The Employee Retirement Income Security Act of 1974 provided a means for persons not covered by employer retirement plans to save untaxed dollars to provide for their retirement through individual retirement accounts (IRAs). Effective January 1, 1982, changes in the law permit even wage earners covered under employer-sponsored retirement plans, including Federal employees, to establish IRAs.

Attaching a value to the ability to transfer within the Federal Government and then using that value to reduce Federal employees' compensation in effect assumes that each Federal agency is a separate, independent employing entity. In contrast, other aspects of Federal employment--the personnel practices and regulations prescribed by OPM for agencies to adhere to, the use of the General Schedule by almost all Federal agencies, and the single benefits package available to most employees--appear to support the concept of the Federal Government as a single employer.

Queues as an indicator of the attractiveness of employment

On May 19, 1981, the Director of OMB testified at a hearing on budget reconciliation held by the House Committee on Post Office and Civil Service. At that hearing, the Director stated:

> "* * * in an economy where wages are ultimately determined by market conditions rather than by some abstract standard of what wages ought to prevail as between different kinds of jobs and different kinds of skills, there is a basic test that will ultimately determine whether wages are adequate or inadequate. If pay is too low, there will be deficiencies and difficulties in recruitment to fill vacancies. If pay is adequate, there will be adequate or even a surplus of applicants for vacancies that are open.
>
> "The latter is clearly the case in terms of the Federal civil service. * * * there is * * * a huge line of people desiring Federal employment, and to me that is an indicator that even at current pay and fringe benefit levels, Federal employment, relative to the other opportunities available in our society, is a very attractive option."

The number of persons seeking employment may not necessarily be the most valid indicator of the attractiveness of one type of employment over another. Several other factors must be taken into consideration in assessing queues, including the recruitment procedures utilized by the employer, the skills required for particular positions, the quality of the resulting queues, the size of queues seeking similar employment at other locations, and the general state of the economy. In addition, perceptions about Federal employment held by those in the queue must be examined.

Federal Government's open competition can serve to increase its queue

The Federal career work force is primarily selected through "open competition." As required by the Civil Service Act of 1883, several elements are involved. Two of these elements are adequate publicity and opportunity to apply. For example, interested citizens should be given a reasonable opportunity to know about available Federal jobs and their requirements. They must also have a chance to make their interest in these jobs known and to receive consideration for them. Non-Federal job opportunities, on the other hand, are not usually so visible or open.

For example, a non-Federal employer may choose to recruit graduates from only one school. The openness requirement in the Federal Government can be illustrated by the fact that in 1980, over 102,000 people took the Federal Professional and Administrative Career Examination (PACE). This examination, one means

of recruiting college graduates for Federal service, is announced at colleges and universities throughout the country.

Measuring the queues for Federal positions

At the May 19, 1981, hearing, the OMB Director indicated that there were about 1.1 million applications for Federal job openings in 1980. He also noted that about 116,000 Federal jobs needed to be filled. This resulted in an average of 9.3 applicants for each job that was filled.

According to OPM officials, OPM handled requests from agencies for 267,941 vacancies in fiscal year 1980 and processed a total of 1,091,246 applications during this period. While some of these applicants may have been Federal employees, most were from outside the Federal Government. For these competitive positions, OPM provided the agencies with lists of eligibles. Agencies could select from these OPM-generated lists of eligibles or fill vacancies by promotions, reassignments/reinstatements, or transfers. During fiscal year 1980, OPM identified 116,706 positions which were filled using the OPM-generated lists. Other vacancies were either filled by the agencies through the other types of personnel actions mentioned or they were not filled. Results of these other actions, however, were not reported back to OPM by the employing agencies and are not shown as "selections" in OPM's statistics.

In his testimony at the May 19 hearing, the OMB Director used the ratio of the applications to the number of positions which were actually filled by outside hires ("selections") as an indicator of the Federal queue. We believe that a better indicator of the Federal queue would be the ratio of applications to overall vacancies. In 1980, this would have been an average of 4.1 applications for each Federal vacancy, far less than the 9.3 applicants for each vacancy filled as cited by OMB.

The overall average number of applicants is just one indicator of how many people are seeking Federal employment. There have been some highly publicized examples of extremely long queues for specific Federal positions. Some of these were unusual situations, however, and may not be good examples of qualified applicants seeking Federal employment.

In September 1980, for example, the Social Security Administration (SSA) announced 75 grade level 1 positions, including both General Schedule and Wage Grade, in its Worker Trainee Opportunities Program in Baltimore, Maryland. These positions were in three categories--clerk-typist, general clerical, and general warehouse. U.S. citizens at least 18 years of age could apply (16 years of age if a high school graduate). No written examination was required.

During the week of September 15-19, 1980, about 26,000 applications were distributed. Approximately 12,500 were returned, and 12,000 eligibles remained after an initial review by SSA.

An SSA official told us that several factors contributed to the number of applications, including the nature of the positions and the general employment situation. Since these particular positions required no special skills or experience other than the ability to read and write, a large segment of the local population would meet the qualifications.

According to the Bureau of Labor Statistics (BLS), Baltimore had an average overall unemployment rate of 7.4 percent during 1980. And, of the applicants for the SSA jobs, almost 65 percent were unemployed at the time they applied for the program. Also, almost 85 percent of the applications were filed by minorities. In 1980, the unemployment rate for nonwhites was 14.1 percent in the City of Baltimore and 13 percent throughout the Baltimore metropolitan area. Finally, about 55 percent of the applicants were age 25 or under--an age group where unemployment rates tend to be even higher, particularly among minorities.

Identification of typical queues in the non-Federal sector is difficult

During the May 19, 1981, hearing, OMB's Director was asked to provide for the record the ratio of applications to job vacancies in the private sector. The information he provided indicated that in fiscal year 1980, there were 16,632,460 applicants for 5,983,035 jobs filled in the private sector, a 2.78 to 1 ratio of applicants to jobs filled. For the first 2 quarters of fiscal year 1981, this ratio had risen to 3:57 to 1.

Unlike the Federal sector, there is no central clearinghouse which collects application and vacancy data for all positions outside the Federal Government. OMB's information was obtained from the U.S. Employment Service of the U.S. Department of Labor. The data was collected from State employment services but does not represent the total number of applications or job vacancies in the non-Federal sector. It represents only the number of applications on file at these State agencies, the particular job openings which are listed with the agencies by participating employers, and the number of jobs filled which employers have reported back to the State agencies. One U.S. Employment Service official told us that not all employers utilize the State employment services and estimated that only about 20 percent of the unemployed use these agencies in their job search. According to BLS' Employment and Earnings, May 1981, about 26.7 percent of approximately 6.2 million unemployed job seekers age 16 and over utilized a public employment agency in their search.

Despite the general unavailability of overall queue statistics for the non-Federal sector, some instances of long queues for specific non-Federal positions have also been recently publicized. For example:

--In New York, more than 18,000 persons took the preliminary test for admission to the Fall 1980 class at the State Police Academy. There were only 100 openings available.

--At a manufacturing plant in St. Louis, about 1,700 people waited in line to apply for 8 unskilled positions.

Given the state of the economy and the high levels of unemployment--during November 1981 about 9 million persons were unemployed--we believe that more and more workers seeking employment will apply for available positions for which they believe they are qualified, whether these positions are in the Federal or non-Federal sectors.

The reform proposal does not address the 6-month timelag that exists in the pay system

Federal salary adjustments are to be based on private sector salary data obtained from the Professional, Administrative, Technical, and Clerical (PATC) survey conducted by BLS. Data is collected from January to May of each year. The survey carries an average payroll reference month of March. Federal salary adjustments based on this data normally become effective the following October. As a result of this approximate 6-month timelag Federal employees have received less than 100 percent of "current" (October) comparability.

We estimated the Federal pay levels needed at October 1979 and October 1980 for Federal salaries to be comparable with private sector salaries (see app. III). We found that the March 1979 comparability levels were, on the average, only about 95 percent of estimated October 1979 comparability levels. The March 1980 levels were also about 95 percent of estimated October 1980 comparability levels. Because the President used his alternative plan authority to propose reduced annual comparability adjustments, Federal employees received only about 92 percent of estimated comparability in October 1979 and 91 percent in October 1980.

The pay reform proposal does not address the survey timelag issue. Therefore, the application of a 94-percent factor to a system with an inherent timelag would result in Federal employees' receiving significantly less than their private sector counterparts at the time of the Federal pay adjustment. The Classification Task Force which was established to analyze problems and make recommendations concerning the Federal classification system to

the Directors of OPM and OMB also addressed this issue. In its April 1981 report, "A Federal Position Classification System for the 1980's," the Task Force recommended that:

> "If legislation is adopted that fixes the Federal total compensation comparability standard at other than 100 percent of average non-Federal total compensation, * * * an immediate and careful review of the comparability methodology (time lag, scope of survey, size of establishment, curve-fitting techniques, etc.) [should be initiated] to be sure that Federal rates are in fact established at the stated percentage of market rates."

ESTIMATED EFFECT OF THE SURVEY TIMELAG ON FEDERAL SALARIES

The timelag from using survey data with a March reference date to adjust Federal salaries the following October--6 months later--causes Federal salaries to be below "current" comparability. This is further aggravated by the imposition of alternative plans by the President and the Congress. These plans have reduced or delayed annual comparability adjustments.

In the example below, we estimate what comparability might have been at October 1, 1979, and October 1, 1980. For illustration, assume that the average Federal salary as of October 1978 was $20,000:

10/79	10/80	10/81
Pay Agent determined a 10.41% increase was needed to attain comparability with private sector rates paid in March 1979 = $22,082.	Pay Agent determined a 13.46% increase was needed to attain comparability with private sector rates paid in March 1980 = $24,280.	Pay Agent determined a 15.1% increase was needed to attain comparability with private sector rates paid in March 1981 = $26,872.
Federal employees are granted a 7% increase = $21,400.	Federal employees are granted a 9.1% increase = $23,347.	Federal employees are granted a 4.8% increase = $24,468.

If it is assumed that the average Federal salary level needed to attain comparability with the private sector increased uniformly by month from March 1979 ($22,082) to March 1980 ($24,280), the average Federal salary needed as of October 1979--or "current" comparability--can be estimated at $23,181. The March 1979 comparability figure, then, represents only about 95 percent of the estimated comparability levels as of October 1979. Using a similar analysis in the next year, the average Federal salary as of October 1980 should have been $25,576. The March 1980 comparability amount also represents about 95 percent of the estimated October 1980 comparability levels in the private sector. If the effect of the alternative plans is considered, Federal employees actually received about 92 percent of "current" comparability in October 1979 and 91 percent in October 1980.

IMPLEMENTING A 94-PERCENT COMPENSATION STANDARD

OMB prepared the example below, while developing the 94-percent compensation standard, to show how the new standard might be implemented over a 3-year period. While values of some compensation factors may have changed with time, this example shows the general implementation approach. Under this approach, OMB assumed that Federal benefits would not change, and any needed adjustments would be made to Federal salaries and expressed as a percent of Federal salaries.

	Federal salary level needed to meet comparability standard	Expected Federal salary adjustment	
		Percent	New level
Phase-in period:			
Start	Redefine standard to include total compensation and 94% factor. Let 100.0 = present Federal pay level.		
End of year 1	Salary level needed: 102.100	4.8	104.800
End of year 2	Adjust for an 8.9% movement in non-Federal salaries and benefits during period. Salary level needed: 111.187	7.0	112.136
End of year 3	Adjust for a 7.9% movement in non-Federal salaries and benefits during period. Salary level needed: 119.971	7.0	119.986
----------Transition completed----------			
End of year 4	Adjust for a 7.0% movement in non-Federal salaries and benefits during period. Salary level needed: 128.369	7.0	128.385

In the above example, both the total compensation and 94-percent provisions could be accomplished at the end of the first year by increasing Federal salaries 2.1 percent to a level of 102.1. 1/ Instead, a larger adjustment (4.8%) would be granted at the end of the first year with an offset in years 2 and 3 when smaller adjustments than called for to satisfy these provisions would be granted. By the end of the third year, Federal pay would reach the 94-percent standard and would be maintained at that level for each year thereafter.

1/If only the total compensation provision were implemented, a salary level of 108.6 would be called for at the end of year 1.

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

B-203058
FPC-97-1-15

September 29, 1981

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

We appreciate the opportunity to present our views on S. 838, the proposed "Federal Pay Comparability Reform Act of 1981." The major provisions of the bill include total compensation comparability, a 94-percent comparability standard, inclusion of State and local governments in compensation surveys, and locality pay for some Federal employees. Presidential authority in the pay and benefits area would be increased, and other changes would be made to the blue-collar pay system and to military pay-setting.

We have long believed that the Government's compensation policies, structures, and practices require continual evaluation to keep up with the constantly changing nature and composition of the labor markets as well as the Government's needs. We also believe that improvements are needed to achieve more reasonable comparability with the non-Federal sector. Several of the provisions included in the legislation are needed refinements to the comparability principle. But, while we believe that some of these changes should be made, we do not believe that the legislation, in its entirety, should be enacted at this time. We have serious reservations about some of the changes proposed and others we would oppose altogether. Our specific comments on the major provisions of the bill are enclosed. We would be happy to provide the necessary legislative language for our recommendations.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

Enclosures

GAO COMMENTS ON S. 838

Total compensation comparability

Sections 2 and 7 of the bill would revise the comparability standard to allow for adjusting both pay and benefits to achieve total compensation comparability for Federal and non-Federal employees performing the same levels of work. Currently, benefits are not included in the comparability processes. This new standard would apply to employees under the General Schedule, other statutory pay systems related to the General Schedule, the merit pay system, and appropriated fund employees under the Federal Wage System. The military would not be affected by this change.

Benefit measurements and comparisons are enormously complex compared to pay comparability determinations. There are many benefits to be measured and the value of the more important ones, such as retirement and insurance, is contingent on future events. Many assumptions and predictions must be made and, while different assumptions may be equally reasonable and acceptable, they may yield different results. For example, the Congressional Budget Office (CBO) has estimated that, depending on what benefits are considered representative of the private sector and how they are measured, Federal benefits could range from the equivalent of 2.8 percent of pay behind the private sector to as much as 7.4 percent ahead. A full discussion of these complexities and their impact may be found in our December 5, 1980, report, "Problems in Developing and Implementing a Total Compensation Plan for Federal Employees" (FPCD-81-12).

If total compensation comparability is to be adopted, we believe modifications are needed both to the proposal included in S. 838 and to the plan being developed by the Office of Personnel Management (OPM) to implement it. We made several specific recommendations in our December 1980 report, all of which we continue to support. We therefore recommend that the Congress modify the proposed legislation to require OPM to provide an assessment of secondary benefits (those which OPM has not yet included in its formal analysis) and insure that such benefits are appropriately accounted for. OPM has been making progress in its efforts to include secondary benefits in the analysis, and we see this as a step in the right direction. We also recommend other actions which the Congress could require before the legislation is enacted, or after the legislation is enacted but before any pay adjustment is made under this process. The Congress should require OPM to:

--Provide detailed information on the major assumptions used in the benefit comparisons to assure the Congress as to the reasonableness of the assumptions and their effect on the final outcome.

APPENDIX V

--Provide assurance that detailed benefit provisions can be accurately gathered and classified.

--Insure that a method for considering benefit differences among major employee groups is fully considered. This is important since eligibility for benefits can vary among production, clerical, and professional employees in the non-Federal sector. The proclivity to use a particular benefit may also differ by type of employee.

Section 2 also calls for basing salaries of most General Schedule employees on locality rather than national average rates. Blue-collar employees' wages are already based on local rates. Under OPM's proposed total compensation comparability plan, however, only a nationwide measurement of benefits would be obtained. Local benefits would not be measured. Since indications are that private sector benefits can vary significantly from area to area, the use of local pay but national benefit measures in a total compensation comparability analysis and adjustment could result in serious inequities for Federal employees in some localities and more than comparable compensation in others. This would result for Federal blue-collar workers as soon as the proposed total compensation comparability system is implemented. General Schedule employees would be affected when the locality pay provisions of the legislation are implemented.

We recommend that the Congress require OPM to analyze local benefits. As we noted in our December 1980 report, if benefits differ materially by locality, the Congress should require OPM to take local benefits as well as local pay into account when assessing and adjusting Federal compensation. While this benefits analysis could be made after enactment of the legislation, we believe that it should be made before any total compensation adjustments are made on a locality basis.

The total compensation comparability approach proposed by the Administration is an integrated one whereby pay and/or certain benefits can be adjusted as long as their total meets the new total compensation standard. This method allows interaction between pay and benefits because their levels are not constrained to meet individual standards. Other provisions of the bill, however, limit the President's authority to adjust Federal benefit provisions, particularly during the 5 years following enactment of the legislation.

We are concerned with what effect the implementation of such an integrated system may have. Because of the restrictions on Presidential authority to modify benefits, adjustments needed to achieve total compensation comparability will most likely be made to the pay component of compensation. This could result in a pay-to-benefits ratio that may differ significantly from that in the

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non-Federal sector and which could affect Federal recruitment and/or retention. Also, questions such as whether Federal benefits would become "locked in" once they have been used in a total compensation determination and how subsequent benefits changes would be treated need to be resolved. For example, assume that a change is made to the Federal benefits package by the President or the Congress such as modifying or eliminating cost-of-living adjustments for Federal annuitants. A decision would have to be made whether or not the total compensation determinations that were made in earlier years based on a given set of benefit provisions would be redetermined using the new provision and whether pay adjustments made in previous years would also be reassessed and overpayments or underpayments corrected.

In view of the refinements and possible changes needed in the proposed legislation and the particular plan being developed by OPM, the Congress may want to consider initially implementing a total compensation comparability system that provides for separate pay and benefit adjustments. Pay adjustments would be based only on pay comparisons, and Federal benefits adjustments would be based only on benefits comparisons. The Federal benefits package, however, would not be changed unless there were indications that the Federal package was clearly higher or lower than benefits in the non-Federal sector. Under this method, Federal pay would not be directly affected by possibly imprecise benefits comparisons.

Ninety-four percent compensation comparability

Sections 2 and 7 of the bill include a provision whereby Federal total compensation levels would be set at 94 percent of non-Federal levels. This provision would apply to the General Schedule, the Foreign Service Schedule, Department of Medicine and Surgery Schedules of the Veterans Administration, and appropriated fund employees of the Federal Wage System. It would not apply to the military.

The 94-percent standard was proposed by the Administration to recognize nonmonetary or noncompensation features of Federal employment such as job security, promotion potential, transfer options, educational opportunities, and portability of benefits, particularly retirement, which, the Administration maintained, make it more attractive than comparably paid jobs in the private sector. The 94-percent factor, according to the Office of Management and Budget (OMB), is not based on any scientific determination but instead represents an estimate of the value of these intangible factors. The attractiveness of Federal employment, the Administration has stated, is apparent from the long queues of people seeking Federal employment.

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We cannot accept the Administration's rationale as a basis for adjusting Federal compensation. We would, therefore, strongly oppose establishing the Federal compensation standard at 94 percent of non-Federal compensation. The 94-percent standard is inconsistent with the comparability principle. We believe that it is both inequitable and inappropriate to adjust Federal compensation upward or downward without first substantiating that differences do, in fact, exist between the Federal and non-Federal sectors, attaching a value to each of those differences, and then assessing the implications of making such adjustments.

The President's Pay Agent expressed a similar view in its 1976 report. 1/ It was considering suggested ways to compensate for the time lag in the Federal white-collar pay survey--the National Survey of Professional, Administrative, Technical and Clerical Pay, also known as the "PATC survey"--between its March reference date and the October effective date of the Federal pay comparability adjustment. One proposal was to statistically adjust the pay data to produce an estimate or projection of its movement from March to October of each year. In rejecting this proposal, the Agent said that Federal pay adjustments, involving the massive expenditures which they do, must be solidly based on factual data rather than estimates or projections. We believe that Federal pay adjustments must be based on factual data if they are to be accepted by Federal employees and the taxpaying public at large. The 94-percent proposal does not meet this criteria.

Attaching a value to the ability to transfer between Federal agencies with full portability of benefits and then using that value to reduce Federal employees' compensation, in effect, assumes that each Government agency is a separate, independent employing entity. In contrast, however, other Government practices appear to support a single employer concept. These would include the use of the General Schedule by almost all agencies, the single Federal benefits package available to most employees, and personnel practices and regulations prescribed by OPM for the agencies to follow.

Also, portability of benefits is far from unique to Federal employment. The social security program and many private retirement plans covered under the Employee Retirement Income Security Act of 1974 offer benefit continuity to employees in the non-Federal sector, as may transfers within private companies or within State and local governmental units. We also question

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1/Comparability of the Federal Statutory Pay Systems with Private Enterprise Pay Rates, Joint Annual Report of the Director, OMB and the Chairman, U.S. Civil Service Commission, 1976.

whether the size of a queue seeking employment is necessarily a valid indicator of the attractiveness of one type of employment over another. Factors such as the qualifications of persons within that queue, the size of queues seeking similar employment at other locations, and the state of the general economy also must be considered.

Inclusion of State and local government data

Sections 2 and 7 of the bill would also expand the Federal white- and blue-collar compensation surveys to include State and local governments. We have supported in the past and continue to support the inclusion of State and local governments in these surveys. 1/ These groups were originally excluded from the surveys because their salaries were considered to be "administered rates" which lacked the economic characteristics of private enterprise pay and because data from these groups would be overshadowed by data from private firms. State and local government employees now represent about 15 percent of the Nation's civilian work force and their pay--largely the result of collective bargaining--has become more competitive in the marketplace.

Locality pay

Section 2 would establish geographic pay areas for General Schedule employees. The military would not be covered under the locality pay provision.

We have supported a locality pay system for Federal white-collar employees similar to that for Federal blue-collar workers. 2/ Setting Federal white-collar pay on a locality basis would decrease the situations where, in some areas, the Federal Government competes unfairly in the local market by paying its employees more than the going rate and, in other areas, Federal employees are underpaid compared to their private sector counterparts.

The Administration has not yet provided details on how the locality pay provision of the pay reform proposal would be

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1/"Improvements Needed in the Survey of Non-Federal Salaries Used As A Basis for Adjusting Federal White-Collar Salaries," B-167266, May 11, 1973, and "Improving the Pay Determination Process for Federal Blue-Collar Employees," FPCD-75-122, June 3, 1975.

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

implemented. In fact, many tasks remain to be completed before a locality pay system can be implemented. These include defining the pay areas, testing the feasibility of collecting data for professional jobs in local areas, and analyzing present job definitions for applicability in local surveys. The Bureau of Labor Statistics (BLS) has estimated that at least a 1-year start-up time would be needed for testing such a system followed by a phased-in implementation.

The proposed legislation (section 5) would also eliminate the present cost-of-living allowance--a form of premium pay--for Federal employees in nonforeign areas outside the continental United States. We believe that this allowance would be unnecessary under a locality-determined pay system. This authority, originally established in 1948, has outlived its usefulness and is no longer an appropriate means of compensation. As we reported in our February 12, 1976, report, "Policy of Paying Cost-of-Living Allowances to Federal Employees in Nonforeign Areas Should Be Changed," FPCD-75-161, it conflicts with the Federal pay policy of comparability with the private sector which was established in 1962. It is also discriminatory since it does not apply equally to Federal employees elsewhere in the United States. Also, even if recruiting and retention problems exist in some localities, OPM would have the authority to establish higher salary rates under section 2 of this bill.

Presidential benefit authorities and savings provisions

Sections 9, 10, and 11 of the bill would give the President authority to change any provision of the Federal leave program and to adjust the Government's contributions to employee health and life insurance programs. The present Government contribution to employee health and life insurance programs, however, could not be reduced by the President at any time. The President would have no authority to adjust the provisions of the Federal retirement programs. In addition, under section 14, the President could make no downward adjustments to any benefit provision for 5 years after the bill is enacted and, under section 12, pay increases of at least 2 percent a year for 5 years would be forthcoming to Federal employees who, because of changes proposed in the bill, might otherwise receive less.

Allowing the President to make changes to the Federal benefits program in conjunction with the implementation of a total compensation comparability system could enable the Government to maintain its benefits more in line with non-Federal benefits. We believe that this should be a necessary part of an integrated total compensation system for Federal employees. We believe, however, that Federal benefits provisions should be restructured to bring them more in line with non-Federal benefits before pay

and benefits adjustments are integrated into a single system. This could be accomplished by initially adjusting pay and benefits separately, as we suggested earlier. (See p. 3.)

Other Federal Wage System changes

Other changes proposed in section 7 of S. 838 are intended to correct the present situation whereby Federal blue-collar employees are paid more than their non-Federal counterparts. We support these changes.

The bill would:

--Eliminate the provision known as the Monroney Amendment (5 U.S.C. 5343(d)) under which wage rates from outside the locality may, under certain conditions, be used to determine area wage rates. This change would cause Federal rates to be more in line with local prevailing rates for comparable work.

--Eliminate the five-step rate structures of the blue-collar pay system. Under current law, each wage grade under the system has five uniform steps with a 16-percent pay range between the first and fifth steps. The law provides that the average private sector rate is to be equated to the second step of the blue-collar schedule with the first, third, fourth, and fifth steps set at 96, 104, 108, and 112 percent, respectively, of the second step. With a potential wage rate 12 percent over the average rate prevailing in the wage area, the Government appears to have a competitive advantage in the labor market. S. 838 would allow OPM to establish a step rate structure more consistent with industry practices.

--Replace the fixed percentage night shift differentials (7.5 and 10.0 percent) prescribed by current law with appropriate differentials as determined by industry practices. Studies of private industry establishments have shown that most use a flat cents-per-hour amount in compensating for night differentials rather than a percentage differential.

The enactment of these changes would satisfy the recommendations we have made regarding the blue-collar pay system and would also result in substantial savings to the Federal Government. 1/ While we agree with the elimination of the provisions noted

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1/"Federal Compensation Comparability: Need for Congressional Action," FPCD-78-60, July 21, 1978.

above, the Administration is not clear as to what would take their place. We would suggest one alternative which, while retaining the present five-step structure, would bring Federal pay more in line with private sector pay. The average pay rate of the private sector could be related to a point in the pay range which represents the average step of Federal employees rather than the predetermined step two, similar to the manner in which the payline is constructed in the white-collar pay comparability process.

S. 838, section 7, would also require that, in any year in which an alternative plan goes into effect for white-collar employees under the statutory pay systems, OPM will develop and implement a plan to provide comparable treatment for blue-collar employees. We believe that an alternative plan authority to confront truly unusual situations is needed, and we support the extension of this authority to the Federal Wage System.

We are concerned, however, that frequent use of the alternative plan authority has threatened the whole comparability principle. Presidents have proposed alternative plans for white-collar employees for 8 of the last 12 annual adjustments. This situation was discussed in our November 1979 report. 1/ Our report recommended that the Congress amend the law to limit the President's use of alternative plans to insure that they will be used in situations which are more indicative of "national emergencies or economic conditions affecting the general welfare." We believe that this criteria should be applied to all Federal pay systems and recommend that this provision be included in the proposed legislation.

Special rate authority

Section 2 of the bill would allow the President to establish special rates of pay for General Schedule employees in one or more areas, grades, occupations, or their subdivisions upon finding that the Government is experiencing significant difficulty in recruiting or retaining well qualified individuals. We are generally in favor of the executive branch having additional pay flexibilities for recruiting and managing a quality work force. The increased authority for special rates proposed by S. 838 could assist greatly in this area.

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

Uniformed Services pay adjustments

S. 838, section 15, contains two provisions which would affect military pay-setting.

The first authorizes the President to propose a separate alternative plan for the military and establishes the conditions under which the alternative plan would take effect. Section 15(3) of the bill, for example, would require a joint resolution of the Congress, approved by the President, to disapprove an alternative plan for the military. And, if the President were to veto this joint resolution, a two-thirds vote in both Houses would be needed to override the veto.

We cannot support the alternative plan provisions as proposed in the bill. While we agree with the need for the President to have authority to propose an alternative plan for the military, the bill's proposal would make it exceedingly difficult for the Congress to overturn such a plan. We believe that such extraordinary Presidential authority in this area is unwarranted and, given the frequency with which Presidents have proposed alternative plans for other Federal employees in the past, we believe that this provision would seriously hamper congressional control of the pay-setting process. At the present time, the Congress can overturn a President's alternative plan proposed for Federal white-collar employees by a simple majority vote in either House. This procedure would not change under this bill. We see no compelling reason for making it more difficult for the Congress to disapprove an alternative plan for the military than it is to disapprove an alternative plan for other Federal workers.

Section 15(2) provides for adjusting military pay rates each October 1 by "the same percentage as the average percentage increase in non-Federal pay during the 12-month period preceeding the most recent national survey of non-Federal pay * * *." Under this provision, military pay adjustments would be linked directly to non-Federal pay movements as obtained by BLS in their annual PATC survey. This survey also serves as the basis for setting General Schedule pay rates for Federal civilian employees. For that purpose, however, survey data are further weighted, and a Federal payline is mathematically constructed which considers not only comparability, but also allows for pay distinctions in keeping with work and performance distinctions as required by law. Military pay adjustments are currently linked to General Schedule adjustments.

Under other provisions of this bill, future General Schedule adjustments would be made on a total compensation basis on a locality level. These changes, however, would not apply to the

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military. The BLS national survey would continue to be conducted and would serve as the basis for setting military pay rates on a national level.

Alternatives for adjusting military pay

We have no specific objections to linking military pay raises directly to non-Federal pay movements, but we believe there are better alternatives to doing this than the one proposed in the bill. One alternative would be to develop an index more representative of the military than the PATC survey which was designed to provide data on jobs in the private sector that are comparable with Federal white-collar occupations. Many private sector occupations are not covered by this survey. Thus, while such an index might be somewhat appropriate for setting military officer pay rates, it is clearly inappropriate for setting enlisted pay rates because most enlisted occupations and specialties require blue-collar skills.

Rather than a continued reliance on the PATC survey, we believe that a survey which would compare regular military compensation with the rates of pay for similar levels of work in private enterprise, appropriately weighted to reflect the mix of occupations and specialties in the uniformed services, should be developed. A survey along these lines was originally proposed, but later deleted from S. 1181 (97th Congress), "The Uniformed Services Pay and Benefits Act of 1981." Another alternative could be to design two separate wage surveys, one for officer occupations and another for enlisted occupations.

Another alternative was outlined in our June 23, 1981, report, "Federal Pay-Setting Surveys Could Be Performed More Efficiently," FPCD-81-50. In that report, we recommended that the Congress amend the Federal Pay Comparability Act of 1970 to eliminate the requirement to conduct the comparability survey each year and to provide for interim year pay adjustments by using BLS' Employment Cost Index (ECI). This index is a quarterly measure of the change in non-Federal pay and benefits. BLS surveys about 2,000 establishments representing 62 industry groups and 10,000 occupations representing 417 occupational categories. ECI covers about 73 million workers in the private nonfarm economy with the universe to be expanded to cover 12 million State and local government workers in 1981. We believe that this index, with its broader occupational coverage that includes both white- and blue-collar jobs, would be more reflective of overall private sector wage changes and thus, a better alternative for adjusting military pay than the one proposed in the bill.

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