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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Annual Adjustments-- The Key To Federal Executive Pay

Salary increases for Federal executives have been limited or denied despite statutes which allow for annual and quadrennial adjustments. This has resulted in problems of executive recruitment and retention for Federal agencies.

About 12,400 top managers at other levels of responsibility are also being denied annual comparability adjustments to which they are entitled because their salaries are limited by executive salaries.

Without annual pay adjustments for executives, many of these problems will continue.

The Senior Executive Service will provide some relief to some career executives, but its success would be enhanced by the successful functioning of the present system.

GAO recommends that the Congress allow annual salary adjustments for executives to take effect.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

This report "Annual Adjustments--The Key To Federal Executive Pay," discusses the problems with the present and proposed pay systems for Federal executives and suggests actions which could help alleviate some of these problems. We initiated this review because of our concern about executive pay setting practices in the past and the effect that similar practices could have on executives and their agencies in the future.

Copies of this report are being sent to the Secretary of Labor; the Directors, Office of Management and Budget, and Office of Personnel Management; and other interested parties.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

ANNUAL ADJUSTMENTS--THE KEY TO FEDERAL EXECUTIVE PAY

D I G E S T

The present system of adjusting Federal executives' salaries has not provided salaries commensurate with their responsibilities. Under the Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82), top Federal executives paid under the Executive Schedule are supposed to receive the annual comparability salary adjustments given to General Schedule employees. But ~~since this law was enacted~~, these executives have been denied all but one such adjustment. The Federal Salary Act of 1967 (Public Law 90-206) provides for quadrennial assessment and adjustment of executive salaries. While this procedure has helped to alleviate some of the resulting problems, even these recommendations have been reduced or denied in the past. This has been partially due to a linkage between congressional and Executive Level II salaries.

As a result of these pay actions:

--Executive Schedule salaries have increased an average of only 28 percent since 1969 as compared with increases of 87 percent in the General Schedule, and even higher for some top positions in the private sector. (See pp. 12 and 13.)

--The purchasing power of Executive Level I salaries has decreased 39 percent since 1969 and for Level V, a decrease of 27 percent. (See p. 13.)

--Agencies have experienced problems in recruiting and retaining top candidates for the Government's top executive positions. (See pp. 17 to 19.)

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--Salaries for Federal executives are much lower than those received by many executives in private industry, large labor unions, Government-related organizations, and educational institutions. (See pp. 7 to 12.)

Since the Executive Level V pay rate serves as a ceiling limit for pay rates of the General Schedule and other statutory pay systems, salaries for about 12,400 employees in the top levels of these schedules are now restricted. The top two steps of GS-15, the top seven steps of GS-16, all GS-17s and 18s, Executive Level V, and equivalent positions receive the same salary despite wide differences in their levels of responsibility and performance. Not only does this subject the affected employees to the problems often accompanying compression--lost pay, lost benefits, and lost purchasing power--it also compromises congressionally-mandated principles of pay comparability and maintaining pay distinctions to match work and performance distinctions. (See pp. 15 to 17.)

This can contribute to morale problems for individuals, making it more difficult for agencies to advance employees to levels of higher responsibility without corresponding increases in pay. It can also lead to retention problems since semiannually adjusted annuities can be more attractive to employees than infrequently adjusted salaries. (See pp. 17 to 19.)

Problems of relatively low salaries and lost purchasing power for Federal executives are likely to continue unless some annual adjustment is made. For example, if Executive Schedule pay is not increased and inflation continues at the rate it has averaged over the past 9 years, the purchasing power of Executive Level I salaries will decrease a total of 46 percent between October 1969 and October 1980. Compression in 1980 could reach down to the GS-15, step 4 and to GS-14, step 10 levels. The next Quadrennial Commission would then be faced with recommending extremely large and politically unpopular executive increases for 1981 to restore pay distinctions. Moreover, this could conflict with the wage and price guidelines of the President's anti-inflation program. (See pp. 20 to 25.)

The Senior Executive Service, established by the Civil Service Reform Act of 1978 (Public Law 95-454), may help alleviate some problems for top career executives--temporarily at least--by placing most GS-16 through GS-18 and some Executive Level IV and V positions into a separate pay system. The act, which mandates a minimum of five pay levels for the Service, raises the basic pay ceiling for its members to the Executive Level IV rate. It also allows for bonuses and awards to some members. But the success of the Senior Executive Service pay system would be greatly enhanced by the successful functioning of the traditional system.

The President sets the pay rates for the Senior Executive Service levels, but these rates must remain within a range defined by the rates for GS-16, step 1 and Executive Level IV. Any actions taken which affect either the GS-16 or Executive Level IV rates would affect the Service's pay range.

For example, if annual comparability increases of 5.5 percent are given to the General Schedule in 1979 and 1980, but not paid to the Executive Schedule, the basic pay range for the Service could narrow to as little as $185 by 1980. (See pp. 25 to 27.)

It is essential that executives receive annual salary adjustments if

--problems resulting from declining real salaries are to be alleviated,

--congressional mandates for comparability and pay distinctions are to be realized, and

--agencies' recruitment and retention prospects are to improve.

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress

--allow the annual adjustments under Public Law 94-82 to take effect, and (p. 34)

--discontinue the practice of linking congressional and Executive Level II salaries.

C o n t e n t s

ABBREVIATIONS

GAO	General Accounting Office
GS	General Schedule
SES	Senior Executive Service

CHAPTER 1

INTRODUCTION AND BACKGROUND

Numerically, executives and other top managers comprise only a small segment of the Federal work force. Of about 2.8 million Federal civilian employees, only about 11,000 are Executive Schedule, top General Schedule (GS), or equivalent positions. Yet, few would dispute the claim that this group is one of the most vital factors for the successful performance of Government programs. It is virtually impossible to address national priorities and costs of Government without recognizing the responsibilities and the effect of this relatively small group of individuals.

It is imperative that the Federal Government attract and retain highly talented, capable, and dedicated individuals for its top positions. The Government must therefore have a pay system which, while accounting for the nonmonetary benefits of public service, can be competitive in the market for top quality executives and can reward its executives for higher levels of responsibility and performance.

Despite significant increases in the cost of living and in non-Federal executive salaries in recent years, salaries for Federal executives--Members of Congress, Federal judges, and Presidential and other appointees--have lagged far behind. So-called "automatic" increases for these executives have been generally denied or limited. As a result, there were serious adverse effects on recruitment, retention, and incentives for advancement to top positions throughout the Federal service. Some of these problems were temporarily alleviated by a sizeable increase in 1977 but continuing freezes thereafter have once again begun to produce the same effects.

In October 1978, the Congress passed the Civil Service Reform Act (Public Law 95-454) which established the new Senior Executive Service (SES). The Office of Personnel Management has estimated that 8,500 to 9,000 top positions will initially be eligible for SES. It is designed to select, assign, develop, advance, reward, and manage executive personnel who have supervisory and managerial responsibilities. SES incorporates pay ranges, bonuses, and awards, and also provides other benefits to its members.

This report concentrates on the problems currently facing executives and other top Federal managers and on what they might expect in the future, both under the present executive pay system (which will continue) and under SES.

It also considers the present and future effect on agency operations of both systems. This report is being issued to assist the Congress in its deliberations on executive pay matters. A listing of our prior reports in this area is included in appendix I and a chronology of past executive pay actions is included in appendix II.

PRESENT EXECUTIVE PAY-SETTING SYSTEM

The Federal Executive Schedule includes positions at five different levels--Executive Level I down to Executive Level V. Most members of the President's Cabinet, for example, are at Level I while directors of large bureaus may be at Level V. Each of the five levels has a single pay rate; there are no within grade step increases as there are in the General Schedule. Before the enactment of the Civil Service Reform Act, all Executive Schedule positions were included under the same pay-setting process. While some of these positions will become eligible for SES, many others, including all Executive Level I, II, and III positions and about 75 percent of the Executive Level IV and V positions, must remain under the present system. Up to 1,000 nonsupervisory and professional employees in GS grades 16, 17, and 18 and other positions at equivalent pay will also remain under the present system along with incumbents in SES positions who have chosen not to convert to SES.

Under the present system, Executive Schedule pay is set in two ways--by an annual adjustment and by a quadrennial adjustment. The rate established for Executive Level V also serves as the statutory pay ceiling for other Federal pay systems, including the General Schedule.

The annual adjustment for executives was established by the Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82). The act provided that salaries for positions falling under the purview of the Quadrennial Commission--Members of Congress, Federal judges, Executive Schedule positions, and certain others--will be adjusted by a percentage equal to the average percentage adjustment for positions under the General Schedule. But these adjustments for the Executive Schedule, as well as for the General Schedule have been far from "automatic," and both the President and the Congress have played decisive roles.

Under the annual comparability adjustment process, the President receives a report from his Pay Agent based on a Bureau of Labor Statistics survey of private industry pay for the same levels of work as GS-1s through 15s. Rates for higher level--GS-16 through GS-18--positions are extrapolated from this data. The President also receives recommendations from other groups. He considers these recommendations and, effective with the first pay period beginning in October, adjusts the statutory pay rates accordingly.

If, however, the President believes that the comparability adjustments proposed by his Pay Agent are not appropriate because of national emergency or economic conditions affecting the general welfare, he may submit an alternative pay plan to the Congress by September 1. Unless either House of the Congress adopts a resolution within 30 days disapproving the plan, it then becomes effective. In the event of disapproval the President must implement comparability on the first pay period beginning in October.

The Congress can influence Executive Schedule and top GS salaries in other ways, such as by enacting legislation specifically denying Executive Schedule positions the comparability-initiated adjustment or by using the appropriations process to deny the funds to pay them such an adjustment. In the former case, the Executive Schedule pay rates would not increase and the imposed Executive Level V ceiling on GS rates would remain the same; in the latter case, in the absence of any other congressionally imposed restrictions, the established rates for the Executive Schedule would increase and the newly established rate for Executive Level V would serve as the new GS ceiling. The Executive Schedule positions would not actually be paid the increase because of the funds prohibition and, as a result, two rates for them would exist--an established rate and a paid rate. Such a situation currently exists. In October 1978 the Congress denied the funds to pay executives a comparability-initiated adjustment. The Congress can also use the appropriations process to effectively limit GS salaries to the paid rate for Executive Level V.

The quadrennial adjustment procedure was initiated by the Federal Salary Act of 1967. Under it, a Quadrennial Commission recommends executive salary levels to the President who in turn submits his recommendations to the Congress. Before this procedure was modified in April 1977, the President's recommendations would automatically go into effect within approximately 30 days unless the Congress enacted a statute establishing different rates of pay or unless either House disapproved all or any part of the recommendations. However, with the 1977 changes, approval by both Houses is required before the President's recommendations take effect. Thus, both the President and the Congress can play a significant role in the quadrennial adjustment process.

Since 1965 there has also been an informal linkage between congressional salaries and the Executive Level II pay rate. This linkage has sometimes affected the Congress' willingness to grant Executive Schedule pay increases. Efforts to break this linkage as recommended by the Quadrennial Commission reporting in 1976 have not been successful.

PAY SETTING FOR THE SENIOR EXECUTIVE SERVICE

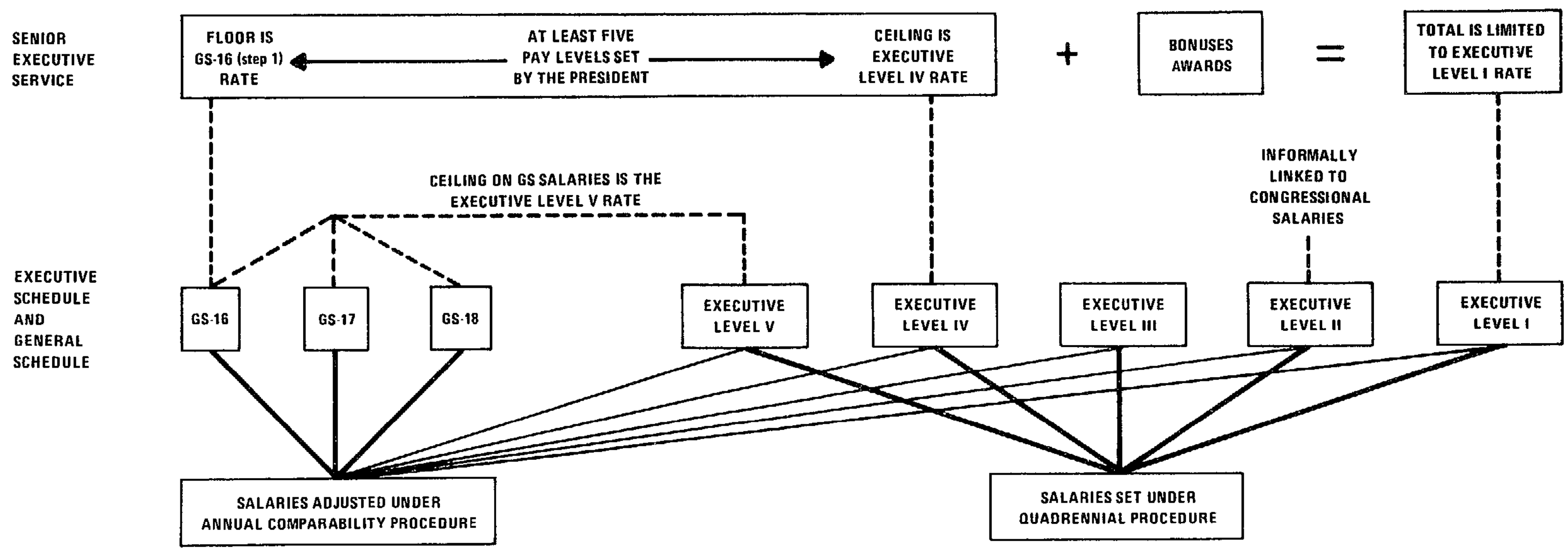
The pay-setting process for SES is linked both to the Executive Schedule and to the General Schedule. The chart on p. 5 shows these general relationships. The lowest rate of basic pay for SES positions cannot be less than the minimum rate paid to GS-16, step 1. The highest rate of basic pay for SES positions cannot exceed the rate for Executive Level IV. These "floor" and "ceiling" amounts are determined independently--the former according to the GS comparability process (subject, of course, to the Executive Level V limitation or other congressionally imposed limitations on GS pay) and the latter by the Executive Schedule pay-setting process, also subject to congressionally imposed limitations. 1/

Within the range resulting from the establishment of floor and ceiling limits, there are to be at least five rates of basic pay which are initially established and thereafter adjusted by the President. 2/ The President will determine adjustments to the basic pay rates of SES at the same time the annual comparability adjustments are made to the General Schedule. Individual agencies, according to criteria established by the Office of Personnel Management, will be responsible for determining which of the pay rates established for SES will initially be paid to

1/Because of the current prohibition on the use of funds, while the rates of basic pay for SES may range up to the established rate for Executive Level IV, the highest amount of basic pay payable to SES members cannot exceed the rate actually paid to Executive Level IV.

2/On March 7, 1979, the President determined that there shall be six salary rates for SES ranging from $44,756 to $52,800.

FEDERAL EXECUTIVE SALARY RELATIONSHIPS
<u>Note a</u>



a/ THESE RELATIONSHIPS CAN BE MODIFIED BY VARIOUS ACTIONS OF THE CONGRESS SUCH AS DENYING THE FUNDS TO PAY INCREASES TO THE EXECUTIVE SCHEDULE AND/OR THE GENERAL SCHEDULE.

each executive. Agencies can also move an executive to a different rate of basic pay no more than once in any 12-month period.

Career SES members can receive lump-sum performance awards of up to 20 percent of their basic salaries. The number of senior executives receiving awards cannot exceed 50 percent of the number of SES positions in the agency. In addition, career executives can be awarded the rank of Meritorious Executive and the rank of Distinguished Executive. These ranks carry one time lump-sum payments of $10,000 and $20,000, respectively. The number of executives receiving them is limited to 5 percent and 1 percent, respectively, of SES. Noncareer SES appointees--who can comprise up to 10 percent of SES--are not eligible for performance pay or executive ranks. Total dollar compensation (basic pay plus rank award plus performance pay) for SES executives cannot in any year exceed the rate payable for Executive Level I.

SCOPE OF REVIEW

Our review included an analysis of both the present and proposed Federal executive pay systems. This involved a review of relevant legislation, past pay actions and their effects, and previously issued executive pay reports.

We obtained and reviewed published salary data for executives and managers in the private sector, State and local Governments, international organizations, labor unions, and selected Government-related organizations. We also directly contacted 34 large private foundations to obtain salary data for their top positions. We included in our analysis, salaries from 22 foundations that responded to our survey.

We discussed recruitment, advancement, and retention problems with various executive agency personnel officials. Provisions and implications of SES were discussed with staff of the Office of Personnel Management.

CHAPTER 2

EFFECT OF PRESENT EXECUTIVE PAY SYSTEM ON EXECUTIVES, MANAGERS, AND AGENCY OPERATIONS

Problems of varying magnitude have plagued the Federal executive pay system for several years. Those affected have been

--the executives with salary levels lower than in the private sector and infrequent and often limited salary adjustments;

--other top Federal managers whose salaries are limited by Executive Schedule salary levels; and

--agencies which have experienced recruitment, retention, and employee advancement difficulties because of pay limitations.

In this chapter we will discuss the executive pay environment and other problems currently affecting these groups. While some problems were temporarily alleviated in 1977, the situation has deteriorated because executives have been denied two consecutive comparability-initiated adjustments. Because the floor and ceiling limits on SES basic pay are determined by the current pay-setting process for the Executive Schedule and the General Schedule, problems affecting these schedules could also have a strong impact on the SES pay system. SES implications are discussed in chapter 3.

CURRENT EXECUTIVE SALARY LEVELS

Federal executive salary rates have in many cases been much lower than executive pay rates in the private sector, educational institutions, and other organizations. In a few cases, State and local Government officials have been paid more than Federal executives. Because of the current prohibition on the use of funds, Federal executives covered under the Executive Schedule receive salaries $2,600 to $3,600 below their legally established rates. The amounts they actually receive--the "paid" rates--are shown on the following page.

Level	I	Cabinet officers	$66,000
Level	II	Deputy Secretaries of departments, Secretaries of military departments, and heads of major agencies	$57,500
Level	III	Under Secretaries of departments and heads of middle level agencies	$52,500
Level	IV	Assistant Secretaries and General Counsels of departments, heads of smaller agencies, and members of certain boards and commissions	$50,000
Level	V	Administrators, commissioners, directors, and members of boards, commissions, or units of agencies	$47,500

Top Federal managers under the General Schedule in the "supergrade" levels--GS-16, 17, and 18--currently receive $44,756 to $47,500.

Some of the executive pay rates have yet to reach or have only recently reached the levels recommended to have been put into effect several years ago. For example, the Quadrennial Commission recommended in 1973 that Executive Level I receive $70,000 starting in 1974. Now, 5 years later, they receive only $66,000. That Commission also recommended that Level V receive $45,000 in 1974; today they receive $47,500--only $2,500 or 5.5 percent above that rate.

To obtain a better perspective of the current executive salary environment, we surveyed available non-Federal executive pay data. We have made no attempt to compare "equivalent positions" nor do we necessarily advocate that Federal executives receive these salaries. We mainly want to demonstrate the magnitude and variability of salaries in the non-Federal sector as compared with Federal executive salaries.

Private sector

--A study of 100 top companies conducted by the management consulting firm of Towers, Perrin, Forster, and Crosby found that the median total compensation (salary and bonus/incentive payments) paid in 1977 to chief executive officers was $471,000; the second highest paid officers, $327,000; and the third highest paid, $273,000.

--The Conference Board, an independent, nonprofit business research organization, reported in its "Top Executive Compensation (1978 Edition)" that the 1977 median total compensation (salary and bonus award) for the top executives in its survey was:

Area	Chief executive officer	Second highest paid	Third highest paid
Manufacturing (746 companies)	$241,000	$165,000	$130,000
Retail trade (88 firms)	184,000	135,000	119,000
Commercial banking (277 banks)	100,000	70,000	55,000
Insurance (179 carriers)	105,000	74,000	60,000

--The Executive Compensation Service of the American Management Association reported in its "Top Management Report-1977/1978" that the average total compensation (salary plus bonus) for chief executive officers in 1977 in surveyed companies with sales of $200 million to $500 million and where the chairman was serving as the chief executive officer ranged from $137,800 in the wholesale and retail trade area to $207,500 in the durable goods manufacturing area.

--A recent survey in Business Week showed the following pay data for presidents of 36 top labor unions in 1977:

Average salary	$68,470 (range $34,461 to $156,250)
Average salary plus allowances plus expenses	$83,905 (range $41,297 to $169,453)

Total compensation for half of the presidents exceeded $80,000; in addition, 11 other national officers received over $80,000. In the Federal sector, the Chairman of the National Labor Relations Board, an Executive Level III, receives $52,500; the Assistant Secretary for Labor-Management Relations (who also serves as Administrator, Labor-Management Services Administration), an Executive Level IV, receives $50,000.

--We surveyed the salaries paid to officers of 22 foundations, most with assets in excess of $100 million. Presidents' salaries reported averaged $81,676 in 1978. In addition, salaries for 41 vice presidents in these foundations averaged $54,188 and the average salary for 94 other top officials was $44,424.

State and local governments

--Salaries paid to Governors in 1977 ranged from $25,000 to $80,000 with 20 receiving over $47,500.

Educational institutions

--About 1,900 professional administrators in educational institutions surveyed by the College and University Personnel Association received $40,000 or more during the 1977-78 school year. Sixty-two of these are chief executive officers receiving $60,000 and above, 17 of whom receive $70,000 or more. In the Federal sector, the Secretary of Health, Education, and Welfare, an Executive Level I, receives $66,000 and the U.S. Commissioner of Education, an Executive Level V, receives $47,500.

International organizations

--Salaries paid to U.S. citizen employees at the International Monetary Fund and the Inter-American Development Bank are "grossed up" to compensate these employees for Federal and State income taxes and social security taxes. For example, the 1978 pay rates for top management and professional levels--for U.S. citizens who are married, with two dependents, and reside in the District of Columbia--are shown on the following page.

International Monetary Fund		Taxable gross equivalent
Deputy managing director		$108,030
Professional levels:	M	$84,440 to $102,550
	L	75,360 to 94,470
	K	71,710 to 87,200
	J	59,550 to 79,120
	I	47,860 to 68,270
	H	38,410 to 58,590

Inter-American Development Bank		Taxable gross equivalent
Executive vice president		$91,000
Manager		$81,760 to $82,210
Deputy managers		79,190 to 82,210
Professional levels:	I	59,770 to 77,100
	II	50,480 to 73,320
	III	42,370 to 68,960
	IV	35,849 to 58,770
	V	30,270 to 49,490

Partly because of this "grossing up" procedure, these executives' salaries far exceed the salaries paid to U.S. Federal executives. For example, in the Department of the Treasury, the Deputy Assistant Secretary for International Monetary and Investment Affairs receives $47,500, and in the Department of State, the Deputy Assistant Secretary for International Finance and Development also receives $47,500.

Government-related organizations

Executives in many Government-owned, established, regulated, and supported organizations receive higher salaries than those paid to Federal executives. Several examples are given below.

--Federal National Mortgage Association--a Government-sponsored private corporation. The aggregate direct renumeration for the Chairman of the Board/President in 1977 was $141,485; for the Executive Vice President, $92,555; and for the Executive Vice President/Chief Financial Officer, $90,935.

--Farm Credit System--a system of banks initially capitalized by the U.S. Government but now owned by its users. Its activities are supervised by the Farm

Credit Administration, a Federal agency. Depending on their individual grade level, Bank Presidents can receive from $48,000 (minimum, grade A) to $125,500 (maximum, grade E) in 1979.

--Federal Reserve System--established under statute. The Board of Governors has broad supervisory powers over the system. The salary schedule ranges for officers at the New York Bank for 1979 are below. The other Federal Reserve Banks have lower pay schedules.

President	$79,125 to $116,050
First Vice President	58,025 to 89,675
Senior Vice President	45,365 to 68,575
Vice Presidents	40,090 to 61,190

--Federal Home Loan Banks--a system of banks created by statute, the capital stock of which is entirely owned by member institutions. Operations of the banks are supervised by the Federal Home Loan Bank Board, a Federal agency. Current salary levels for bank officers are President--$60,000 to $96,000; Vice President (ranking)--$42,000 to $67,000; and Senior Officers--$36,000 to $59,000.

As a point of reference, the Chairman of the Federal Reserve Board of Governors receives $57,500 and the Chairman of the Federal Home Loan Bank Board, $52,500.

EXECUTIVE SALARY MOVEMENTS

Federal executives have often not received the annual pay adjustments that other Federal employees have been granted and which are common in the private sector. Since the establishment of the automatic annual adjustments for the Executive Schedule in 1975, only one such adjustment has been allowed to take effect--the first one in 1975. The Congress has denied the funds to pay two "automatic" increases and has once denied the adjustment itself. In addition, the recommendations of all three Quadrennial Commissions have been scaled down by the President. One recommended increase was denied by the Congress altogether. One factor affecting congressional approval of executive pay raises has been the congressional-Executive Level II pay linkage whereby the Congress is faced with increasing its own pay at the same time.

As a result of these various actions, between April 1969 and the present--a 10-year period--Executive Level I salaries increased only 10 percent. The other four levels increased 31 to 35 percent for an overall average increase of about 28 percent. In contrast, GS rates increased about 87 percent, and annuities for retired Federal workers were adjusted by about 110 percent.

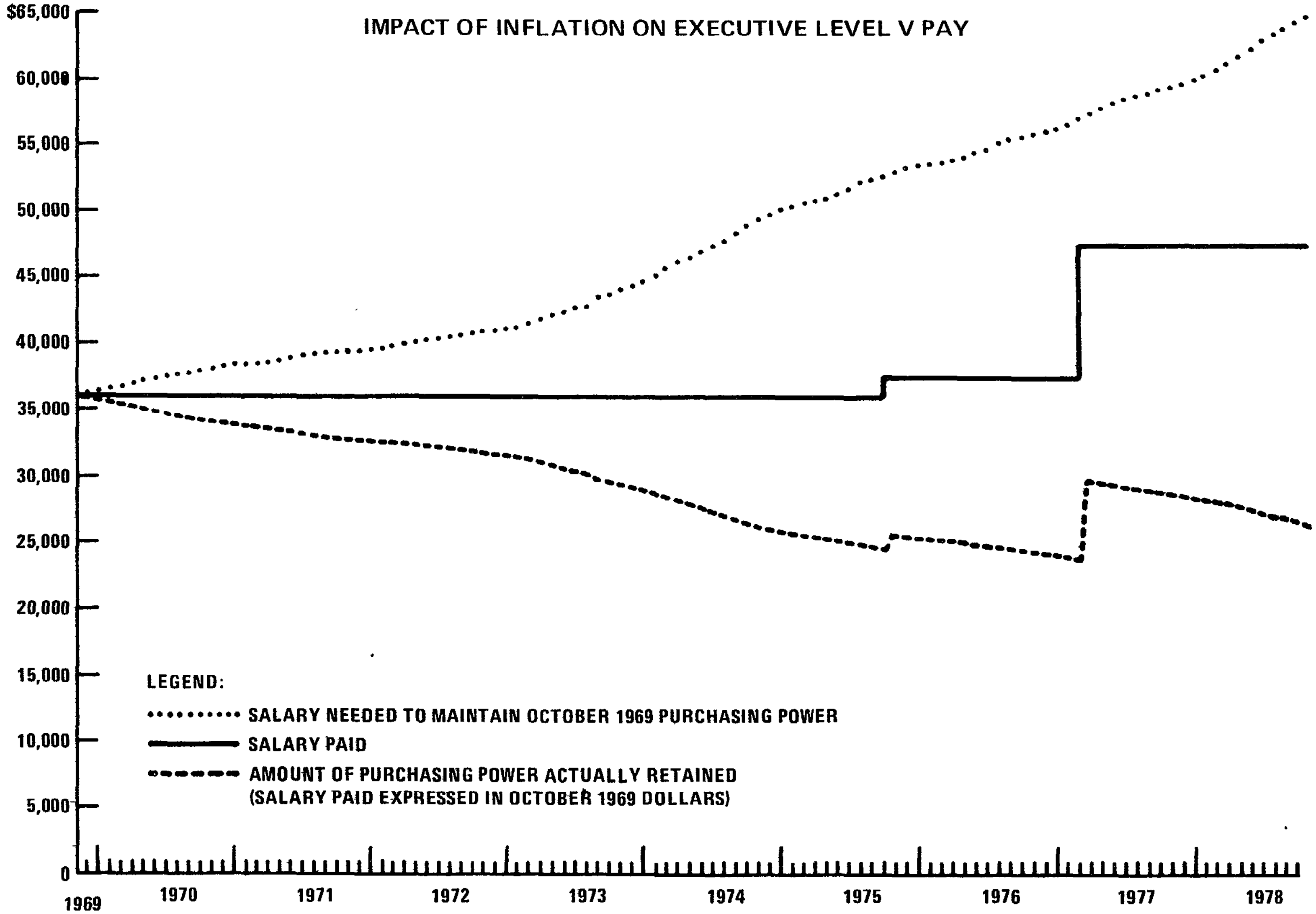
Salaries for top private sector managers surveyed by Sibson and Company increased an average of about 105 percent between 1969 and 1978. Salaries for executive positions covered under the American Management Association survey of top managers increased an average of 77 percent between 1969 and 1977. Social security cash benefits were increased about 120 percent from 1969 to 1978.

Average salaries of State Governors increased 51 percent from 1969 to 1977; selected State officials, 47 to 73 percent; and State Chief Judges and State Court Administrative Officers, 57 percent. Average salaries of city managers increased 44 percent between 1973 and 1978, only a 5-year period. Educators' average total compensation increased by about 71 percent from the 1969-70 school year to the 1977-78 school year.

From October 1969 to October 1978, the cost of living as measured by the Bureau of Labor Statistics' Consumer Price Index rose about 80 percent. Since Federal executive salaries have not been keeping up, their real compensation has been decreasing. For example, real compensation (in October 1969 dollars) for Executive Level I had fallen to $36,663 by October 1978, a 39-percent decrease in purchasing power (or saving power). The decrease will be even greater by October 1979, the earliest time that the next adjustment can occur. If Level I executives had received pay increases equal to the inflation rise between October 1969 and October 1978, their salary at October 1978 would be about $108,000. The same situation exists for Executive Level V, as shown on p. 14. Level V pay increased 32 percent from 1969 to the present ($36,000 to $47,500), but Level V purchasing power (in October 1969 dollars) had decreased from $36,000 to $26,386--27 percent--by October 1978. Before the 1977 quadrennial pay increase, Level V purchasing power had been down as low as $23,820.

EXECUTIVE SALARY DIFFERENTIALS

Not only is executive pay generally lower than in the private sector, and infrequently adjusted, but in recent years there has been no consistent pattern in setting salary differentials between the different levels of the Executive Schedule. For example, in 1968 the intervals between


IMPACT OF INFLATION ON EXECUTIVE LEVEL V PAY
$65,000
60,000
55,000
50,000
45,000
40,000
35,000
30,000
25,000
20,000
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1971
1972
1973
1974
1975
1976
1977
1978
LEGEND:
SALARY NEEDED TO MAINTAIN OCTOBER 1969 PURCHASING POWER
SALARY PAID
AMOUNT OF PURCHASING POWER ACTUALLY RETAINED
(SALARY PAID EXPRESSED IN OCTOBER 1969 DOLLARS)

succeeding Executive Levels ranged from 1.7 percent to 16.7 percent; in 1973, from 5.3 percent to 41.2 percent. The present differentials paid are

--5.3 percent between Executive Levels V and IV,

--5.0 percent between Executive Levels IV and III,

--9.5 percent between Executive Levels III and II, and

--14.8 percent between Executive Levels II and I.

The Quadrennial Commission in 1976 suggested that, since those at the top of the Executive Schedule derive considerably more nonmonetary rewards or "psychic income" from public service than those at the lower part of the Schedule, salary intervals should be greater at the lower levels than at the upper levels. As the above table shows, the opposite situation currently exists. While we do not offer recommendations on specific differentials within the Executive Schedule, we recognize a need for a consistent and coherent system for setting these intervals.

IMPACT ON TOP MANAGERS

Federal executive salary levels have affected the top levels of other Federal pay systems, resulting in lost pay, lost purchasing power, lost benefits, and "payless promotions" for those affected.

Pay rates under the GS and other statutory pay schedules may generally not exceed the rate established for Executive Level V. 1/ Pay in executive agencies and military departments which is administratively determined is also limited. As a result, as pay for top managers in these schedules is increased, it reaches the imposed ceiling rate and then remains at that rate.

Pay compression has been with us since January 1971 when the rate for GS-18, the top rate for GS-17, and equivalent positions in other pay systems reached the Level V ceiling (then $36,000). Just before the 1977 quadrennially

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1/While the established rate of Executive Level V is $50,100, the Congress has, through provisions of the Legislative Branch Appropriation Act of 1979, effectively limited GS salaries to $47,500 during fiscal year 1979.

initiated increase, over 20,000 Federal employees were receiving less than their comparability determined salary rates. Today, salaries of over 12,400 Federal employees are compressed at $47,500. Of these, about 8,700 are GS (or GS equivalent) employees in the supergrade and GS-15 levels. The chart below shows the salaries for the top GS levels as determined by the comparability procedure.

Steps	GS-15	GS-16	GS-17	GS-18
1	$38,160	$44,756	a/$52,429	a/$61,499
2	39,432	46,248	a/ 54,177	
3	40,704	a/47,740	a/ 55,925	
4	41,976	a/49,232	a/ 57,673	
5	43,248	a/50,724	a/ 59,421	
6	44,520	a/52,216		
7	45,792	a/53,708		
8	47,064	a/55,200		
9	a/48,336	a/56,692		
10	a/49,608			

a/Limited to $47,500.

Having several levels--GS-15, 16, 17, 18, and Executive Level V--at the same salary provides for "payless promotions" for affected employees and undermines congressionally imposed pay principles of external and internal equity.

We have long felt that pay distinctions should be maintained in keeping with work and performance distinctions and, in June 1978, we endorsed certain provisions of H.R. 11774, a bill to amend the Federal Salary Act of 1967 and title 5, United States Code, to require pay rate distinctions for different grades, steps, schedules, and levels under statutory pay systems. The bill, in effect, proposed to create new pay ceilings for levels below GS-18 (and their equivalents) which would be progressively lower than the existing Level V ceiling. Pay differentials could be established by not granting the full comparability increases to an increasing number of employees. While the bill would certainly have created new impediments to comparability for employees who had not been so affected before, it could result in a more equitable sharing of the effects of the ceiling.

We did note at that time and we still believe that while a solution to provide both pay distinctions as well as adequate salary levels for these top officials would be preferable, this might not be possible as long as Federal pay (via the Executive Schedule) was linked to congressional salaries.

Because of the imposed salary ceiling, the present annual salary loss for a GS-18, based on comparability rates, is $13,949 ($61,449 less $47,500). A GS-18 who reached the salary ceiling in January 1971 suffered a cumulative salary loss over the last 8 years of $59,848. By October 1979 this loss will have increased to $73,797. The other affected levels have lost less.

Compression has also resulted in lost purchasing power for those at the ceiling. For example, the October 1978 salary for GS-18s expressed in January 1971 dollars (when GS-18 first reached the Level V ceiling) is worth $28,183. If GS-18 salaries had increased at the same rate as inflation during this period, they would receive $60,674 instead of the current $47,500.

GS employees affected by the ceiling are also being denied regular Federal life insurance coverage based on their comparability salaries. For a GS-18, this amounts to $14,000 of coverage which, if purchased in the private sector by the employee, reduces an already compressed salary.

Retirement benefits for these employees are also affected since annuities are determined using the paid salary amounts instead of the comparability salary amounts. For a GS-18 retiring as of September 30, 1978, after 30 years of service, this could mean an initial annuity of $5,972 a year less than if the employee had received the comparability salary amount.

IMPACT ON AGENCY OPERATIONS

For the past several years agencies had experienced recruitment and retention problems for their top level positions, particularly during periods when pay for Executive Levels and supergrades was frozen. Managers had been reluctant to accept promotions to positions of higher responsibility not accompanied by higher pay. In addition, attractive salaries outside the Federal sector, more chances for advancement there, and attractive Federal retirement annuities all lured Federal executives to leave Federal service.

In 1975 and 1976, the ceiling was raised modestly to $37,800 and $39,600, respectively. It was not until the

1977 quadrennial increase, raising the ceiling to $47,500 that these problems were significantly alleviated.

But the problems have by no means been completely eliminated. Agencies are still experiencing recruitment difficulties for some top Federal positions, primarily due to present salary levels. For example, in 1978 one large Federal agency experienced extreme difficulty in recruiting its chief actuary, a GS-18. The rate determined under the comparability process for this position is $61,449, but because of the Level V ceiling and current congressional restrictions, the amount payable is held to $47,500. Of the 55 individuals referred to the agency by professional associations and by actuaries working in the agency, 30 cited personal reasons for their unwillingness to be considered; in nearly all of these cases, low pay was mentioned as one consideration. Four of the nine finalists selected asked not to be considered specifically because of pay reasons. The individual finally recommended by the agency's personnel office initially declined, but later agreed.

Because of the pay distinction problem, agencies are still faced with promoting employees to higher level but equally paying jobs. For example, responsibility levels in an agency from a GS-15 branch chief up to a Level V Commissioner or Administrator can all receive the same $47,500 salary. Such "non-distinctions" are unheard of in the private sector.

Examples of top HEW executives who left Federal service in 1978 and received higher pay in their new positions include the GS-16 Associate Commissioner for Public Affairs, Food and Drug Administration, as well as the GS-17 Deputy Director, Bureau of Foods. The Chief, Division of Hospitals and Clinics, Health Services Administration, also accepted a position in the private sector which paid considerably more.

In the past, the retirement rate for top managers who were receiving ceiling salaries was higher than it was for all Federal employees eligible to retire. The lure to retire early remains strong.

Under the civil service retirement system, an employee is eligible for an annuity which is based on his average annual salary during his 3 highest paid years and the length of his service. But once an employee's salary has reached the Level V ceiling (which remains static), the only factor remaining which can increase his initial annuity is his number of years of service. For each additional year of service after 10 years, the annuity is increased by 2 percent of average salary. Once retired, however, the annuitant enjoys cost-of-living increases which are applied to Federal annuities. In the last 5 years, annuities have increased over 57 percent due to these adjustments.

Under the present system it is possible for a retiree to subsequently receive an annuity higher than the final salary he received before retiring, higher than the ceiling salary in effect at the time he retired, and higher than the present $47,500 ceiling.

As of January 1979, a total of 2,419 civil service annuitants who retired after 1970 received more in annuities than they received when they were still working. For example, one GS-16, step 7 employee with an average salary of $29,408 and a final salary rate of $33,757 retired in May 1971 after 42-1/2 years of service. Today, he receives an annuity of $43,452. Another annuitant who retired in May 1971 with an average salary of $33,854 and a final salary rate of $36,000 after 43 years of service, presently receives $46,032.

A total of 790 employees who retired after 1970 receive annuities in excess of $36,000--the GS ceiling rate in effect from 1969 to 1975. Two hundred and thirty-four of these retirees had been earning less than $36,000 at the time they retired; the remainder were either at the GS ceiling rate, in Executive Schedule positions, or in positions at equivalent pay in other pay systems.

Presently, at least 13 employees who retired after 1970 receive annuities in excess of $47,500--the current GS ceiling amount. Twelve of these retirees had final salary rates of less than $47,500.

It is evident then, that inadequate executive pay, irregular salary movements, and distorted pay relationships have created serious problems for agencies and for top GS and Executive Schedule employees. As we discuss in the following chapter, these problems will become increasingly severe, particularly if the procedure for annual adjustments continues to fail.

CHAPTER 3

WHAT MIGHT EXECUTIVES, MANAGERS, AND THEIR AGENCIES EXPECT IN THE FUTURE?

For a large number of Federal executives, the problems inherent in the present system will probably continue into the future. The pay-setting process will remain virtually unchanged for

--all Executive Level I, II, and III positions;

--Executive Level IV and V positions filled by Presidential appointees with Senate approval;

--all nonmanagerial and nonsupervisory supergrade positions;

--supergrade and equivalent positions in excluded agencies; 1/ and

--those eligible for the Senior Executive Service but who have elected not to join.

Even the SES, with its system of awards, bonuses, higher basic pay ceiling, and additional benefits will not eliminate all of the compensation problems that have plagued executives and their agencies; in fact, new problems may be created.

The following sections address the significant problems that could confront Executive Schedule employees, top GS employees, members of the SES, and their agencies in the future.

EXECUTIVE SCHEDULE

The implementation of the Senior Executive Service will have little effect on pay setting for personnel remaining in or hired into Executive Schedule positions in

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1/The following are excluded under the legislation from SES: Federal Bureau of Investigation, Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, the General Accounting Office, and certain positions in other agencies.

the future. This group will continue with the present system of quadrennial and annual adjustments which is linked informally to congressional pay.

The existing linkage between Executive Level II salaries and congressional pay has undoubtedly contributed to Congress' unwillingness to grant quadrennial and annual adjustments to Federal executives in the past and, unless broken, could continue to be a factor in the future. The last Quadrennial Commission reported that the linkage did not seem to be an appropriate way to fix congressional salaries and should not be permitted to continue to distort or improperly depress executives' salaries. The Commission's attempts to break this linkage, however, were unsuccessful. We agree that there is little rationale for this linkage.

The next annual comparability adjustment is scheduled for October 1979, and depending on what actions the Congress takes, the following situations could result:

--The Executive Schedule would receive the October 1979 adjustment along with the October 1978 adjustment for which funds were denied during fiscal year 1979.

--The Executive Schedule would be prevented from receiving the October 1979 adjustment either by a total denial of the adjustment or by a denial of funds, but would receive the October 1978 adjustment.

--The Executive Schedule would not receive either adjustment.

If the Congress does not react favorably to these and subsequent comparability adjustments for executives, the burden of recommending increases in Executive Schedule salaries will rest with the 1980 Quadrennial Commission. Accumulated deficits in pay would result in recommendations for conspicuously large raises. Such raises could be in jeopardy since, in the past, the President has trimmed recommendations made by the Quadrennial Commission and the Congress has denied one of the increases altogether. There were also several attempts in the Congress to rescind the 1977 quadrennial increase.

We have reported that the 4-year period for such pay assessments is too long and, in the absence of interim annual adjustments in a period of persistent inflation, results in recommendations for substantial pay increases which are not readily acceptable to the Congress and the public. For example, the most recent quadrennial recommendations went into effect, but only after they were trimmed by the President. They still met with significant public, media, and congressional opposition. In 1980, the Quadrennial Commission could well be faced with this situation again.

We estimated the pay levels that might have to be considered by the 1980 Quadrennial Commission to be put into effect in 1981 by applying various pay movement factors to the pay rates established under the last quadrennial procedure. We considered

--a 5.5-percent annual increase (such as was given to GS employees in October 1978, and granted but not paid to the Executive Schedule) for each of the years 1977, 1978, 1979, and 1980;

--a 7-percent annual increase; and

--a 9-percent annual increase (the average received by private sector executives over the past 3 years).

Results of our analysis are shown below.

Possible Quadrennial Commission
Pay Recommendations for 1981

Executive Level	1977 Salary	Annual increases of 5.5 percent	7.0 percent	9.0 percent
I	$66,000	$81,800	$86,500	$93,200
II	57,500	71,200	75,400	81,200
III	52,500	65,000	68,800	74,190
IV	50,000	61,900	65,500	70,600
V	47,500	58,800	62,300	67,100

Using the 5.5-percent factor, an overall increase over the designated 4-year period of 24 percent would result; using the higher 9.0-percent factor, a 41-percent overall increase would be suggested. If the Congress in the meantime allows these executives to receive only the October 1978 comparability increase, the one-step quadrennial increase needed to bring salaries up to the indicated levels in 1981 would range from 17 percent to 34 percent.

Recommendations of this magnitude would probably encounter at least as much opposition as the increases granted under the 1977 quadrennial procedure which averaged 22 percent. In addition, the payment of significant pay increases for executives, whether generated under the quadrennial procedure or the comparability process, could possibly conflict (or appear to conflict) with the wage and price standards included as part of the administration's anti-inflation program. Depending on the application of the guidelines to the Federal work force, this could become an issue as early as October 1979 when executives are scheduled for an annual comparability adjustment and the Congress must decide whether or not to pay executives the October 1978 increase, too. The regular granting and paying of all annual adjustments would lessen the need for substantial increases in a single year and avoid potential conflict with the guidelines.

Employees in Executive Schedule positions will continue to lose purchasing (or saving) power unless their salaries are increased in the near future. For example, in 1969 an Executive Level I received $60,000. If inflation continues in 1979 and 1980 at the annual rate it averaged between October 1969 and October 1978 (6.8 percent), the real compensation for an Executive Level I (measured in October 1969 dollars) will fall to about $32,143 by October 1980. This represents a decrease of approximately 46 percent over the 11-year period. Any increases paid to the Executive Schedule under the annual adjustment procedure in the meantime would restore some of this lost purchasing power. If Executive Level I salaries keep pace with inflation during this period, they would reach approximately $123,200 by October 1980. Executive Level V salaries would reach about $73,900.

TOP GENERAL SCHEDULE EMPLOYEES

The implementation of the SES will have little effect on the basic pay-setting process for top GS personnel in the future. The annual comparability procedure will remain intact and will continue to be affected by decisions of the President and the Congress.

The extent to which compression for top GS employees and its resulting problems will continue is largely dependent on actions which are taken in October 1979 and in subsequent Octobers. There are several possibilities.

--If no prohibitive action is taken by the Congress, in October 1979 the average GS comparability adjustment will be applied to the presently established rates of the Executive Schedule. For example, if the GS comparability adjustment averages 5.5 percent, the new Executive Level V rate and the corresponding new ceiling on GS pay rates would be approximately \$52,900. And, if another 5.5-percent across-the-board comparability increase is granted in October 1980 under similar conditions, the ceiling on GS salaries would then rise to approximately \$55,800. At that time, salaries for managers at the GS-16, step 5 level and above would be affected by, and limited to, the \$55,800 ceiling amount.

--If the Congress instead allows the Executive Schedule the October 1978 adjustment (effective at the end of fiscal year 1979) but totally denies them the annual comparability increases given to the GS in 1979 and 1980, the Executive Level V pay rate and the new ceiling on GS salaries would be \$50,100. In October 1980, assuming the GS has been granted 1979 and 1980 across-the-board comparability adjustments of 5.5 percent, salaries for employees at GS-15, step 7 and above will have reached the \$50,100 ceiling amount. If these increases were 7 percent instead, employees at GS-15, step 6 and above would then be affected.

--If future annual adjustments are totally denied the Executive Schedule, and the Congress continues to impose its \$47,500 limitation on the salaries actually paid to Level V and to other positions whose salaries are related to or limited by Level V, the effect on GS employees would be even more severe. For example, if the entire General Schedule receives 5.5-percent across-the-board adjustments in 1979 and 1980, salaries for positions of GS-15, step 5 and above would become compressed at the congressionally imposed \$47,500; if the GS adjustments were 7 percent, compression would reach down to GS-15, step 4 and also include GS-14, step 10.

Thus, because of the linkage between the General Schedule and the Executive Level V pay rate and other restrictions imposed by the Congress, an even larger number of GS employees may continue to experience the problems of compression--the lost pay, lost benefits, and lost purchasing power, along with distorted pay relationships.

The Executive Level V ceiling on GS salaries affects not only the top GS levels as noted above, but also its middle management levels. The new merit pay system for

GS-13s to 15s, established under civil service reform legislation, is designed to motivate these employees and to provide an incentive for superior performance. It relates pay increases to an employee's performance. Within-grade step increases are eliminated but most employees covered will be automatically guaranteed payment of half of the annual comparability increase. Any raises over this amount will have to be competed for and would be paid from a special fund held by each agency.

Under this system, an employee's total salary, including merit pay, is limited to the top salary rate payable for that grade level. For example, at current salary levels, a GS-15, step 8 could receive at most a merit increase of only $434, since total pay for that grade could not exceed $47,500 (the Executive Level V ceiling on GS salaries). A GS-15, step 9 or 10 employee whose salary has already reached the $47,500 ceiling amount, would be ineligible for merit pay increases. And, as the top salary rates for other grade levels reach the Level V ceiling, the amount of merit pay payable to employees in these grade levels is also decreased. Our earlier example indicated that some GS-14s could be affected by 1980.

It is therefore possible that, because of the relatively static Level V ceiling on GS salaries, merit increases could be withheld from highly deserving employees in these affected grades whose salaries are already at or near the ceiling. This could result in the shifting of funds to lesser deserving individuals. Thus, the central purpose of merit pay--to reward good performance and discourage poor performance--could be compromised.

SENIOR EXECUTIVE SERVICE

SES provides an opportunity for improved pay setting for some executives. For example, the upper limit on basic pay has been effectively increased to the Executive Level IV paid rate. But because of the linkage with the traditional Executive and General Schedules, the success of SES in improving its members' pay in the future depends on the extent to which the Executive and GS increases are allowed to take effect.

The President must keep SES basic pay rates between the rate paid to GS-16, step 1 (currently $44,756) and the Executive Level IV rate ($52,800). These rates serve as the "floor" and "ceiling" for SES pay rates. However, since the amount actually payable to Executive Level IV is limited to $50,000, the maximum amount of basic pay currently payable to SES members is also limited to $50,000. Thus, in the absence of congressional action to the contrary, the limit on SES pay is effectively the amount actually payable to Executive Level IV.

The actual basic pay range for SES will initially be $5,244 ($50,000 less $44,756). Because the floor and ceiling limits on SES pay are determined under different processes and can be adjusted separately, this range could become even narrower.

For example, consider the case where GS employees receive a 5.5-percent comparability raise in October 1979, but the Executive Schedule employees are not only totally denied that increase but the Congress continues to deny funds to bring executive salaries up to their currently established rates. The GS-16, step 1 rate would go up to $47,218, but the Executive Level IV paid rate--and the effective ceiling on SES pay--would stay at $50,000. This would narrow the SES actual basic pay range to $2,782 ($50,000 less $47,218).

Another 5.5-percent raise under these same conditions in October 1980 would result in the Level IV paid rate remaining at $50,000. The GS-16, step 1 pay rate would increase to $49,815, but would be limited by the $47,500 GS pay ceiling. In that case, the SES pay range would be only $2,500. Even if the Executive Schedule positions were not prevented from being paid their established rates in October 1979, the pay range at that time would be $5,582 ($52,800 less $47,218) under these conditions.

It would appear that since under the comparability adjustment process, the GS-16, step 1 pay rate would generally be limited to the Executive Level V ceiling on GS pay, and the SES floor amount could never exceed Executive Level V, the narrowest pay range possible would always be the difference between Level V and Level IV--currently $2,500. However, this may not always be true. For example, back in 1976 the Congress denied the funds to pay the comparability increase to Executive Schedule employees. This procedure did not prevent the established rates for the Executive Schedule from increasing by the average adjustment rate, thus creating the dual rates (paid rates and established rates). GS positions were allowed to receive the increase, with their new salaries being limited to $39,600--the new established Level V rate. However Executive Level V continued to be paid $37,800. In March 1977, the House Subcommittee on Presidential Pay Recommendations noted that the Congress could enact the same use of funds prohibition for the Executive Schedule in that year and in succeeding years. 1/ If this occurred, top GS positions would actually be paid near the Executive Level II rate in the near future. While this circumstance did not occur in either October 1977 or in 1978, the system is still in place that could permit it to happen in the future.

For example, with a 5.5-percent GS annual comparability increase in 1979 and 1980, increases granted but not paid to the Executive Schedule, and in the absence of any other restrictions, the GS-16, step 1 rate could reach $49,815 in 1980--almost as high as the current Level IV paid rate of $50,000 (the SES ceiling). This would result in a basic pay range for SES of only $185 ($50,000 less $49,815).

If the Level IV ceiling on SES pay increases because either the Congress does not renew its funds prohibition on Executive Schedule pay or it grants and pays a future comparability initiated increase to the Executive Schedule, it will be essential that the President exercise his authority to adjust the internal SES pay rates. If he does not, SES pay will become compressed at a lower rate than necessary. The need for annual basic pay adjustments will be particularly critical for those SES executives who will either not be eligible for or do not receive bonus payments.

AGENCIES

If annual adjustments for the Executive Schedule are continually denied and compression reaches further down into the General Schedule, agencies could face increasingly severe problems with employee morale and with recruiting and retaining competent employees.

We have already shown that four different GS levels--GS-15 through GS-18--and Executive Level V receive the same salary and could continue to do so in the future. Morale problems resulting from lack of pay distinctions between different levels of responsibility and from relatively low pay rates could deteriorate as more and more levels become compressed. Affected employees may be reluctant to strive toward outstanding performance when "promotions" are not accompanied by increased salaries. This problem may extend

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1/House Committee on Post Office and Civil Service, "Report of the Subcommittee on Presidential Pay Recommendations Together with Additional Views" (Print 95-4), Mar. 17, 1977, p. 13.

to the Executive Levels as well where pay intervals between some levels are and may continue to be inadequate and internally inconsistent.

The effect of immobile Executive Schedule rates could also be felt in SES where the range for basic pay, into which at least five pay levels must be placed, is somewhat narrow. If Executive Schedule pay is held down while GS employees receive annual comparability increases, the SES range will become even narrower.

Other morale problems could result from the bonus payment system of SES. Performance and executive rank awards will be available only to career SES members with the limit on total pay set at the rate for Executive Level I. Thus, it will be possible for career SES members working for Executive Level IIs or IIIs or for noncareer SES members to be earning more than their supervisors. This might become a factor influencing the willingness of these supervisors to allocate bonus funds according to their intended purpose.

Recruitment problems could become as severe as just before the 1977 pay increase. This will be particularly true for those positions not covered under SES, as well as for noncareer SES executives who are not eligible for bonus payments. As compression affects an increasing number of GS levels, agencies will find it increasingly difficult to attract top quality candidates for top management positions.

A serious problem confronting agencies in the future may be the difficulty of promoting their own employees to positions of greater responsibility with no matching pay increases. Presently, five levels are paid the same salary and as more levels reach the salary ceiling, this problem will become even more acute.

Executives will continue to leave the Government for higher-paying private sector jobs, while others will take advantage of early retirement. These problems will worsen as Federal salaries fall further behind those of private industry, and as larger numbers of executives find that they can benefit more from semiannually adjusted annuities and salaries in the private sector than from stagnant Federal salaries.

It can be argued that Federal executives receive considerable "psychic income" from the nonmonetary rewards of public service. We agree in principle with this notion and have therefore not advocated raising Federal executive salaries to the point of being equal to private sector salaries. But we do believe that psychic income alone is not sufficient to retain top quality executives when, in real terms, their monetary incomes decline each year and many levels of responsibility are compensated without distinction. Annual salary adjustments are essential in ensuring more reasonable salary rates and in alleviating the resulting recruitment and retention problems.

The guarantee of annual salary adjustments could further lessen executives' reliance on outside sources of income. Endeavors generating such income may increase the opportunity for conflicts of interest and therefore damage public confidence in Federal officials. And, as ethics codes for public officials continue to become stricter, the need for annual adjustments becomes even more critical in attracting and retaining quality executives.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Changes in pay setting for Federal executives are critically needed if (1) the problems executives face due to diminishing real salaries are to be alleviated, (2) pay distinctions are to accurately reflect differences between levels of responsibility and performance, and (3) agencies are to avoid serious recruitment and retention problems.

Allowing annual adjustments to take effect would help alleviate compression, improve pay distinctions, and reduce agencies' recruitment and retention problems. In addition, these adjustments would reduce the burden on the next Quadrennial Commission to recommend the large, politically unpopular increases which have characterized their past proposals.

Annual adjustments of relatively small amounts appear to be more acceptable to the public than are the large jumps recommended every 4 years by the Quadrennial Commission. Annual increases attached to some automatic mechanism appear to be more "fair" than seemingly excessive, sporadic increases. Annual adjustments would also be less likely to conflict with the wage and price guidelines of the President's anti-inflation program.

SES's success also depends on the granting of annual adjustments to the Executive Schedule. Without these increases, both the SES basic pay ceiling and the SES total compensation ceiling amount would be stifled.

The congressional-Executive Schedule linkage has had an adverse effect on top executive branch managers at times when the Congress has, for a variety of reasons, held its own pay down. This has also helped hold down the Level V ceiling on GS pay, compromising legislative mandates for pay comparability and maintaining pay distinctions to match work and performance distinctions. The congressional-Level II linkage has no legal basis and because it has been systematic only since 1965, it has no deeply rooted historical foundation. Since there seems to be few parallels between the career patterns, career expectations, and responsibilities of Congressmen and Level II executive branch employees, we see no compelling need for a continuation of the linkage between these salaries.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress improve the pay-setting process for Federal executives by:

- --Allowing the annual adjustments for executives under Public Law 94-82 to take effect.
- --Discontinuing the practice of linking congressional and Executive Level II salaries.

GAO REPORTS ISSUED ON EXECUTIVE PAY ISSUES

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

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

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

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

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

CHRONOLOGY OF EXECUTIVE PAY ACTIONS 1967-78

Federal Salary Act of 1967 (Public Law 90-206)

This act established the Commission on Executive, Legislative and Judicial Salaries (the Quadrennial Commission). Its purpose is to review executive level salaries in all three branches of the Government every 4 years and to recommend salary adjustments to the President. Before this, executive pay was set by statute with no definite schedule for adjustments. After receiving the Commission's recommendations, the President must then submit his proposed recommendations to the Congress for its consideration.

First quadrennial adjustment--fiscal year 1969

In 1968, the first Quadrennial Commission proposed substantial catchup salary increases for executives which would also improve the salary differentials between the various responsibility levels. The President proposed smaller increases.

Executive Level	1968 actual salary	Commission's recommendations for 1969	President's recommendations for 1969
I	$35,000	$60,000	$60,000
II	30,000	50,000	42,500
III	29,500	46,000	40,000
IV	28,750	43,000	38,000
V	28,000	40,000	36,000

The rates proposed by the President went into effect in March 1969 after disapproval resolutions in both Houses failed.

Second quadrennial adjustment--fiscal year 1973

The second Quadrennial Commission noted that compensation for non-Federal executives had increased about 30 percent since 1968; however, they recognized the need for moderation implicit in the economic environment at the time. They recommended increases for most executive positions about equal to the increase in the cost of living over the 5-year period, about 25 percent. The President proposed a single 7.5-percent increase in 1975 for Executive Level I and three increases of 7.5 percent each in 1974, 1975, and 1976 for Executive Levels II through V.

Executive Level	1973 actual salary	Commission's recommendations for 1974	President's recommendations for 1974	1975	1976
I	$60,000	$70,000	$60,000	$64,500	$64,500
II	42,500	53,000	45,700	49,100	52,800
III	40,000	50,000	43,000	46,200	49,700
IV	38,000	47,500	40,900	43,900	47,200
V	36,000	45,000	38,700	41,600	44,700

The Senate, however, passed a resolution rejecting these increases; thus, no increases were granted to executives.

Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82)

This law provides that positions under the jurisdiction of the Quadrennial Commission are to receive an annual "cost-of-living" salary adjustment equal to the average of the rates by which GS salaries are increased for annual comparability purposes.

First annual salary adjustment--October 1975

Under provisions of the above act, executives received the same 5-percent adjustment given to GS employees, as shown below.

Executive Level	Salary before adjustment	Salary after adjustment
I	$60,000	$63,000
II	42,500	44,600
III	40,000	42,000
IV	38,000	39,900
V	36,000	37,800

Second annual salary adjustment--October 1976

In October 1976, the Congress passed the Legislative Branch Appropriation Act (Public Law 94-440). This denied the funds to pay those positions under the jurisdiction of the Quadrennial Commission the October 1976 "automatic" increase (4.83 percent under the President's alternative plan) they would have received under the provisions of Public Law 94-82. It did not, however, prevent the "legal" rate for these positions from increasing, nor did it prevent paying other employees at these new rates. As a result, the ceiling for the General Schedule became $39,600 while the actual paid rate for Executive Level V remained at $37,800.

Third quadrennial adjustment--fiscal year 1977

The third Quadrennial Commission recommended substantial increases for executives, ranging from 7.1 to 35.7 percent. Executives had received only one salary increase in 8 years. The President reduced the Commission's recommendations.

Executive Level	1976 actual salary	Commission's recommendations for 1977	President's recommendations for 1977
I	$63,000	$67,500	$66,000
II	44,600	60,000	57,500
III	42,000	57,000	52,500
IV	39,900	53,000	50,000
V	37,800	49,000	47,500

The Congress did not disapprove the recommendations and the President's proposals went into effect in late February and early March 1977.

Public Law 95-19--April 1977

This law amended the Salary Act of 1967 and increased the role of the Congress in adjusting executive pay. It provides that future quadrennial salary recommendations of the President (but not the annual adjustments) would not take effect unless approved by both Houses of Congress within 60 days. The new rates would become effective about 30 days after the second House approves the rates. The law also provides that separate votes be taken on pay increases for each branch.

Third annual salary adjustment--October 1977

On July 11, 1977, the Congress passed Public Law 95-66 denying the October 1977 automatic adjustment for executives who had received increases under the 1977 quadrennial procedure. As a result, the legal rate for Level V, and thus the GS ceiling, remained at $47,500.

Fourth annual salary adjustment--October 1978

The 5.5-percent October salary increase given to most GS employees (under the President's alternative pay plan) was denied for Executive Schedule and certain other positions by the Legislative Branch Appropriation Act of 1979 (Public Law 95-391). The law generally denied the funds to pay salaries at a rate greater than that paid for the position at September 30, 1978, for positions (1) whose salaries were fixed at a rate equal to or greater than Level V or (2) whose salaries were limited to a maximum equal to or greater than Level V. Thus, while the law did not prohibit the legal rates for the executive positions from increasing, it did, in effect, prevent payment of the increase to the Executive Levels and to GS and related positions already at the $47,500 ceiling.

Civil Service Reform Act--October 1978
(Public Law 95-454)

This law established the Senior Executive Service covering certain GS-16 through Executive Level IV managerial and supervisory positions. SES will be subject to a separate pay system.

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