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REPORT BY THE

Comptroller General

OF THE UNITED STATES

Problems In Developing And Implementing A Total Compensation Plan For Federal Employees

113979

The Administration has proposed legislation which would allow for adjusting not only pay but also benefits to achieve a total compensation comparability between the Federal and non-Federal sectors. While GAO believes a total compensation plan should be adopted, modifications are needed to the one the Office of Personnel Management (OPM) has developed.

Making benefits comparisons is much more difficult than making pay comparisons. Benefits are numerous, complex, and difficult to measure; many assumptions must be made.

GAO recommends that the proposed legislation be modified to require OPM to insure that all significant benefits are appropriately accounted for. OPM should justify the assumptions used and provide assurance that benefits data can be accurately gathered and classified. Benefits differences by major employee group and by locality should also be fully considered.

The Congress should consider initially implementing a total compensation system in which pay and benefits are measured and adjusted separately.

UNITED STATES GENERAL ACCOUNTING OFFICE

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

B-200152

The Honorable Gladys ~~Noon~~ Spellman
Chair, Subcommittee on Compensation
and Employee Benefits
Committee on Post Office and Civil
Service
House of Representatives

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HSE02908

Dear Madam Chair:

In response to your request of August 7, 1979, we have reviewed the Administration's proposed total compensation comparability system (S. 1340 and H.R. 4477) and how it will affect Federal employees.

Our analysis showed that changes brought about by initiating total comparability could have a substantial effect. While we believe that a total comparability policy should be adopted, the Office of Personnel Management's approach needs to be modified or substantiated before an accurate total comparability system can be achieved. Certain administrative and legislative changes which the Congress should consider in its deliberations on this proposal are included as recommendations in this report.

We obtained official comments from the Office of Personnel Management which are on page 70.

As requested by your office, we plan no further distribution of the report for 30 days, unless you announce its contents earlier. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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COMPTROLLER GENERAL'S REPORT TO THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS, COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

PROBLEMS IN DEVELOPING AND IMPLEMENTING A TOTAL COMPENSATION PLAN FOR FEDERAL EMPLOYEES

DIGEST

Pay for Federal employees is based on pay in the private sector, but does not take into account benefits such as retirement, insurance, and paid time off. GAO and others have recommended that both pay and benefits be compared so that Federal total compensation can be equated to private sector total compensation. Legislation has been introduced which would give the President authority to adjust rates of pay, benefits other than retirement, or both, in order to achieve total compensation comparability; the Office of Personnel Management (OPM) is testing a method for accomplishing this. (See ch. 1.)

With the Federal nonpostal civilian payroll at nearly $55 billion this year, changes brought about by instituting total compensation comparability could have a substantial effect. GAO reviewed OPM's policies and techniques for measuring benefits and what impact they could have on the final comparability results. While GAO believes that a total comparability policy should be adopted, features of OPM's approach need to be modified or substantiated before an accurate total comparability system can be achieved.

Compared to pay comparability determinations, benefit measurements and comparisons are enormously complex. Not only are there many benefits to be measured, but the more important ones, such as retirement and insurance, are contingent on future events.

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Eligibility for benefits can vary among production, clerical, and professional employees, and the proclivity to use a particular benefit may be different for Federal employees than for others. As a result, many assumptions and predictions have to be made to estimate benefit levels and costs. While different assumptions may be equally reasonable and acceptable, they can yield different results. For instance, the Congressional Budget Office 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. (See chs. 2 and 3.)

Under OPM's total comparability approach only a Nation-wide measurement of benefits will be obtained. As part of this same legislation, however, the Administration also proposes to base salaries of General Schedule employees below grade 15 on local rather than national rates. Blue-collar wages are already based on local rates. Since indications are that private sector benefits can vary significantly from area to area, the use of local pay but national (instead of local) benefit measures in a total comparability analysis and adjustment could introduce additional inequities into Federal compensation. (See ch. 4.)

The Administration believes that, unless the proposed changes are made to the Federal compensation-setting system, comparability for Federal employees may no longer be feasible. This is because the frequent use of alternative plans and across-the-board pay adjustments have left some employees more than 10 percent behind comparability. GAO believes that, because of the complexities involved in developing a total comparability system, an evolutionary approach which can be modified and refined over time should be considered.

RECOMMENDATIONS TO THE CONGRESS

GAO supports the thrust of the proposed legislation but believes that the Congress should consider a number of improvements and alternatives in its deliberations on this proposal. Therefore, GAO recommends that the Congress

--modify the proposed legislation to require OPM to provide an assessment of secondary benefits (those not yet in its formal analysis) and insure that these benefits are appropriately accounted for. (See p. 11.)

--require OPM to provide detailed information on the major assumptions used in the benefit comparisons to assure the Congress as to their reasonableness and their effect on the final outcome. (See p. 30.)

--require OPM to provide assurance that detailed benefit provisions can be accurately gathered and classified, and (See p. 30.)

--insure that a method for considering benefit differences among major employee groups is fully considered by OPM. (See p. 30.)

The Congress could require these actions be completed before the legislation is enacted or before any pay adjustment is made under this process. After enactment, many policy decisions would become the responsibility of the Compensation Agent (rather than OPM). Also, because of the distortions that might result from utilizing a national benefits measure in lieu of local benefits measures when assessing and adjusting Federal total compensation at the local level, GAO recommends that the Congress

--insure that OPM analyzes local benefits. If these benefits are determined to differ materially by locality, the Congress should require OPM to take not only local pay, but also local benefits into account when assessing and adjusting Federal compensation on the local level. While this benefits analysis could be made after enactment of the legislation, it should be made before any compensation is adjusted on a locality basis. (See p. 42.)

In view of the refinements and possible changes needed in the proposed legislation, one modification the Congress may want to consider initially is to implement a total compensation comparability system that provides for separate pay and benefit adjustments for the first few years. (See pp. 42 to 44.)

OPM COMMENTS AND GAO'S EVALUATION

OPM agreed that there is a need for assessing secondary benefits and including them in the total compensation comparison, that the methodology for implementing a total comparability system is complex, and that benefit data would be difficult to gather and categorize. OPM disagreed that benefit differences by employee groups and locality should be determined and, if appropriate, included before any total compensation adjustments are made. OPM believed the advantages of including benefits and maintaining a single Federal benefits package would far outweigh any disadvantages caused by benefit differences by employee group or by locality differences.

GAO believes that these differences must be assessed before it can be determined whether it is equitable to implement a total compensation system that does not address these factors. OPM's specific comments are included in each chapter. (See pp. 12, 30, 44, and app. VI.)

Contents

ABBREVIATIONS

BLS	Bureau of Labor Statistics
CBO	Congressional Budget Office
GAO	General Accounting Office
GS	General Schedule
OASDI	Old-Age, Survivors, and Disability Insurance
OPM	Office of Personnel Management
TEC	Total Equivalent Compensation

CHAPTER 1

INTRODUCTION AND BACKGROUND

How should Federal pay be set? This question has often been asked by the Congress, the executive branch, Federal employees and the organizations representing them, the media, and the taxpaying public. Their concern is that the Federal Government, with over 2.3 million nonpostal civilian employees and an estimated annual payroll approaching $55 billion, provide a fair wage to its employees, one which is comparable to what is paid in the non-Federal sector for similar work and which allows agencies to recruit and retain the best people. 1/

On June 6, 1979, the President sent to the Congress proposed legislation which would reform pay-setting for most civilian employees of the Federal Government. He noted serious problems in the way the present pay comparability system had been implemented and indicated that the existing system had distorted comparisons between the Federal and non-Federal sectors. The Administration stated that, unless changes were made, Federal employees face the prospect of continued pay caps and the very real possibility of losing the comparability system. Frequent use of alternative plans and across-the-board pay adjustments have left some employees more than 10 percent behind comparability.

The Federal Employees Compensation Reform Act (S.1340, H.R. 4477), as proposed, would

--broaden the comparability process to include pay and benefits and authorize the President to adjust Federal benefits, along with Federal pay, to achieve a total comparability of pay and benefits between Federal and non-Federal sectors;

--pay most Federal white-collar employees on a locality basis;

--include State and local governments in the comparability survey; and

--change the timing and method for adjusting pay for members of the uniformed services.

1/See app. I for a discussion of the present pay-setting process for Federal employees.

Several groups have made similar recommendations, including the Job Evaluation and Pay Review Task Force to the U.S. Civil Service Commission (1972), the President's Panel on Federal Compensation (1975), and the President's Federal Personnel Management Task Force (1977).

In reports issued to the Congress, we have also made several recommendations to improve the effectiveness of Federal compensation systems. In 1973, we recommended that the comparability principle be broadened to include State and local governments. In 1975, we recommended that Federal white-collar pay systems be designed around more logical occupational groupings, pay rates be based on geographic pay patterns of the areas in which each group competes, and a policy of total compensation comparability be developed and legislation proposed. We reemphasized these issues again in 1978. In 1979, we recommended that the Congress amend the law to limit the President's use of alternative plans to truly unusual situations. We also supported extending this authority to the blue-collar pay process. (See app. II for a list of our reports on Federal pay and benefits.)

OBJECTIVES, SCOPE, AND METHODOLOGY

This report, done at the request of the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, expresses our concerns about the Administration's approach for implementing total compensation comparability in the Federal Government. (See app. III.)

The report addresses the

--total compensation and benefits adjustment provisions included in the proposed legislation,

--steps taken or planned by the Office of Personnel Management (OPM) to implement the proposal,

--importance of secondary benefits (those not yet included in OPM's formal benefit models),

--difficulties of measuring benefits and how these measurements could affect the total comparability results, and

--possible adverse effect of total compensation provisions on locality pay.

We made our review at OPM and the Bureau of Labor Statistics (BLS) in Washington, D.C., and in five areas--Anchorage, Alaska; Baltimore, Maryland; Des Moines, Iowa; San Francisco, California; and Tampa and St. Petersburg, Florida. These areas were selected to provide geographic representation and because of specific congressional interest.

We reviewed the proposed legislation; available Federal and non-Federal pay and benefits data; and studies of Federal and non-Federal compensation-setting processes, including the Congressional Budget Office's (CBO's) recent report, "Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981." We discussed pay-setting with agency officials; compensation experts; and officials of foreign, State, and local governments. We reviewed initial implementation plans, including benefit evaluation models developed.

Because information on private sector benefits was insufficient, we did two separate surveys. The first survey was sent to a sample of companies Nation-wide to ascertain the significance of 22 secondary benefits not included in OPM's benefit evaluation models. The second survey, on primary and secondary benefits, was conducted in the five areas. (See apps. IV and V for details of sample methodologies.)

TOTAL COMPENSATION PROVISIONS OF THE ADMINISTRATION'S PROPOSAL

The proposed Federal Employees Compensation Reform Act defines total compensation as:

> "* * *including payments and entitlements which are provided by an employer for an employee in exchange for the performance of work and which cost the employer money, either directly or indirectly, now or in the future; are of value to an employee in one or more ways, such as by adding cash to an employee's current income, by creating a present value to the employee based on the prospect of future receipt, or by providing an employee with compensated time off; are typically considered compensation in the non-Federal sector; and are measurable."

The legislation further proposes that Federal employees' total compensation be fixed and adjusted from time to time, consistent with the public interest, and based on the principles that

--Federal total compensation be comparable with non-Federal total compensation,

--Federal total compensation be the same for similar levels of Federal work within a designated pay area,

--pay distinctions be maintained in keeping with work and performance distinctions, and

--total compensation for statutory compensation systems be interrelated.

The total compensation provisions would apply to employees under the General Schedule, other statutory pay systems which are related to the General Schedule, the Merit Pay System, and to appropriated fund employees under the Federal Wage System.

The proposed legislation would authorize the President to adjust benefits 1/ as well as rates of pay in order to achieve total compensation comparability between the Federal and non-Federal sectors. He could determine what benefits to consider, how they should be compared and valued, and how the total compensation package should be adjusted. This includes establishing new benefits, discontinuing existing benefits, and adjusting benefit provisions and contribution rates. He could not, however, effect a downward adjustment in benefits for the first 5 years under the program.

The President would be authorized to adjust the total compensation of each statutory compensation system by adjusting rates of pay, benefit provisions, or both. This would be done after considering recommendations of his Compensation Agent (currently the Pay Agent) and the newly designated Advisory Committee on Federal Compensation. (See page 45.) In its report to the President, the Agent would compare General Schedule pay rates with non-Federal pay rates for similar levels of work within a designated pay area and compare the value of Federal benefits and non-Federal benefits on the basis of OPM evaluations. In preparing its report, the Agent could use survey data or other measures of non-Federal pay; pay changes; and benefits gathered by BLS or, if unavailable from BLS, from other sources. The role

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1/Except for retirement which would require congressional action. The President's benefit-setting authority also extends to the Executive Schedule, Senior Executive Service, and certain other Federal employees.

of the Federal Employees Compensation Council (currently the Pay Council) would also be expanded to allow it to provide views and recommendations on the benefits that should be surveyed, survey coverage, and adjustments of pay and benefits to achieve comparability.

Under the proposal, the Congress could disapprove any benefit adjustment proposed by the President by adopting a joint resolution (if approved by the President) or by a two-thirds majority in each House (if not approved by the President). In those instances where the Congress disapproved a benefit adjustment, the full comparability amount would be channelled into the pay portion of the adjustment.

The Congress would have the authority to disapprove an alternative plan if the President proposed other than a comparability adjustment. A joint resolution passed by the Congress and signed by the President would be needed to disapprove an alternative plan. If the President did not sign the joint resolution, a two-thirds majority in both Houses would then be needed to disapprove the alternative plan. In such a case, the President would have to adjust total compensation (or if the benefits adjustment had been specifically disapproved by the Congress, only the rates of pay of the statutory compensation systems) by amounts reflecting changes occurring in non-Federal compensation during the 12 months preceding the most recent national survey or by using other measures of non-Federal compensation. Total compensation for the Prevailing Rate Systems for blue-collar employees would be adjusted by amounts determined appropriate in relation to statutory systems.

PREPARING TO IMPLEMENT THE PROPOSED LEGISLATION

Anticipating the passage of some form of Federal pay reform which would incorporate a total compensation comparability approach, the Administration has already begun preparations for implementing the proposed system. Overall responsibility for the program falls with OPM, with BLS providing technical and operational support.

OPM has developed a "level of benefits," or standardized costing approach, in measuring total compensation. Surveys are conducted to determine benefit provisions found in the non-Federal sector. Then, using a detailed actuarial model, the cost that would be incurred to provide these benefits to the Federal work force is determined and compared with the standardized cost of current benefits. The difference, when considered with similar comparisons of pay, indicates the size of the adjustment needed to have total comparability with the non-Federal sector.

OPM considered measurement of certain primary benefits--pension plans, life and health insurance, long-term disability insurance, accident and sickness insurance, and leave and holiday provisions--necessary to assess total compensation comparability. BLS made the first full-scale test in 1979. It collected extensive data on primary benefits from about 1,500 private sector companies in conjunction with its national survey of professional, administrative, technical, and clerical pay. This data was then fed into detailed actuarial evaluation models developed by OPM and programed by an outside contractor.

OPM recognizes that including secondary benefits, such as savings and thrift plans and profit-sharing plans, could affect the amount of a total compensation adjustment. While it has not formally measured these benefits, it has collected data from available published sources which could, under the proposed legislation, be considered in the total compensation process. It has also amended its collection strategy for the 1980 survey to gather frequency data on profit-sharing plans, savings and thrift plans, stock bonus and stock purchase plans, other stock plans, employee discounts, parking, automobile usage, relocation allowances, child care services, in-house infirmary, recreation facilities, subsidized meals, educational assistance, and gifts.

CHAPTER 2

SECONDARY BENEFITS ARE IMPORTANT IN DETERMINING TOTAL COMPENSATION COMPARABILITY

It is important that the best and most complete measure possible of total compensation in the non-Federal sector is used in assessing Federal total compensation comparability and in making any Federal compensation adjustment. Accurate measures are needed not only for pay but for benefits as well.

OPM, in its initial preparations for implementing the proposed legislation, has concentrated mainly on attempting to measure primary benefits; it has not formally measured secondary benefits. From limited data collected, however, OPM has estimated that certain benefits it has not formally measured may be from 3 to 4 percent of pay higher in the private sector than in the Federal sector.

In a national benefits survey we conducted, selected secondary benefits, which are generally not offered to Federal employees, amounted to about 3 percent of a private sector employee's base salary. These include profit-sharing plans, savings and thrift plans, stock bonus and purchase plans, other stock ownership plans, gifts, nonproduction bonuses, child care services, subsidized meals and parking, clothing and equipment, and employee discounts. Under a total compensation comparability approach, these benefits alone would add about $500 a year to the average Federal worker's compensation package.

In addition, many non-Federal workers are eligible to receive other benefits, such as free parking, personal use of company automobiles, services of company in-house infirmaries, and various types of leave not chargeable to the regular leave categories. We did not obtain cost data for these benefits, but we believe that if they were formally considered under a total compensation comparability system, they may also represent a significant proportion of a private sector employee's compensation.

SURVEY METHODOLOGY AND UNIVERSE DESCRIPTION

Our estimates are based on a survey of U.S. companies employing 100 or more workers. The survey included not only those industries that BLS surveys in its white-collar pay survey 1/ but also agriculture, forestries, and fisheries. Companies in this universe were grouped by employee size into six categories, and independent samples were selected from each group. We received responses from 371 of the 717 companies to which we mailed questionnaires. Our results can be projected to 53.4 percent of the 22,075 companies in our original universe.

The companies in our projectable universe employed about 17.3 million full-time employees and had a payroll of $252 billion during their last fiscal year. The table below shows the breakdown by employee.

Type of employee	Number of employees (millions)	Hours worked per week	Average salary
Professional and administrative	3.6	39.3	$24,100
Technical and clerical	5.2	39.1	$10,200
Production	8.5	40.0	$13,200
Total	17.3		

For some benefits we obtained participation and company funding (cost) information by employee type and in total for the company; for other benefits we obtained only total company cost. And, for a few benefits we simply obtained information on employee eligibility. (See app. IV.)

SECONDARY BENEFITS ARE IMPORTANT

Federal employees could be undercompensated by an average of about $500 a year if adequate consideration is not given to measuring and including secondary benefits in a total compensation comparability adjustment. In our survey, selected secondary benefits which are not offered to Federal employees averaged about 3 percent of a private sector employee's base pay. This varied by company size:

1/The BLS white-collar pay survey relates to establishments in the following industries: mining; construction; manufacturing; transportation; communications; electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; and selected services.

Number of employees	Percent of base pay
100-499	3.5
500-999	4.0
1000-2499	2.2
2500-4999	2.0
5000-9999	3.0
10,000 and over	3.0
Overall	a/ 3.0

a/Individual strata averages are weighted to obtain the overall average.

These secondary benefits amounted to a higher percentage of base pay in the smaller companies (under 1,000 employees) than in the larger companies (1,000 and more employees). The average percentage for smaller companies ranged from 3.5 to 4 percent; for larger companies, from 2 percent to a little over 3 percent.

Six of these secondary benefits were particularly significant. As a group they represented about 94 percent of the cost of the secondary benefits reported:

Benefits	Percent of base pay
Profit-sharing plans	1.12
Savings and thrift plans	.76
Stock ownership plans	.31
Nonproduction bonus	.27
Employee discounts	.17
Subsidized cafeteria	.16
Total	2.79
Others: Gifts, child care services, subsidized parking, clothing and equipment, stock bonus plans, and stock purchase plans	.17
Total	a/ 2.96

a/Difference is due to rounding.

Profit-sharing was slightly over 1 percent of base pay and was thus the most significant, dollarwise, of these six benefits. Savings and thrift plans, stock ownership plans, and nonproduction bonuses were also important.

The frequency of these secondary benefits is of particular interest. Following are the percentage of all employees sampled who participated in these benefits and the percentage of companies where these benefits were offered.

	Percent of all employees participating in this benefit	Percent of companies offering this benefit
Profit-sharing plans	15.7	33.2
Savings and thrift plans	22.5	12.7
Stock ownership plans	20.7	7.0
Nonproduction bonuses	10.9	44.2
Employee discounts	(not requested)	39.1
Subsidized cafeteria	(not requested)	16.6

With over 20 percent of all employees participating in savings and thrift plans and in stock ownership plans, and over 15 percent in profit-sharing plans, these benefits are important in determining total compensation. The majority of employees participating in these benefits were located in companies with 10,000 or more employees. A large percentage of the reporting companies offered profit-sharing plans, employee discounts, and nonproduction bonuses to at least some of their employees.

We also surveyed the eligibility of employees who receive additional benefits. We found that the following benefits are offered by a large percentage of companies and, overall, a significant percentage of all employees are eligible for most of them:

	Percent of all employees eligible to receive benefits	Percent of companies offering this benefit
Funeral leave	88.8	85.2
Free parking	54.3	86.6
Medical/dental appointment time	27.5	37.7
Automobile for personal use	2.1	49.0

While these figures represent eligibility, eligibility and participation are probably related. If they are, these benefits may also represent a significant proportion of a private sector employee's compensation.

CONCLUSIONS

In our opinion, secondary benefits provided in the non-Federal sector are important and failure to adequately consider them in determining total compensation comparability could result in understating the value of private sector compensation. Not only would this result in an inequitable pay situation for Federal employees, but it may very well cause further deterioration of employee and public confidence in the Federal pay-setting process.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the legislative proposal be modified to require OPM to assess the extent of secondary benefits and, if feasible, develop appropriate measures of these benefits so they may be included in any assessment of total compensation comparability between the Federal and non-Federal sectors. Until these measures are developed, OPM should utilize available published data.

If non-Federal benefits data is to be used in developing an alternative plan before legislation is passed, providing published data on non-Federal secondary benefits to all parties in the pay-setting process would allow them to make a more informed decision about the adjustments needed. These parties would include the Pay Agent, the President, Advisory Committee on Federal Pay, Federal Employees Pay Council, other employee groups, and the Congress.

OPM'S COMMENTS AND OUR EVALUATION

OPM agrees that the importance of secondary benefits should be assessed and the results included in a total compensation comparison, and it is currently moving in that direction. It believes, however, that this could best be accomplished incrementally as better data becomes available and without an exclusive list of benefits stated in the law.

We believe that all secondary benefits should be included to effect a meaningful and complete adjustment. If adequate measures have not been developed before the first adjustment, available data should be used. To not include them would be to ignore any possible collective significance of these other benefits. We agree with OPM that legislation should not include an exclusive list of benefits.

CHAPTER 3

MANY BENEFITS ARE COMPLEX

AND DIFFICULT TO MEASURE

Fringe benefit provisions range from simple to complex, are sometimes interrelated, and are often difficult to measure. We reviewed OPM's techniques for measuring benefits to determine their effect on a possible total comparability adjustment for Federal employees.

The Congress should be aware of the importance of benefits and the complexity and sensitivity of their measurement to a total compensation determination. We found that:

--Depending on the benefits that are selected and how they are measured, an October 1980 Federal total compensation adjustment would have ranged anywhere from a low of 3.4 percent to a high of 14.8 percent, according to a recent Congressional Budget Office report.

--While the overall actuarial approach used by OPM to value pension benefits is an acceptable one, other acceptable methods would have yielded different results.

--OPM's assumptions about disability and retirement rates are based on limited data obtained from the Social Security Administration and on actuarial judgment. These assumptions could substantially affect the results of the analysis.

--Coding deficiencies in the full-scale test resulted from misinterpretations of plan documents and inadequately designed data collection questions. Most of these were corrected in the 1980 test.

--Differences in benefits provided to different employee groups may not be adequately considered under OPM's initial implementation plans.

In this chapter we discuss the results of the CBO study on compensation reform, our actuarial review of OPM's valuation methods, further observations from our national benefits survey, and the experience of the State of California with total compensation.

VARIOUS BENEFIT ALTERNATIVES SUGGEST DIFFERENT ADJUSTMENTS

CBO estimated that, under current procedures for adjusting General Schedule (GS) pay, an October 1980 adjustment of 11.7 percent was needed to keep pace with salary changes in the private sector over the past 2 years. 1/ Under a total compensation comparability approach, however, an October 1980 compensation adjustment for GS employees could have ranged anywhere from 3.4 percent to 14.8 percent--depending on what benefits were selected for comparison, how those benefits were measured, and what benefit provisions were considered typical of the private sector. 2/

According to CBO, Federal fringe benefits may range anywhere from the equivalent of 2.8 percent of pay behind private sector practices to as much as 7.4 percent of pay ahead of the private sector. This wide range--10.2 percentage points of pay--results both from uncertainty about what benefit provisions are to be considered representative of the private sector and from differences in implementation assumptions--particularly, the selection of benefits and the ways to measure them. The CBO study was made before any actual data was collected by BLS or analyzed by OPM. According to OPM, CBO's estimates represent implausible extremes.

CBO notes that, in making a total compensation adjustment, several judgments must be made regarding such complex issues as the actuarial techniques to be used, the treatment of postretirement cost-of-living adjustments, the advantage of tax-free Social Security income, and the basis used to estimate the cost of Social Security benefits. Each decision could have a significant effect on the amount of the adjustment needed.

1/At the time of the CBO study, OPM, using different economic assumptions, estimated a 10.9-percent adjustment would be needed. Both estimates include a 1979 catchup amount equivalent to 3.2 percentage points to compensate for the October 1979 Federal pay cap of 7 percent.

2/Details of CBO's methodology can be found in its May 1980 report, "Compensation Reform For Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981."

The impact of even small changes in economic indicators--inflation and interest rates--on the value of a benefit can be significant. For example, a half-percentage point change in the average annual inflation rate over the next 50 years would change the estimated cost of existing Federal retirement benefits by 1.9 percentage points of pay. And, a half-percentage point reduction in long-term interest rates would increase retirement costs by 4.4 percentage points of pay, assuming all other conditions remain unchanged.

To assess the appropriateness of OPM's measurement techniques, we reviewed its actuarially based benefit evaluation models, particularly the pension model. We also reviewed the compilation of private sector pension provisions. Results of these reviews follow.

ACTUARIAL CONSIDERATIONS IN VALUING BENEFITS

OPM's general approach to benefit measurement was to estimate how much each private plan would cost if the plan's benefits were offered to Federal employees. The overall actuarial approach it used is an acceptable one, but other acceptable approaches would have yielded somewhat different results.

The method OPM has chosen for valuing pension benefits bases all cost calculations on "future service" benefits as opposed to what current retirees are receiving or what current active employees accrued in prior years. The current financial status of the plan (the value of the assets in the fund) does not enter into OPM's calculations. Our actuarial review concentrated on pension plans which account for a large portion of the cost of fringe benefits and are the most complicated benefit to evaluate. We found that the process of evaluating any pension plan is lengthy, and the large number of plans and decisions to be made makes the entire effort very cumbersome.

OPM's decisions could significantly affect the valuation of both the Federal and private pension plans. Although the relative effects are difficult to compare, changing the economic assumptions could have an even more significant effect than changing the basic method.

Effect of decisions made and pending on certain issues

1. Federal employees with more generous benefits: About 40,000 Federal law enforcement and firefighter personnel and 27,000 air traffic controllers receive more generous benefits

than regular Federal employees. These two groups represent about 5 percent of GS employees (only 4 percent of the total GS and blue-collar employees). The cost to the Government of more generous retirement is very high for protective services employees and almost as high for air traffic controllers.

Some argue that these special benefits should not be included in the comparability analysis. It may not be equitable to the bulk of Federal employees to have their salaries affected because of special benefits they are not eligible to receive. Others argue that since the entire Federal pay process is based on averaging, including these special benefits in the averaging process is necessary and desirable.

In its full-scale test, OPM included these special Federal benefits. This increased the value of Federal retirement in the analysis by about 0.5 percent of pay.

2. Value of social security employee benefits: old-age, survivors, and disability insurance (OASDI) benefits, according to OPM, are worth 15.7 percent of pay. Since non-Federal employees are required to make social security contributions, OPM must decide on what amount of the social security value represents an employee benefit. 1/ One approach would value OASDI for the non-Federal workers who are covered by social security at 7.85 percent of pay (half of 15.7 percent), since employers and employees make equal social security contributions. Another approach would be to subtract the employee contributions required under the law from the total value of the benefits. Following this approach--which is the approach OPM uses to determine the value of civil service retirement benefits--the value of OASDI benefits to the employee would be 10.7 percent, or about 2.9 percent more than the other approach.

1/Benefits under the social security program are financed on what is referred to as a "pay-as-you-go" basis. That is, current contributions are designed and used to meet <u>current</u> benefit payments. As such, social security contribution rates are not directly related to the value of benefits currently being earned by employees covered by the program. This is in contrast to the contribution rates under most pension plans which are designed to meet the cost of <u>future</u> benefit payments to current employees. Also, social security contribution rates presently apply only to the first $25,900 of pay, whereas the civil service retirement contribution rate is applied to total pay.

3. Military service credits: Some Federal civilian employees have prior military service which, under certain circumstances, is creditable under the Civil Service Retirement System. These prior military credits can be handled three ways in the comparability analysis. The first way is to count the military service in determining the Civil Service benefit but not for any private benefits. This makes sense to many people because private pension plans, unlike Federal plans, do not generally give credit for prior military service.

The second way is to include military service for private as well as Federal employees. The theory of total compensation comparability is to determine how much it would cost the Federal Government to provide the benefits of private companies to Federal employees. The Federal Government would grant credit for military service no matter what schedule of benefits was being offered.

A third school of thought would charge the cost of the military service credits to the time that the military service is rendered. Under this approach no such service would be counted under either the Civil Service benefit or the private pension benefit.

For its full-scale test, OPM handled this situation two different ways. First, it included the military service for the Civil Service Retirement System but not for the private pension plans. The second method considered both the Civil Service system and the private plans without the military service credits. OPM currently favors the first method which increases the cost of Federal retirement by 2 percent of pay.

If OPM had included the military service for both the civil service and the private pension plans, the cost of the private plans would have been increased by less than 2 percent because the overall level of benefits of the private plans is less than that of the Federal plan, and the Federal plan gives larger benefits for later years of service. OPM did not calculate the exact effect of this approach.

4. Pension increases to retirees: Benefits of the Civil Service Retirement System are indexed to the Consumer Price Index. For its study, OPM projected retirees' benefits to increase 6 percent per year, the assumed rate of inflation. Very few private plans give automatic cost-of-living increases to retirees, but a substantial number do grant increases on an ad hoc basis. The indefiniteness of the ad hoc increases makes them difficult to value.

Information about ad hoc pension increases from companies in the OPM/BLS test was not available, so OPM commissioned a study by an actuarial firm based on a sample of the firm's clients.

We concur with OPM's decision not to ignore ad hoc increases; however, we are concerned with the sample of plans used. Most plans sampled were from large companies and may not represent the Nation as a whole.

OPM used a complicated actuarial-type formula based on geometric averaging and an equation of benefit payout during the 5-year period studied (January 1, 1975, to January 1, 1980). The result showed ad hoc increases worth 2.7 percent per year. Inflation during this period, calculated on the same basis, was 8.1 percent per year. The ratio of 2.7 percent to 8.1 percent was applied to the assumed inflation rate of 6 percent. Therefore, ad hoc increases to retirees were calculated to be 2 percent per year.

While we are concerned about the methods used to identify ad hoc increases, we agree with their broad approach. We agree that this important benefit, whether part of the pension plan document or not, cannot be ignored. We also agreed with the ratio to the cost of living as opposed to the absolute size of the increase.

5. Proration of social security benefits: At the same time that workers are earning private pension benefits, they are also earning social security benefits. These social security benefits are difficult to value for several reasons, one of which is the complexity of the benefit formula. For new entrants into the work force, at least 40 quarters of coverage, or 10 working years, are required before they can receive a retirement benefit. As a result, a participant terminating private employment after 9 years would get no social security retirement benefit using a strict application of the benefit provisions in the law. However, this same person terminating after 10 years would get a very large benefit expressed as a level percentage of salary during his/her working life because the basic social security retirement benefit is skewed to favor low-income workers.

For its analysis, OPM devised a simple procedure to bring some continuity to the valuation of social security benefits. If an individual terminated or retired before working 35 years, OPM assumed a full career for calculation purposes. It projected his/her salary, valued social security benefits based on 35 years of service, and prorated the value of the benefit by the actual years of service divided by the 35 years used for this calculation. OPM told us that the choice of 35 years was judgmental since no concrete data was available to support that figure.

We subscribe to OPM's decision not to follow the provisions of the law in valuing social security benefits. We recognize that people having short service with one private employer are likely to earn other social security quarters of coverage during their lifetime. However, while OPM's choice of 35 years for proration does not appear unreasonable, other periods of time could have been chosen for the analysis which would have yielded different results.

Assumptions made and other considerations

1. Disability rates: Rates of disability in the Federal Government differ from rates in private industry because the

--definition of disability is not the same for the Civil Service Retirement Plan and the various private pension plans,

--amount of the disability benefit for the various plans has a strong effect on the proclivity of participants to claim disability, and

--enforcement of even the same definition of disability can vary from one establishment to another.

We have some concern about the disability rates OPM used to value private plans in its total compensation test. OPM attempted to use disability rate tables from the Social Security Administration for disability rates in valuing private plans. A detailed examination of this data, however, plus a lack of confidence expressed by the Social Security actuary who provided the data, convinced OPM not to use that data. Instead, it simply used 75 percent of the Federal rates at all ages and durations of service. OPM indicated that the resulting rates are based solely on the judgment of its actuaries who chose them without the benefit of studies of how "age specific" disability experience might vary between the Federal retirement system and other retirement systems. No sensitivity analysis has been made to determine the effect of the disability assumptions chosen by OPM. OPM is planning further study in this area.

2. Retirement rates: Retirement age provisions differ greatly between the typical private pension plan and the Civil Service Retirement System. Normal retirement age is the earliest age at which pension plan participants can retire with an immediate unreduced annuity. In addition, many private plans have early retirement provisions where there is a reduction in the benefit, but participants can receive an immediate annuity before the normal retirement age. Because the eligibility for normal and early retirement varies among plans, it is impossible to use one set of retirement rates for all plans. The retirement rates selected significantly affect an actuary's calculation of pension cost.

We are concerned about the limited amount of analysis and data OPM used to determine these private retirement rates. Under its method a private plan, whose benefits together with Social Security are equivalent at all ages to the Civil Service Retirement System, would have different retirement rates from those used in the Federal plan. This means that identical benefits for identical populations would show different costs under the analysis.

OPM developed several sets of retirement rates depending on whether there was full or less than full actuarial reduction for early retirement and depending on whether the employer provided supplemental early retirement benefits to the employee. Within each array, retirement rates vary by age and sex, but not by years of service. OPM's procedure attempts to increase the probability of retirement as the early retirement benefit increases relative to the normal retirement benefit. We believe that the complicated relationship between benefits and retirement rates is not completely captured in OPM's analysis. Although substantial retirement data was available, it was not applicable to the problem at hand--how variations in retirement benefits and eligibility affect retirement rates. OPM informed us that it is planning studies in this area.

3. Comparison of Federal and non-Federal benefits using different decrement rates for each: OPM attempts to calculate the cost of giving Federal employees the same fringe benefits that certain private establishments give their employees. To do this, it determines the basic characteristics of a group of new entrants and uses a complicated computer program to trace the entrants through their working lives and into retirement. In any year while one of these individuals is working, he/she might die, become disabled, quit or be laid off, or retire. These contingencies, or "decrements" as actuaries refer to them, cannot be identical

for the Federal and non-Federal elements of the comparison because of differences in eligibility for retirement and the definition of and eligibility for disability. This means that the costs must be compared using experience that is not the same. This allows a potential anomaly to creep into the study. Plans with higher benefits may show lower costs.

In the areas of disability and retirement, OPM has recognized that differences among plans affect the anticipated actuarial experience. Actuaries have noted this in the past, but may not have faced the situation where their cost estimates were as sensitive to differences in experience. We believe that the methods used by OPM to predict these differences do not adequately reflect the potential importance of these differences in its study.

5. Economic assumptions: The economic assumptions used in the pension model are

--6-percent annual increases in the Consumer Price Index;

--6.5-percent increases in salary, excluding merit and longevity increases; and

--7-percent investment return.

These are the same assumptions used in the dynamic valuation in the "Board of Actuaries of the Civil Service Retirement System Fifty-Seventh Annual Report," the most recent actuarial report. They were determined on the basis of experience of the last 29 years with some adjustments for trends in that period which were not expected to continue. In developing these rates, the Board of Actuaries emphasized their relationship to each other more than their absolute amounts. For the purpose of valuing the Civil Service Retirement System, the factors of 6 percent, 6.5 percent, and 7 percent give approximately the same results as if the rates 0 percent, 0.5 percent, and 1 percent were used. However, the total comparability assessment--which includes private sector benefit provisions also--could be significantly affected by changes in the absolute amounts even if the same relative values were used. The private sector valuation could be affected because the private sector provisions will differ from the Civil Service Retirement System which could distort the relationship between these factors. We do not believe the economic assumptions used by OPM are unreasonable. Other reasonable economic assumptions could, however, lead to substantially different total compensation results.

Deficiencies in compiling benefit provisions could affect plan valuations

Retirement plans and their provisions range from very straightforward to intricate. Often, complexities arise because plans tend to "evolve" with continual modifications for shifting employee populations, company philosophies, and economic conditions. Provisions are constantly replaced, adjusted, and superseded, and benefit formulas increase both in number and detail. This aspect of many plans' provisions makes them difficult to classify.

We reviewed 15 of the 997 private pension plans that BLS coded as part of the 1979 OPM/BLS full-scale test. The 15 plans represented a wide range of provisions and benefit formulas. Among these plans, we found 33 instances of coding deficiencies which resulted from either misinterpretations of plan documents or inadequately designed questions.

BLS had developed a "Level of Benefits Pension Coding Manual" for putting provisions of the private pension plans sampled into a form that could be used as input to OPM's pension valuation computer program. The manual was designed as a questionnaire to be completed by BLS coders after they had studied a pension plan (using participant booklets, plan documents, etc.). Given the heterogeneous nature of pension plans, the manual covers many more provisions and types of benefits than one would expect to find in any single plan. The level of detail for specific provisions--benefit formulas, for example--is high, allowing for variations within a particular provision type. Occasionally, however, a pension plan's provisions are so complex that they cannot be completely described in the manual. In these instances, coders file explanations which OPM considers in its pension valuation process.

We reviewed the coding of 15 pension plans, 10 of which were selected because they had complex provisions and 5 of which were sampled randomly. We found little difference in either the frequency or nature of the coding deficiencies discovered in the two groups.

The deficiencies we identified are of two general types--those we view as actual coding errors and those that resulted from inadequate question design. Among the selected plans, we identified 10 coding errors and 11 instances of inadequate questions. For those randomly sampled, we found 5 coding errors and 7 inadequate questions. Although few compared to the number of data items per pension plan--almost

100 in each--these deficiencies were in areas that could weigh heavily in plan valuations. Coding errors were made both with complex and straightforward benefit provisions. Examples of these miscodings follow:

Plan provisions	Provision as coded
Regular benefit is the higher of a career or final pay formula, each computed as a different percentage times service times a different measure of "earnings."	"Earnings" basis for the career and final pay methods was interchanged.
Minimum annual benefit of $120.	Omitted.
Pre-retirement death benefits start at age 55.	Pre-retirement death benefits start at 50.
Eligibility for an unreduced benefit is age 60.	Eligibility for an unreduced benefit is age 60 <u>and</u> 10 years of service.
Minimum benefit formula has a Social Security offset.	Offset omitted.
Pension benefit plus Social Security capped at 85 percent of average pay.	Ceiling omitted.
A 50-percent joint and survivor payment option results in no decrease in original benefit.	The 50-percent joint and survivor payment option results in an actuarial decrease in original benefit.
Disability benefits available after 15 years of service, as long as employee has not elected coverage in a long-term disability plan.	Disability benefits cannot begin until age 65, regardless of long-term disability coverage.
Eligibility for preretirement death benefit is (a) age 50 and 15 years or servvice or (b) age 55.	Eligibility is (a) age 50 and 15 years of service or (b) age 60.

Alternate benefit formula is based on average final earnings.	Formula uses each year's earnings.
Immediate participation for new employees.	Participation requires 1 year of service.

Some of the 15 private plans' provisions that we reviewed were so complex that they could not be completely described in the 1979 coding manual. In discussions with BLS officials, we learned that the 1980 manual will handle most of these complex provisions. Moreover, future manuals will be revised when necessary. For 1979, however, because of those instances of provisions that could not be coded correctly, valuations of affected plans could not be accurately determined.

--Supplemental allowance for employees retiring before age 60 with less than 30 years service is reduced 1 percent for each year under age 60.

--Joint-and-survivor pension is increased for each year the retiree's spouse is older than the retiree.

--Pre-retirement death benefit varies with the age of the surviving spouse.

--Early retirement reduction in plans with multiple benefit formulas varies by formula.

--Disability retirement reduction is different from the early retirement reduction.

--Early retirement reduction is the lesser of two amounts.

--Disability retirement benefit formula uses a different social security offset than does the normal retirement formula.

--Benefit formula is integrated with social security and has different accrual rates for the first 30 years of service than for service past that.

--Pre-retirement death benefit is reduced only if surviving spouse is more than 5 years younger than the deceased.

--Early retirement reduction methods differ for employees, depending on whether they have worked less than or more than 30 years of service.

--Disabled employees continue to accrue service until eligible for early retirement and receive a benefit based on service.

--Normal retirement benefit formula uses split percentages of earnings for the first 25 years of service and a different percent of earnings for service over 25 years.

Each of these deficiencies could affect a plan's valuation, although just how large an effect (and in what direction) is unknown. Because plans are weighted by membership in OPM's total compensation pension valuation process and because some deficiencies should tend to offset others, we cannot say whether these coding inaccuracies generally understate or overstate the cost of providing private pension benefits to Federal employees. This test does, however, indicate the difficulties and possible errors involved in gathering information on complex benefit provisions.

BENEFIT DIFFERENCES BY EMPLOYEE TYPE ARE IMPORTANT

In assessing and adjusting for total compensation comparability, the question arises as to whether this should be done on an overall basis, or whether the situations of individual employee groups should be recognized. OPM initially used a single overall measurement for benefits of both blue- and white-collar workers for testing purposes although it has collected data for both groups. Recent studies, however, have indicated that private sector benefits differ by employee group.

Our national benefits survey measured the secondary benefits provided to three separate groups of employees--professional and administrative, technical and clerical, and production employees. For those secondary benefits for which we measured costs, the following differences were found:

Employee type	Secondary benefits as a percent of base pay (note a)
Professional and administrative	3.7
Technical and clerical	2.9
Production	0.9

a/These figures exclude those benefits on which detail by employee type was not obtained.

Eligibility for the other secondary benefits in our survey also differed. For example, free parking was available for 53.1 percent of professional and administrative employees, 41.9 percent of technical and clerical employees, but 62.7 percent of production employees. Medical and dental appointment time (not chargeable to sick or vacation time) was available to 56.4 percent of professional and administrative employees, 37.6 percent of technical and clerical employees, and 8.4 percent of production workers.

In June 1980, the Bureau of Labor Statistics issued summary results of the pilot national survey on primary benefits it conducted in 1979 for OPM. 1/ The survey, which collected information on the incidence and characteristics of major benefit plans in the private sector, showed that participation in these benefits also varied by employee type.

1/Further details of this study were published by BLS in July 1980 entitled "Employee Benefits In Industry: A Pilot Survey" (Report 615).

Percent of Full-Time Employees Participating in Employee Benefit Plans, Private Industry, United States, 1979 (note a)

Employeee benefit program	All employees	Professional and administrative employees	Technical and clerical employees	Production employees
Paid:				
Holidays	99	100	100	99
Vacations	100	100	100	99
Rest time	75	60	74	81
Sick leave	56	80	83	37
Personal leave	19	28	30	11
Lunch time	13	5	6	19
Accident and sickness insurance	65	53	49	75
Noncontributory (note b)	55	44	40	64
Long-term disability insurance	49	66	56	40
Noncontributory (note b)	38	49	41	33
Health insurance	97	100	95	98
Noncontributory (note b)	71	70	58	77
Pension Plan	87	96	87	85
Noncontributory (note b)	77	80	77	76
Life Insurance	96	99	92	96
Noncontributory (note b)	77	77	69	80

a/Excluding Alaska and Hawaii.

b/Provided at no cost to employees.

Source: Bureau of Labor Statistics

The summary showed that:

--Typical vacation, holiday, and sick leave plans covering professional and administrative and technical and clerical employees were generally more liberal than those covering production employees.

--Production employees tend to be more frequently covered than the other two groups under accident and sickness insurance plans than under sick leave.

--Seventy-three percent of all participants had their individual health insurance benefits entirely financed by their employer. This proportion ranged from 61 percent of the technical and clerical employees to 79 percent of the production employees.

--The rate of participation in pension plans was 96 percent among professional and administrative employees. This was about 10 percentage points greater than in the other groups. Eighty-three percent of these professional and administrative participants were in fully employer-paid plans compared with about 89 percent of the other employee group participants.

If the differences in benefits by employee type shown in these two surveys are indicative of prevailing non-Federal benefit practices--and we believe they are--and they are not considered under the total compensation comparability system, then true total compensation comparability for these employees will probably not be effected.

CALIFORNIA'S EXPERIENCE UNDER A TOTAL COMPENSATION SYSTEM

In 1974, the California legislature enacted a law mandating that actuarial benefits and other nonsalary comparisons receive equal attention with direct compensation in considering the adjustment of State employees' salaries. The act also adopted the principle of equivalence with the value of total compensation that prevails in private industry and other public agencies.

The system implemented in California and used from 1974 to 1978--"Total Equivalent Compensation (TEC)"--was similar to the currently proposed Federal plan with both using a "level of benefits" methodology based on a survey of prevailing benefit practices. Annual State-wide surveys of employee benefit practices in private industry and governmental agencies were conducted, and nonactuarial benefits (vacations, holidays, sick leave, other medical leave, thrift plans, stock bonus plans, and profit-sharing plans) as well as actuarial benefits (service retirement, social security, death, life insurance, disability, health and medical plans) were valued.

State officials told us that developing and implementing the TEC system was much more difficult than they had expected. Hasty efforts to implement the TEC concept in the time frame mandated by law gave State planners too little time to develop the program, train personnel, and test the TEC methodologies. Many decisions had to be made on assumptions and methods of valuing benefits. Initial methodologies required changing, and frequent changes were also made in the scope and composition of the benefits survey.

State officials found that it was difficult to get employers to cooperate in the survey and that some benefit administrators were not even conversant in some of the lesser benefits. Furthermore, responses received from participants necessitated extensive followup.

Employee representatives found it extremely difficult to follow the approach used by the State. The lack of employee involvement in the TEC development process, the complexity of benefit surveys, and the integration of pay and benefits data effectively precluded union checks on management's determinations. In light of the scope and methodology changes made after initial implementation, the unions viewed it as a very unstable process.

OPM has carefully studied the California experience under a total compensation system. It has attempted to build design features into its own system which would prevent, or at least alleviate, these problems from occurring in the Federal system. The need to make assumptions and to keep these assumptions out of the political arena, however, remain.

CONCLUSIONS

The results of the CBO report emphasized the importance of benefit selection and measurement techniques to a total compensation comparability determination and adjustment. Our actuarial analysis of OPM's benefit measurement process showed the complexities of benefit measurements--that different, though often acceptable, methods can yield different final results. Difficulties may also exist in accurately coding complex pension provisions, but results of any miscodings are difficult to assess. Differences between benefits enjoyed by white- and blue-collar employees could further complicate any assessments. The State of California experienced similar problems in its development and implementation of a total compensation comparability system.

We believe that these measurements concerns present the biggest hurdle to the successful development, implementation, and acceptance of OPM's proposed total compensation system in the Federal Government.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress require OPM to provide

--detailed information and justification for the major assumptions used in its benefit measurements, including the cost implications of these assumptions;

--assurance that benefit provisions can be gathered and accurately classified; and

--some method for insuring that benefit differences by employee type are considered in its total compensation comparability analysis.

The Congress could require these actions before the legislation is enacted or before any pay adjustment is made under this process. After the system becomes operational, many policy decisions would become the responsibility of the Compensation Agent.

OPM'S COMMENTS AND OUR EVALUATION

OPM agreed that the total compensation methodology was complex and the assumptions used could influence the final results. It noted that, while it made judgments and policy determinations for test purposes, these would become the responsibility of the President's Compensation Agent once a system was operational. We continue to believe that no matter who is responsible for making these determinations, the Congress and others in the compensation-setting process should know the effect of these assumptions before they can make an informed decision about the proposed system or, once enacted, on a proposed adjustment.

OPM also noted that the volume of data needed to support the methodology was massive and difficult to categorize and that changes made for the 1980 test will correct most of the deficiencies we mentioned. We believe that because a high volume of benefits would continue under an operational system and similarly complex benefits may surface in plans surveyed in the future, the possibility of coding errors and question inadequacies remains a valid concern.

OPM disagreed with our recommendation that benefit differences by employee group be determined and, if appropriate, included before any adjustment is made. According to OPM, this would result in fragmenting the current single Federal benefits package into several separate packages. We maintain that such an assessment is necessary before deciding whether to implement a system which does not account for such differences. The modifications necessary would then depend on the differences found and type of adjustment used.

CHAPTER 4

ASSESSING TOTAL COMPENSATION COMPARABILITY ON A LOCALITY BASIS COULD RESULT IN INEQUITIES

Federal white-collar employees are currently paid from national pay scales, despite the existence of various labor markets. This has resulted in complaints from private businesses in some areas that the Federal Government, by overpaying its employees, is competing unfairly in the labor market. In other areas, Federal workers complain that they are underpaid compared to their private sector counterparts.

In an attempt to more closely approximate pay comparability, the Administration has proposed setting pay of certain Federal white-collar employees on a locality rather than a national basis. Few details as to how such a plan would work, however, are included in the legislation. Locality pay rates developed would apply to employees under GS-15. National rates would apply at GS-15 and above.

PROBLEMS MAY NOT BE RESOLVED

We and others have supported the extension of locality pay setting to Federal white-collar employees. 1/ Federal blue-collar workers already have their pay determined on a local basis. We are very concerned, however, about the possible and, in the case of blue-collar workers, immediate impact that the planned implementation of the total compensation comparability policy might have on locally set Federal pay. We believe that the combination of the total compensation comparability policy with locally determined pay could result in serious inequities for Federal white- and/or blue-collar employees in some localities and for non-Federal employers in other localities.

Administration officials have indicated that the total compensation provisions of the legislation will be implemented before the locality pay provisions for GS

1/ See GAO reports, "Federal White-Collar Pay Systems Need Fundamental Changes" (FPCD-76-9, Oct. 30, 1975) and "Federal Compensation Comparability: Need For Congressional Action" (FPCD-78-60, July 21, 1978). Also see reports of the President's Panel on Federal Compensation (1975) and the Federal Personnel Management Project (1978).

employees. In initially assessing total compensation comparability and making adjustments to the statutory compensation systems, the President will consider comparisons of Federal and non-Federal pay and benefits. Data will be be generated by the BLS Professional, Administrative, Technical, and Clerical survey and from the Level of Benefits survey conducted by OPM and BLS. These surveys are presently designed to generate only national measurements of pay and benefits. We believe that this particular method of assessing total compensation comparability--comparing national pay and national benefits for the Federal and non-Federal sectors--is an acceptable one and, subject to the the measurement concerns we expressed in earlier chapters, we support the concept.

Details of the locality pay plan for covered GS employees have not yet been finalized, but one plan OPM is considering would survey pay in each of about 150 pay areas. These local pay rates would be considered along with nationally measured benefits in determining total compensation comparability in the localities. Local benefits provisions would not be measured, nor would they be considered in deciding what adjustments should be made in pay, benefits, or both to achieve a total comparability.

In making the actual total compensation comparability adjustments in the localities under such a plan, the pay element in each locality would most likely have to be adjusted to reflect the Nation-wide difference in benefits. Thus, by including benefits--national benefits--Federal pay rates in a locality may be adjusted by an amount very different than they would have been under a locality pay-only comparability system, or under a true locality total compensation comparability system which would consider both local pay and local benefits.

We believe that a quasi-comparability adjustment arrived at under a process which compares locality pay but national benefits for the Federal and non-Federal work force could result in serious inequities to Federal white-collar employees in some localities and undue enrichment in other areas. Federal blue-collar workers would be similarly affected.

EXAMPLES OF SOME POSSIBLE INEQUITIES

Consider a locality where both non-Federal pay and and benefits exceed those paid to Federal employees. Under a locality pay-only comparability system, an increase in Federal pay in that locality would be called for. Under a true locality total compensation comparability system, some increase in pay and/or benefits would be suggested to make the total compensation of both groups there comparable.

Under the method being considered by OPM, a measure of non-Federal national benefits is introduced into the assessment. Let us assume that those national non-Federal benefits are less than those provided to all Federal employees Nationwide. If this advantage of Federal benefits measured nationally offsets the disadvantage of Federal pay in this locality, no adjustment in total compensation would be indicated for that locality despite the fact that both Federal pay and benefits are below those for non-Federal employees in that locality. And, if the advantage of Federal benefits nationally more than offsets the disadvantage of Federal pay in the locality, decreases in Federal rates in that locality may be suggested. This definitely would not improve the situation of Federal employees in that locality relative to their non-Federal counterparts.

On the other hand, Federal employees in a locality may be unduly enriched, and the Federal Government placed in an unfair competitive advantage over non-Federal employers in a locality. Consider this situation. In a particular locality, both Federal pay and benefits exceed non-Federal pay and benefits. On a national level, though, non-Federal benefits exceed Federal benefits, putting Federal employees at a disadvantage benefits-wise. If, in the total compensation assessment for this locality, the disadvantage of Federal benefits nationally is greater than the advantage of Federal pay in the locality, an upward adjustment in the total compensation in the locality--probably through an increase in Federal pay rates--would prevail. This would compound the problem--not only would Federal benefits exceed local benefits, but Federal pay would greatly exceed locality pay.

As long as non-Federal benefits vary by locality, the use of a national benefits measurement could interfere with achieving true total compensation comparability for Federal employees. In the sections which follow, we discuss the results of two surveys--a GAO survey and a BLS survey--which address how benefits differed in selected localities.

TOTAL BENEFITS VARIED SIGNIFICANTLY IN LOCALITIES WE SURVEYED

We surveyed benefits provided to employees in private sector establishments in five U.S. localities--Anchorage, Alaska; Baltimore, Maryland; Des Moines, Iowa; San Francisco, California; and Tampa and St. Petersburg, Florida. This survey included the industries that BLS surveys in its white-collar pay survey, except for one, mining. In our survey we asked employers to provide us with the costs of the benefits they offered to their employees during their last fiscal year. We recognize that the results of this approach may vary from those of a "level of benefits" approach, such as that used by OPM. Total benefits varied in areas we surveyed by about 10 percentage points of salary. (Details of our survey are in app. V).

Locality	Benefits as a percent of salary	Average salary
San Francisco	34.5	$16,500
Des Moines	32.6	13,700
Baltimore	31.7	14,800
Anchorage	28.2	20,300
Tampa-St. Petersburg	24.7	11,500

The primary benefits included in the survey were retirement plans, health and life insurance, accident and sickness plans, holidays, sick leave, and personal leave provisions. Secondary benefits included are profit-sharing plans, savings and thrift plans, various stock plans, nonproduction bonuses, gifts, employee discounts, clothing and equipment, subsidized parking, subsidized cafeteria, and child care services.

As shown, total benefits as a percent of salary were the highest--34.5 percent--in San Francisco which showed the second highest average salary ($16,500). The lowest benefits percentage--24.7 percent--was in the Tampa and St. Petersburg area which also had the lowest average salary. Attempts to put Federal employees in these areas under a compensation system using a national, rather than locality, benefits measure would result in inequities for some employees and windfalls for others.

Individual benefits also varied

Our surveys also showed how individual benefits varied among these localities.

Benefits as a Percent of Salary

Benefits	San Francisco	Des Moines	Baltimore	Anchorage	Tampa and St. Petersburg
Primary:					
Pension and social security employer contribution	13.6	10.4	12.3	11.0	8.9
Health insurance	5.5	7.1	5.6	4.7	4.0
Vacation	6.7	6.0	5.6	6.0	3.4
Holidays	3.7	3.5	3.8	3.5	3.7
Sick leave	0.7	0.9	1.3	0.5	1.4
Life insurance	0.9	0.9	1.1	0.6	0.5
Sickness and accident insurance	0.2	0.9	0.5	-	1.5
Long-term disability insurance	0.4	0.3	0.3	0.2	0.2
Personal leave	-	0.4	0.1	-	0.1
Total primary	31.7	30.4	30.6	26.5	23.7
Secondary (note a)	2.7	2.2	1.1	1.8	1.2
Total benefits	b/ 34.4	32.6	31.7	b/ 28.3	b/ 24.9

a/Includes only secondary benefits for which cost information was provided.

b/May differ due to rounding.

Pension plans, for example, varied by 4.7 percentage points of salary, with vacations varying as much as 3.3 percentage points of salary. Using a national benefits plan, these local variances would be ignored. If they were considered, a closer measure of locality total compensation comparability could be achieved.

We found greater differences in company practices of providing certain benefits to all or some of their employees in these localities.

Benefits	San Francisco	Des Moines	Baltimore	Anchorage	Tampa and St. Petersburg
	Percent of Companies in Sample Offering Surveyed Benefit				
Primary:					
Health insurance	100	100	100	100	100
Vacation	100	100	100	100	100
Life insurance	95.1	96.1	100	94.3	95.1
Pension plan	94.8	79.4	73.0	68.6	60.7
Sick leave	89.7	93.0	81.9	77.1	87.9
Long-term disability	75.0	84.9	67.7	54.3	58.2
Sickness and accident insurance	40.5	53.6	56.9	48.6	42.1
Personal leave	62.8	38.7	42.7	25.7	13.7
Secondary:					
Employee discounts	65.0	48.5	47.0	68.6	54.1
Employee gifts	57.8	44.1	33.1	40.0	37.1
All stock plans (note a)	41.3	31.5	14.7	25.9	43.0
Employee profit-sharing	31.0	27.6	19.1	40.0	21.0
Subsidized cafeteria	23.3	34.9	7.7	17.2	26.8
Nonproduction bonus	25.4	27.4	45.3	20.0	21.8
Savings and thrift	25.1	22.0	32.0	17.1	16.2
Clothing and equipment	15.5	27.8	22.8	8.6	4.9
Subsidized parking	0.6	11.2	13.7	2.9	-
Child care service	-	1.6	4.5	-	-

a/Includes employee stock bonus, employee stock purchase, employee stock ownership plan, and tax reduction ownership plans.

We also collected noncost data for certain other benefits provided in these localities--free parking, funeral leave, automobile for personal use, and medical appointment leave not chargeable to regular leave. These benefits could represent an important portion of an employee's secondary benefit compensation.

Percentage of Companies Offering Surveyed Benefit

Benefits	San Francisco	Des Moines	Baltimore	Anchorage	Tampa and St. Petersburg
Funeral leave	90.4	100	82.3	65.7	85.5
Free Parking	69.6	78.6	76.1	97.2	94.3
Automobile for personal use	34.0	28.5	49.4	57.1	35.5
Medical/dental appointment time	59.8	43.7	23.9	25.7	20.3

Our survey results have indicated that the cost and extent of primary as well as secondary types of benefits provided in the non-Federal sector varied significantly in the localities we visited. Failure to provide an adequate treatment for these benefits--taking into account any locality differences--could place the future of total compensation comparability in jeopardy and could mean Federal employees would experience either an advantage or disadvantage over their local non-Federal counterparts.

BLS surveys also show that benefits vary by area

BLS surveys show the differences in benefits practices in various localities and regions. BLS obtains data on occupational earnings and related benefits for office and production employees in 72 areas of the country. Earnings data is collected annually, with information on establishment practices and supplementary wage benefits obtained every third year. BLS also conducts limited area studies in approximately 100 areas.

We reviewed five of the area wage surveys conducted in 1979--Philadelphia, Pennsylvania; Providence, Rhode Island; Detroit, Michigan; St. Louis, Missouri; and Seattle, Washington--and the special study of the State of Alaska. We also reviewed the latest regional summary which covers data for 1975-77 for four U.S. regions--Northeast, North Central, Southern, and Western regions. These estimates are prepared each year, projected from individual metropolitan area data for all standard metropolitan statistical areas in the United States (except Alaska and Hawaii).

The surveys showed significant differences in the benefit practices of establishments for health insurance plans, life insurance plans, pension plans, annual paid holidays, and paid vacations. While this particular BLS survey does not assess the value or cost of the benefits provided, we believe that the variances it shows are nevertheless important. Not only did benefits differ among the localities selected and regions but also between office and production workers often within the same area, as shown.

Workers in Establishments Providing These Benefits

	Phila.	Providence	Detroit	St. Louis	Seattle	Alaska	Regional results (range)
	(percent)						
Office workers:							
Retirement pensions	87	92	92	83	92	87	81-89
noncontributory plans	83	91	91	76	89	83	70-77
Life insurance	96	93	99	98	99	97	97-98
noncontributory plans	81	82	94	69	88	81	67-78
Major medical insurance	98	99	92	99	99	99	95-99
noncontributory plans	77	63	63	60	74	74	54-60
Sickness and accident insurance, sick leave, or both	96	85	97	86	95	97	86-93
Dental insurance	33	30	68	48	86	71	21-50
noncontributory plans	28	20	67	31	70	55	15-33
Production workers:							
Retirement pensions	90	78	92	91	81	68	69-85
noncontributory plans	85	76	92	88	77	65	64-80
Life insurance	98	84	97	96	90	78	92-96
noncontributory plans	88	77	95	81	84	72	62-82
Major medical insurance	85	93	39	77	95	84	74-93
noncontributory plans	72	79	37	62	89	76	49-73
Sickness and accident insurance, sick leave, or both	91	47	97	93	81	67	74-91
Dental insurance	37	20	81	64	85	64	19-52
noncontributory plans	34	19	80	58	80	61	16-49

Annual paid holidays also differed. From 99 to 100 percent of office workers in all six areas were located in establishments providing annual paid holidays; for production workers, 91 to 99 percent. The average number of paid holidays provided for workers in establishments providing this benefit is shown below.

	Office workers	Production workers
Philadelphia	10.7	10.0
Providence	10.4	9.8
Detroit	10.9	14.5
St. Louis	9.6	10.7
Seattle	10.1	9.1
Alaska	9.9	9.0

The wide variance--9 days for production workers in Alaska to 14.5 days for production workers in Detroit--is not unusual since several factors may influence the number of days provided, including the strength of unions, State and local holidays, local customs, weather conditions, and the type of work done. In four of the six areas, the office workers received more paid holidays than production workers. Regional groupings showed the number of paid holidays provided ranged from 9.1 to 10.4 days for office workers and from 7.7 to 10 days for production workers.

The amount of paid vacation time also varied in these localities. Except for Alaska, where 79 percent of production workers were in establishments providing vacations, all of the other areas showed at least 97 percent of workers were located in vacation-providing establishments. The following chart details the amount of vacation time provided to these employees.

Paid vacations	Phila.	Providence	Detroit	St. Louis	Seattle	Alaska	Regional results (range)
	Wage Areas						
	(percent)						
Workers in establishments providing this benefit:							
office	100	99	99	99	99	99	99
production	99	99	99	99	97	79	97-99
Percent of above workers receiving at least:							
2 weeks after 1 yr. of service							
office	79	78	86	81	90	92	80-90
production	34	21	64	31	40	48	33-41
3 weeks after 5 yrs. of service							
office	37	32	51	35	30	84	27-47
production	27	15	66	25	29	58	19-35
4 weeks after 10 yrs. of service							
office	9	5	38	13	13	38	10-15
production	8	4	6	11	6	39	7-12
5 weeks after 20 yrs. of service							
office	12	6	39	19	8	35	7-16
production	19	7	62	33	11	26	11-28

CONCLUSIONS

We recognize the problems present in some localities caused by the present pay-setting system, and because of this, we support the movement to assessing and adjusting for total compensation comparability on a local level. If benefits do vary from locality to locality, any system which does not measure the true locality compensation (meaning fully considering locality pay and locality benefits) could still produce inequities, possibly serious ones.

These inequities could occur for Federal blue collar workers--now under a locality pay system--as soon as the proposed total compensation comparability system is implemented. GS employees would be affected at a later date if the proposed locality pay provision is implemented under a plan similar to the one being considered by OPM (locality pay/national benefits).

RECOMMENDATION TO THE CONGRESS

We, therefore, recommend that the Congress insure that OPM analyze locality benefits and, if they vary materially by locality, require OPM to take local benefits into account in any locality compensation adjustment. While this benefits analysis could be made after enactment of the legislation, it should be made before adjusting compensation on a locality basis.

An alternative approach

The method of achieving total compensation comparability which was addressed in this and previous chapters--namely, setting the standard at the total compensation level and adjusting pay and/or benefits as long as their total meets the standard--was discussed in our July 1975 report. 1/ Such a method would allow interaction between pay and benefits adjustments because their levels are not constrained to meet individual standards and may be adjusted to reflect a variety of factors considered during the adjustment process.

At that time we noted a second method of achieving total compensation--establishing individual standards for pay and benefits, with a tacit understanding that meeting

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1/"Need For a Comparability Policy For Both Pay and Benefits of Federal Civilian Employees" (FPCD-75-66, July 1975).

both these standards will establish total compensation at an appropriate level. We indicated that this method could be viewed as a transition method with the goal of progressing to the single-standard method.

Because of the refinements to OPM's approach and possible changes needed in the proposed legislation, the Congress may want to consider this second method as an initial step in implementing a total compensation system for Federal employees. With pay adjustments to be based only on pay comparisons and benefits adjustments only on benefits comparisons, Federal pay would not be directly affected by possibly imprecise benefits comparisons.

Under such an approach, changes would not be made to the Federal benefits package unless there were indications that the Federal package was <u>clearly</u> higher or lower than benefits in the non-Federal sector. To retain its control over benefits changes, the Congress could require that its concurrence be obtained before any Federal benefits adjustments are made.

The Advisory Committee on Federal Pay, in its June 1979 report, "Eight Years of Federal White-Collar Pay Comparability," recognized the difficulties inherent in an integrated system. It recommended:

> "Legislation should be passed to test and develop a comparability system for employee benefits, but it should be separate and distinct from the salary system. There should be a guiding principle of effecting trade-offs between benefits and pay improvements and a general overall objective of both benefits and pay being comparable with the private sector. The difficulties of developing a comprehensive integrated pay-benefit package system to replace the variety of existing pay systems and the benefit systems now in effect for Federal employees suggest that benefit comparability and pay comparability can best be achieved independently."

Employee organizations, according to the CBO, 1/ have also recommended that Federal pay and benefits adjustments

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1/"Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981," CBO (May 1980).

should be considered independently. They reason that not only are benefits comparisons very sensitive to the selection of evaluation methodology, but this also assumes an ability to accurately forecast pay, interest, and cost-of-living increases for the next 40 or 50 years.

We believe that, while a separate pay and benefits adjustments approach would not remedy the possible inequities from not using local benefits measures when assessing pay on a local basis, it would

--help to bring the overall Federal benefits package closer to prevailing benefits in the non-Federal sector and

--allow time for the Congress, Federal employees and their representative organizations, and the Nation's taxpayers to gain confidence in a total compensation comparability system.

OPM'S COMMENTS AND OUR EVALUATION

OPM believes that a total compensation system which utilizes a national benefits comparison would be an improvement over the present system which excludes benefits. We agree, but we also believe that such a system could result in further over- or under-compensating employees in certain localities. Adding a locality benefits dimension to the process would be costly, according to OPM, and may not yield enough accuracy to be cost effective. It sees no reason to delay implementing a national total compensation plan until the locality issue is settled. We believe that the variability of these local benefits must be assessed before implementing a system which ignores these factors. In the interim, we would favor separate pay and benefits analysis.

OPM noted that our recommendation on separate pay and benefits was not supported by any analysis in the report. We offered the separate pay and benefit plan only as an alternative proposal--a transitional measure. Our review objective was to analyze OPM's planned implementation of total compensation comparability. While we recognize that a separate plan would leave some disadvantages, we believe that, overall, it would be more equitable for Federal employees--at least until more information is available on the possible effects of implementing a total compensation system.

PAY-SETTING IN THE FEDERAL GOVERNMENT

FEDERAL WHITE-COLLAR EMPLOYEES

The Federal Salary Reform Act of 1962 established the principle that the salary rates for GS white-collar employees should be comparable with salaries for the same level of work in private enterprise. It also reemphasized the principles of equal pay for substantially equal work and pay distinctions in keeping with work and performance distinctions.

Prior to 1962, no established framework existed for setting Federal white-collar pay. Pay was adjusted according to various factors, including the changing purchasing power of the dollar, special concern for employees at the lower grade levels, the rising standard of living, wage trends elsewhere in the economy, and the economic and budgetary effects of Federal pay raises. The resultant pay rates severely curtailed pay distinctions in keeping with work and performance distinctions and permitted general deterioration of the pay structure.

The Reform Act was amended by the Pay Comparability Act of 1970, which prescribed a method for annual review and adjustment of these salaries and, in effect, transferred the primary responsibility for adjusting GS pay rates from the Congress to the executive branch. Under the procedure established, BLS undertakes an annual survey called the National Survey of Professional, Administrative, Technical, and Clerical Pay to evaluate salaries paid in the private sector compared with salaries of Federal employees at comparable work levels and occupations. Survey results are then sent to the President's Pay Agent--a joint group composed of the Director, Office of Personnel Management; Director, Office of Management and Budget; and the Secretary of Labor--for setting and adjusting pay for Federal white-collar employees. This group also determines specifics of the pay survey, such as the industries to be included, locations, establishment size, and occupational coverage.

Other groups who have an official role in advising on Federal pay include the Federal Employees Pay Council--five representatives of Federal employee organizations who must be consulted by the Pay Agent concerning both the criteria for comparability and the development of the annual rate proposals--and the Advisory Committee on Federal Pay--three members appointed by the President who are not otherwise employed by the Federal Government. This committee provides the President with independent third-party advice on the pay proposals, considering the recommendations of both the Pay Agent and the Pay Council.

After considering the findings and recommendations of his Agent, employee representatives, and the Advisory Committee, the President must either agree to a comparability pay adjustment to take effect as of October 1, or submit an alternative plan to the Congress which would go into effect unless disapproved by either House. If the alternative plan is disapproved, the President is required to make the comparability adjustment.

Salaries for the other statutory pay systems--the Foreign Service schedules and the Department of Medicine and Surgery schedules of the Veterans Administration--are related to GS pay through job evaluation techniques. Other agencies elect to follow the GS although they are not required to do so.

Federal benefits are set by legislative action.

FEDERAL BLUE-COLLAR EMPLOYEES

The Federal Wage System, which covers the blue-collar pay process, was established pursuant to Public Law 92-392 in 1972. It enacted into law, with some modifications, the principles, policies, and practices of the Coordinated Federal Wage System, an administrative wage-setting process established in 1968.

The law, in establishing the comparability principle for most Federal blue-collar employees, noted that wage rates should be fixed and adjusted from time to time consistent with the public interest and local prevailing rates. Wage rates were to be based on the principle that:

--There be equal pay for substantially equal work for employees working under similar conditions within the same local wage area.

--There be relative differences in pay within a local wage area when there are substantial or recognizable differences in duties, responsibilities, and qualification requirements among positions.

--Pay levels be maintained in line with prevailing levels for comparable work within a local wage area.

--Pay levels be maintained to attract and retain qualified employees.

Under the Federal Wage System, wage rates for blue-collar employees are established in 135 geographic areas in the continental United States, Alaska, Hawaii, and Puerto Rico. Within each area, OPM has designated areas in which annual surveys are made of wage rates paid by private sector establishments for selected jobs common to both industry and Government. BLS provides a statistical sample of establishments for each wage survey.

Three organizations are primarily responsible for administering the Federal Wage System: (1) OPM, (2) the designated lead agencies, and (3) the local host installation. At the national level, the joint labor-management Federal Prevailing Rate Advisory Committee advises OPM on policy issues. The committee is composed of five union members; five agency members, including OPM and the Department of Defense as permanent members; and a chairman appointed by the Director, OPM.

OPM, with the advice of the committee, prescribes the necessary policies, practices, and procedures. The designated lead agency, generally the agency having the largest number of Federal blue-collar employees in a particular area, conducts the surveys and establishes wage schedules for the blue-collar workers. The host installation (designated by the lead agency) provides administrative and clerical support during the local wage survey. Unlike GS, which is adjusted each October 1, blue-collar pay adjustments are scattered throughout the year.

GAO REPORTS ON FEDERAL PAY AND BENEFITS ISSUES

Report title	Date	Number
Need to Take Action on Salary Compression Problem of the Federal Workforce	Feb. 19, 1973	B-101892
Improvements Needed in the Survey of Non-Federal Salaries Used as Basis for Adjusting Federal White-Collar Salaries	May 11, 1973	B-167266
Information and Observations on Need for Executive Pay Adjustment	Feb. 19, 1974	B-101892
Letter to the Director of the Office of Management and Budget and the Chairman of the Civil Service Commission on Translating Survey Data Into Federal Pay Rates	July 12, 1974	B-167266
Federal Retirement Systems: Key Issues, Financial Data, and Benefit Provisions	July 30, 1974	B-179810
Critical Need for a Better System for Adjusting Top Executive, Legislative, and Judicial Salaries	Feb. 25, 1975	FPCD-75-190
Improving the Pay Determination Process for Federal Blue-Collar Employees	June 3, 1975	FPCD-75-122
Need for a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees	July 1, 1975	FPCD-75-62
The Executive Pay Problem is Becoming Increasingly Critical	July 15, 1975	FPC-76-2

Report title	Date	Number
Federal White-Collar Pay Systems Need Fundamental Changes	Oct. 30, 1975	FPCD-76-9
Classification of Federal White-Collar Jobs Should Be Better Controlled	Dec. 4, 1975	FPCD-75-173
Tax-Free Salaries of the International Development Banks Exceed Those of Member Governments	Jan. 19, 1976	ID-76-38
Policy of Paying Cost-of-Living Allowances to Federal Employees in Nonforeign Areas Should Be Changed	Feb. 12, 1976	FPCD-75-161
Letter to Senator Charles H. Percy on Pay and Training of Police and Guards at a Number of Federal Agencies	May 5, 1976	GGD-76-82
Recruiting and Retaining Federal Physicians and Dentists: Problems, Progress, and Actions Needed for Future	Aug. 30, 1976	HRD-76-169
Pay Setting Process of the Government Printing Office	Sept. 14, 1976	FPCD-75-164
Letter to Commission on the Operation of the Senate on Pay Allowances and Perquisite Benefits in Executive Level Positions	Oct. 27, 1976	FPCD-77-4
Civil Service Disability Retirement: Needed Improvements	Nov. 19, 1976	FPCD-76-61
Increases Needed in Executive Pay	Feb. 8, 1977	FPCD-77-31

Report title	Date	Number
Special Retirement Policy for Federal Law Enforcement and Firefighter Personnel Needs Reevaluation	Feb. 24, 1977	FPCD-76-97
Letter to Representatives Robert W. Daniels, Jr., and G. William Whitehurst on the 1976 Blue-Collar Wage Survey in the Tidewater Area of Virginia	Mar. 9, 1977	FPCD-77-32
Letter to the Chairman, Committee on Post Office and Civil Service, House of Representatives, Concerning Dual Compensation	Aug. 2, 1977	B-179810
Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits	Aug. 3, 1977	FPCD-77-48
Department of Defense Should Change Pay Setting for Korean Nationals	Sept. 30, 1977	FPCD-77-69
Department of Defense Should Change Pay Setting for Filipino Nationals	Oct. 5, 1977	FPCD-77-70
Department of Defense Pay Practices for German Nationals Should be Changed	Dec. 2, 1977	FPCD-77-86
Methods of Setting Pay for Nonappropriated Fund Employees Should be Improved	Dec. 14, 1977	FPCD-77-51
Federal and District of Columbia Employees Need To Be in Separate Pay and Benefits Systems	Jan. 12, 1978	FPCD-77-71

Report title	Date	Number
Possible Savings for Department of Defense Personnel Costs in Italy	Mar. 1, 1978	FPCD-78-9
Letter to the Chairman, House Committee on the Budget on the Budgetary Impact of Fully Recognizing and Allocating Retirement Costs	May 24, 1978	B-179810
Department of Defense Pay Practices for Japanese Nationals Should be Changed	May 31, 1978	FPCD-78-47
Disability Provisions of Federal and District of Columbia Employees Retirement Systems Need Reform	July 10, 1978	FPCD-78-48
Federal Compensation Comparability: Need for Congressional Action	July 21, 1978	FPCD-78-60
Department of Defense is Overcompensating its Foreign Employees	Aug. 2, 1978	FPCD-78-64
Review of COLA for NAF Employees	Nov. 29, 1978	FPCD-79-6
The Federal Government's Severance Pay Programs Need Reform	Dec. 7, 1978	FPCD-78-68
Need for an Overall Policy and Coordinated Management of Federal Retirement Systems	Dec. 29, 1978	FPCD-78-49
State Department Should Improve Foreign National Pay Setting	Jan. 8, 1979	FPCD-78-81

Report title	Date	Number
Comparative Growth in Compensation for Postal and Other Federal Employees Since 1970	Feb. 1, 1979	FPCD-78-43
Letters to the House and Senate Budget Committees on Unrecognized Retirement Costs	Apr. 11, 1979	FPCD-79-49
Letter to the Director, Office of Personnel Management on Employee Awareness of the Federal Benefit Package Provisions	May 14, 1979	FPCD-79-53
Annual Adjustments--The Key to Federal Executive Pay	May 17, 1979	FPCD-79-31
Part-Time and Other Federal Employment: Compensation and Personnel Management Reforms Needed	June 5, 1979	FPCD-78-19
Multiple Problems With the 1974 Amendments to the Federal Employees' Compensation Act	June 11, 1979	HRD-79-80
DOD Civilian Employees' Use of Sick Leave Before Retirement Still High	Aug. 8, 1979	FPCD-79-66
Wages for Federal Blue-Collar Employees Are Being Determined According to the Law, But Improvements Are Needed	Oct. 29, 1979	FPCD-80-12
Determining Federal Compensation: Changes Needed to Make the Processes More Equitable and Credible	Nov. 13, 1979	FPCD-80-17

Report title	Date	Number
Minimum Benefit Provision of the Civil Service Disability Retirement Program Should Be Changed	Nov. 30, 1979	FPCD-80-26
Letter to the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, on Pay for Holidays Under Compressed Work Schedules	Dec. 4, 1979	FPCD-80-21
Letter to the Chairmen of the Senate Governmental Affairs and House Post Office and Civil Service Committees on Retirees Cost-of-Living Adjustments	Jan. 30, 1980	B-130150
Letter to the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, on Retirement Benefits for Panama Canal Employees	Feb. 14, 1980	FPCD-80-41
Letter to the Director, Office of Personnel Management, Concerning some Civil Service Retirees Subject to "Catch-62" that are not being Identified	Apr. 22, 1980	FPCD-80-47
Letter to the President of the Senate Concerning Cost-of-living Increases for Federal Civilian and Military Retirees	July 1, 1980	B-130150
Apportioning Retirement Benefits to Former Spouses of Federal Employees	July 28, 1980	FPCD-80-56
Federal Executive Pay Compression Worsens	July 31, 1980	FPCD-80-72

 APPENDIX II

Report title	Date	Number
Letter to the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, on Total Compensation Comparability for Federal Employees	Sept. 3, 1980	FPCD-80-82

NINETY-SIXTH CONGRESS

GLADYS NOON SPELLMAN, MD., CHAIR

CHARLES H. WILSON, CALIF. TOM CORCORAN, ILL.
WILLIAM D. FORD, MICH. DANIEL B. CRANE, ILL.

U.S. House of Representatives

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
B-345(D) RAYBURN HOUSE OFFICE BUILDING
Washington, D.C. 20515

79 AUG 13 P12:57

August 7, 1979

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Comptroller General,

The Administration recently proposed the Federal Employee Compensation Reform Bill of 1979 (S. 1340; H.R. 4477) which calls for major changes to the Federal pay and benefit determination processes. The proposal would include benefits, as well as pay, in determining the annual comparability adjustments for Federal employees. This has raised numerous questions about the Administration's approach for implementing such a system.

I am hereby requesting that the General Accounting Office undertake a review of the Administration's proposed total compensation system and how it will affect Federal employees. The review should include an assessment of the feasibility of total compensation comparability. Specifically, I would like for your review to include:

--appropriateness of benefits that are included or not included in the OPM models.

--the assumptions used by OPM in setting up their actuarial models for various benefits.

--the methodology to be used in making the annual comparability compensation adjustments.

The Committee would like to obtain the final report by May 1980 so that the information can be used for deliberations on the bill in the next Congress.

Sincerely,

Gladys Spellman

Gladys Noon Spellman
Chair, Subcommittee on Compensation and Employee Benefits

NATIONAL SURVEY METHODOLOGY AND QUESTIONNAIRE

The survey related to corporations in the United States and included all industrial groupings. Excluded from the sampling frame were those corporations with less than 100 employees. The sampling frame was developed from the Dun & Bradstreet Million Dollar Directory, Volume I, 1979. All of the companies, 22,075, in the sampling frame were distributed into 6 strata according to the number of personnel employed by the company. Samples were randomly drawn from each of the stratum.

The survey was conducted using questionnaires. These were mailed to the individual who we believed was most familiar with employee compensation--for small companies it may have been the President, and in larger companies it may have been the Director of Compensation. The first mailing took place in December 1979, the second mailing in January 1980, and the final in March 1980.

The following table shows the details of the sampling frame: sample, responses, and projectable universe by stratum. By combining the response rates by stratum with the number of companies in the stratum, the projectable universe was estimated--11,781 companies, or 53.4 percent of the original universe (22,075).

Company size (# of employees)	Number of companies	Number sampled	Number of responses	Response rate	Projectable universe
100-499	14,353	106	59	55.7%	7,995
500-999	3,089	74	36	48.6%	1,501
1000-2499	2,318	107	51	47.7%	1,106
2500-4999	1,008	120	55	45.8%	462
5000-9999	581	124	69	55.6%	323
10,000 or more	726	186	101	54.3%	394
Total	22,075	717	371		11,781

The majority of the data was combined using stratified ratio estimation, while a few of the estimates (for example, percent of companies offering a specific benefit) were developed using expansion stratification estimation. Confidence intervals of the estimates were computed for only the most important estimates in the report. The estimates and their confidence intervals 1/ follow:

	Estimate	95-percent confidence interval	
		Lower limit	Upper limit
	----------(percent)---------		
Secondary benefit as a percent of base pay	3.0	2.5	3.4
Secondary benefit as a percent of base pay by worker type			
Professional/ administrative	3.7	3.0	4.5
Technical/clerical	2.9	1.9	4.0
Production	0.9	0.6	1.3

The questionnaire we used in the national survey follows.

1/The confidence intervals reported are probably understated. This is because missing information was replaced with average values by strata. That is, if a company provided the benefit to its employees but did not provide cost information, the average cost to companies providing the benefit in that stratum was used. This procedure will tend to reduce the variation between companies.

U.S. GENERAL ACCOUNTING OFFICE

SURVEY OF EMPLOYEE FRINGE BENEFITS

INTRODUCTION

The purpose of this questionnaire is to determine the extent to which various fringe benefits are provided to full-time employees in the private sector. The Bureau of Labor Statistics is in the process of collecting data on pensions, health insurance, vacations, holidays, life insurance, and sick leave/short term disability provided in the private sector. These types of benefits will not be addressed in this survey. Our objective is to obtain data regarding other types of benefits that may be currently provided to employees. The kind of information we are seeking is not available from any other source. Without such data, we believe it may be impossible to accurately assess employee compensation practices and costs in the private and public sectors.

DIRECTIONS:

Throughout this questionnaire you will be asked to provide benefit information for three employee groups: Professional/ Administrative employees, Technical/Clerical employees, and Production employees.

DEFINITIONS:

Professional/Administrative -- includes occupations that generally require college-level education or the equivalent in progressively responsible experience. Examples: accountant, chemist, engineer, computer programmer, registered nurse, office manager, buyer, sales representative, personnel director, etc. These are positions generally "exempt" from the Fair Labor Standards Act.

Do not include executive management or professionals who are responsible for corporate planning, e.g., corporate officers and general counsels.

Technical/Clerical -- includes office and sales clerical, technical support, protective services, and other such occupations that do not require full knowledge of a professional or administrative field of work. Job performance skills are typically acquired through on-the-job experience and/or specific training. Examples: computer operator, engineering technician, practical nurse, drafter, cashier, bookkeeper, bank teller, secretary, guard, sales clerk, etc. These are "white-collar" positions generally "non-exempt" from the Fair Labor Standards Act.

Production -- (trades, labor, and kindred occupations) -- includes skilled, semi-skilled, and unskilled trades; craft and production occupations; manual labor occupations; custodial occupations; and operatives. Examples: mechanic, laborer, production machine operator, bus driver, parking attendant, janitor, etc. These are "blue-collar" positions generally "non-exempt" from the Fair Labor Standards Act.

-- Include *supervisory employees* (foremen, production supervisors, clerical supervisors, etc.) in the groups that they supervise -- unless the supervisor, by virtue of education or experience, clearly belongs in another category.

-- If you have any questions concerning this survey, please call John Butler or Mike Kassack at (202) 275-5743.

-- The information you provide on this survey will be kept confidential; survey results will be presented only as aggregate data.

-- Please return your completed questionnaire within 30 days, if possible.

NOTE: We realize that exact data regarding employee participation or benefit costs may not be readily available for all benefits we are examining. Your best estimates will be sufficient.

APPENDIX IV

SECTION I-BACKGROUND INFORMATION

1. About how many permanent full-time employees does your company currently have in each of the following groups? *(Enter number; if none, enter 0. Use definitions provided on the cover page. Do not include executive management level employees.)*

Employees	Number current full-time employees	01 *(6-7)*
Professional/ Administrative	______________	*(8-15)*
Technical/Clerical	______________	*(16-23)*
Production	______________	*(24-31)*
Total	______________	*(32-39)*

2. Approximately what was the average number of permanent full-time employees your company had in each of the following groups during your last fiscal year? *(Enter number.)*

Employees	Average number of Employees	
Professional/ Administrative	______________	*(40-47)*
Technical/Clerical	______________	*(48-55)*
Production	______________	*(56-63)*
Total	______________	*(64-71)*

3. What were your company's total gross payroll costs (as reported on W-2) for full-time employees in each of the following groups during your last fiscal year? *(Enter amounts.)*

Employees	Total gross payroll	*Dup (1-5)* 02 *(6-7)*
Professional/ Administrative	$______________	*(8-15)*
Technical/Clerical	$______________	*(16-23)*
Production	$______________	*(24-31)*
Total	$______________	*(32-39)*

4. What were your company's straight time payroll costs (gross payroll minus overtime, shift differentials, bonuses, etc.) for full-time employees in each of the following groups during your last fiscal year? *(Enter amounts.)*

Employees	Total straight time payroll	
Professional/ Administrative	$______________	*(40-47)*
Technical/Clerical	$______________	*(48-55)*
Production	$______________	*(56-63)*
Total	$______________	*(64-71)*

5. How many hours make up the standard workweek for your full-time professional/administrative, technical/clerical, and production employees? *(Enter hours 40, 37.5, 35, etc. for each group. Note – Do not include paid lunch in the work-week total.)*

Employees	Hours per week	
Professional/ Administrative	______________	*(72-74)*
Technical/Clerical	______________	*(75-77)*
Production	______________	*(78-80)*

SECTION II-EMPLOYEE BENEFITS

In this section, 14 types of employee benefits are described. Following each benefit description is a series of questions. Please read each benefit description and answer the questions that follow. If your company does not provide a given benefit, please check 3 in question A and go on to the next benefit. *Remember when answering please do not include your executive level employees.*

APPENDIX IV

Dup (1-5)
03 *(6-7)*

1. **Profit Sharing Plan**: A plan under which the company credits predetermined shares of company profits to participating employees' accounts. The amount in the account may be paid directly to the employee in cash annually, or may be available upon retirement.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 2.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually participated in this benefit during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that participated
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

D. About how much did your company contribute to profit sharing for your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

Dup (1-5)
04 *(6-7)*

2. **Savings and Thrift Plans**: A plan under which an employee periodically pays into a fund a predetermined portion of earnings, all or part of which is matched by the employer, and the proceeds from the fund are paid to the employee in cash.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 3.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually participated in this benefit during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that participated
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

D. About how much did your company contribute to savings/thrift plan(s) for your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

Dup (1-5)
05 (6-7)

3. **Stock Bonus Plan**: A plan financed by employer and employees or solely by employer, in which contributions are placed in a separate trust fund which invests in any security and the proceeds from the fund are paid to the employees in the form of company stock. *(Do not include ESOP or TRASOP.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

   ____

   ____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 4.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually participated in this benefit during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that participated
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

D. Approximately what was the total dollar value of your company's contributions to stock bonus plan(s) for your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Total value
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

Dup (1-5)
06 (6-7)

4. **Stock Purchase Plan**: A plan that permits a participating employee to purchase shares of company stock, usually through payroll deduction, at less than open-market price.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

   ____

   ____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 5.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually participated in this benefit during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that participated
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

D. What was the total dollar amount of discounts received, under your stock purchase plan, by your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

Dup (1-5)
07 (6-7)

5. **Employee Stock Ownership Plans (ESOP)/Tax Reduction Stock Ownership Plans (TRASOP)**: Qualified stock bonus plan or combination stock bonus plan and money purchase plan designed primarily to invest in qualifying employer securities *(as qualified under Section 401(a) of the Internal Revenue Code and Tax Reform Act of 1976.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 6.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually participated in this benefit during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that participated
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

D. Approximately what was the total dollar value of ESOP/TRASOP contributions your company made for your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Value
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

Dup (1-5)
08 (6-7)

6. **Gifts**: Non-cash benefits provided by the employer to employees to commemorate special events (e.g., Thanksgiving, Christmas, weddings, births). The more common gifts provided to employees are turkeys, hams, wedding cake knives, and baby sweaters. *(Exclude gifts such as pins, cuff links that bear organizational emblems.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 7.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually received non-cash gifts during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that received gifts
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About how much did your company spend on non-cash gifts provided to your professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$______
Technical/Clerical	$______
Production	$______
Total	$______

APPENDIX IV

Dup (1-5)
09 (6-7)

7. **Non-Production Bonus**: Cash payment to an employee for work related matters other than achieving a certain job output, e.g., Christmas bonus, years in service bonus.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

   ____
   ____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 8.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually received non-production bonuses during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that received non-production bonuses
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About how much did your company disburse in non-production cash bonuses to your professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$________
Technical/Clerical	$________
Production	$________
Total	$________

Dup (1-5)
10 (6-7)

8. **Child-care Services**: Employer provides facilities and services for pre-school age children of employees. The facilities are usually near the employee's work location (frequently in the same building). The employer and employees generally share the cost of this service.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

   ____
   ____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 9.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually used provided child-care services during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent that used benefit
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. About how much did your company spend to provide child-care services to your full-time employees during your last fiscal year? *(Enter amount.)*

$________

APPENDIX IV

Dup (1-5)
11 (6-7)

9. **Educational Assistance**: A program providing for the employee (not dependents) full or partial payment for tuition and/or books for educational courses whether or not related to employee's present job; and/or for work time lost due to taking such courses. *(Exclude any training routinely provided and required by your organization.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 10.)*

B. About what percentage of your full-time professional/administrative, technical/clerical and production employees actually obtained educational assistance during your last fiscal year? *(Enter percentage; if none, enter 0.)*

Employees	Percent obtained
Professional/Administrative	_____%
Technical/Clerical	_____%
Production	_____%

C. About what percentage of your present full-time professional/administrative, technical/clerical, and production employees are currently eligible for this benefit? *(Enter percentage. If none, enter 0; if all, enter 100%.)*

Employees	Percent eligible
Professional/Administrative	_____%
Technical/Clerical	_____%
Production	_____%

D. Approximately what was the total dollar amount of educational assistance your company provided to your full-time professional/administrative, technical/clerical, and production employees during your last fiscal year? *(Enter amount; if none, enter 0.)*

Employees	Educational assistance
Professional/Administrative	$_____
Technical/Clerical	$_____
Production	$_____
Total	$_____

Dup (1-5)
12 (6-7)

10. **Employee Discounts**: Employee is permitted to purchase company products or services at reduced prices. *(In some instances products or service may be provided at no cost.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 11.)*

B. What was the total dollar value of discounts your full-time employees obtained during your last fiscal year? *(Enter amount.)*

Value of Discounts $_____________

11. **Clothing/Equipment Allowance**: Employee is provided with cash reimbursement (full or part) for clothing/equipment needed for work. *(Exclude uniforms or equipment actually provided by the employer.)*

A. this benefit available to some, all, or none of your full-time employees? *(Check one.)*

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees
3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 12.)*

B. About how much in clothing allowances did your company provide to your full-time professional/administrative, technical/clerical and production employees during your last fiscal year? *(Enter amounts; if none, enter 0.)*

Employees	Amount
Professional/Administrative	$_____
Technical/Clerical	$_____
Production	$_____
Total	$_____

Dup (1-5)
13 (6-7)

12. **Subsidized Cafeteria**: Employee has access to a cafeteria or dining facility that serves meals at reduced prices.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(8)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees

3. ☐ Not available to any full-time employees *(If 3, skip to Benefit 13.)*

B. About how much did your organization spend in subsidies for employee cafeteria(s) during your last fiscal year? *(Enter amount.)*

$__________

13. **Free Parking**: Employee is provided with free parking, or fully reimbursed for such parking. *(Include daily parking; do not include reimbursement if it is only provided when automobile is used on company business.)*

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(17)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees *(If 2, skip to Benefit 14.)*

3. ☐ Not provided to any full-time employees *(If 3, skip to Benefit 14.)*

B. About what percentage of all your full-time professional/administrative, technical/clerical, and production employees are currently eligible for free parking? *(Enter percentage; if none, enter 0.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

14. **Subsidized Parking**: Employee is provided parking at reduced rate or is partially reimbursed for daily parking.

A. Is this benefit available to some, all, or none of your full-time employees? *(Check one.)*

(27)

1. ☐ Available to some full-time employees *(Please specify criteria used to establish eligibility, e.g., after 1 year of service, non-union personnel.)*

____

____

2. ☐ Available to all full-time employees *(If 2, skip to C.)*

3. ☐ Not available to any full-time employees *(If 3, skip to Section III.)*

B. About what percentage of all your full-time professional/administrative, technical/clerical and production employees are currently eligible for subsidized parking? *(Enter percentage; if none, enter 0.)*

Employees	Percent eligible
Professional/Administrative	______%
Technical/Clerical	______%
Production	______%

C. What was the total amount of parking subsidies your organization provided for your full-time employees during your last fiscal year? *(Enter amount.)*

$__________

SECTION III-OTHER BENEFITS

In addition to the benefits described in Section II. some organizations may provide some or all of their employees with other benefits. Listed below are some other types of benefits that may be provided. For each benefit listed, please enter the percentage of your full-time professional/administrative, technical/clerical, and production employees that are currently eligible to receive the benefit. If a specific benefit is not provided at all by your company, check (√) column 4.

	Employees			
	1	2	3	4
Other benefits	Professional/ Administrative % eligible	Technical/ Clerical % eligible	Production % eligible	(√) if benefit not provided
1. Automobile: Employee is provided with company vehicle that can be used for personal use free or for a per mile charge.	____% (45-47)	____% (48-50)	____% (51-53)	(54)
2. Funeral Leave: Employee is provided with time off with pay up to a specific number of days in the event of death in family. (Time off is not charged to vacation or sick leave.)	____% (55-57)	____% (58-60)	____% (61-63)	(64)
3. Military Leave. Employee is provided with time off with pay to attend Reserve or National Guard Duty. (Time off is not charged to vacation or sick leave.)	____% (65-67)	____% (68-70)	____% (71-73)	(74)
4. Jury Duty: Employee is paid the difference between jury pay and normal pay that would have been earned while serving on jury.	____% (8-10)	____% (11-13)	____% (14-16)	(17)
5. Voting Leave: Employee is provided with time off with pay to vote. (Time is not charged to vacation or sick leave.)	____% (1- 20)	____% (21-23)	____% (24-26)	(27)
6. Personal Leave: Employee is provided with time off with pay up to a specific number of days per year to take care of personal emergencies or transact unusual business; e.g., close on house, apply for mortgage. (Time off is not charged to vacation or sick leave.)	____% (28-30)	____% (31-33)	____% (34-36)	(37)
7. Medical/Dental Appointment Time: Employee is provided time off with pay to go to medical or dental appointment. (Time off is not charged to vacation or sick leave.)	____% (38-40)	____% (41-43)	____% (44-46)	(47)
8. In-house Infirmary: Employee has access to infirmary, usually with a full-time nurse and doctor available upon call or at specific visiting hours. This service may cover minor illnesses and disabilities. Regular, periodic physical examinations may be provided to employees at no cost. Prescription drugs may or may not be dispensed to employees.	____% (48-50)	____% (51-53)	____% (54-56)	(57)

SECTION IV-ADDITIONAL BENEFITS/COMMENTS

As stated in the introduction, this survey does not deal with major benefits such as pensions, health insurance, life insurance, long-term disability, vacation, or sick leave/short-term disability. If your organization provides any benefits to your employees in addition to these major benefits and those described in Sections II and III of this questionnaire, please describe them in the space below. We would also welcome any additional comments you may have regarding employee compensation or related issues. *Attach additional sheet(s) if you need more space.*

LOCALITY SURVEY METHODOLOGY

The survey related to establishments in the following industries: construction; manufacturing; transportation; communications; electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance and real estate, and selected services. Only establishments with 100 or more employees were included in the sampling frame. Five geographic areas were selected: Tampa and St. Petersburg, Florida; Baltimore, Maryland; Des Moines, Iowa; San Francisco, California; and Anchorage, Alaska.

The sampling frames for each location were provided by Dun's Marketing Service. The qualifying establishments within each location were divided into two strata according to the reported number of employees, and random samples were drawn from each of the strata. In the case of Anchorage, Alaska, all of the provided establishments which qualified were included in the sample. GAO personnel visited each sampled establishment to obtain information on the cost of both major and secondary benefits. The benefit information was collected using a 33 page standardized data collection instrument. (A copy may be requested from John Butler at (202) 275-5743, or Room 4023, 441 G St. N.W., Washington, D.C. 20548.) Establishments that reported employing less than 100 workers at the time of our visit were excluded. The following table summarizes the sampling information for each locality.

	Company size—no. of employees (note a)	No. of companies (note a)	No. sampled (note a)	No. of responses	Response rate	Projectable universe
Tampa and St. Petersburg	100-499	446	45	18	40.0%	178
	500 or more	59	35	16	45.7%	27
	Total	505	80	34		205
Baltimore	100-999	770	40	21	52.5%	404
	1,000 or more	52	34	20	58.8%	31
	Total	822	74	41		435
Des Moines	100-499	155	69	25	36.2%	56
	500 or more	39	29	22	75.9%	30
	Total	194	98	47		86
San Francisco	100-999	1,235	40	20	50.0%	617
	1,000 or more	87	40	23	57.5%	50
	Total	1,322	80	43		35
Anchorage		63	63	35	55.6%	35

a/Includes establishments which reported employing 100 or more workers but, at the time of our visit, were found to employ less than 100 workers and a few others which should not be included because they were public institutions or out of business. These totalled 11 in Tampa and St. Petersburg, 12 in Baltimore, 30 in Des Moines, 11 in San Francisco, and 25 in Anchorage.

The cost data was combined using stratified ratio estimation, while estimates of the percent of companies offering a specific benefit were developed using expansion stratification estimation. Confidence intervals for the overall benefit as a percent of base pay were computed for San Francisco and Tampa and St. Petersburg--the highest and lowest percentages. The estimates and their confidence intervals 1/ follow:

	Estimated benefits as a percent of base pay	95-percent confidence interval	
		Lower limit	Upper limit
	----------------(percent)----------------		
San Francisco	34.5	30.8	38.2
Tampa and St. Petersburg	24.7	19.3	30.1

1/The confidence intervals reported are probably understated. This is because missing information was replaced with average values. That is, if a company provided the benefit to its employees but did not provide cost information, the average cost to the companies providing this benefit in that stratum was used. This procedure will tend to reduce the variation between companies.

United States of America
Office of Personnel Management Washington, D.C. 20415

NOV 6 1980

Mr. H. L. Krieger, Director
Federal Personnel and Compensation Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Krieger:

As you requested in your letter of October 6, 1980, we have reviewed the GAO draft report entitled, "Problems in Developing and Implementing a Total Compensation Plan for Federal Employees". The report is generally supportive of our development efforts while pointing to a number of legitimate problem areas. While we concur with many of the findings, we do differ on some of the findings and statements contained in the report.

- Secondary Benefits

The proposed report recognizes the importance of assessing secondary benefits and including the results of such an assessment in a TCC comparison. We concur and are striving to obtain more quantitative and qualitative data in this area than is currently being provided to us by the Bureau of Labor Statistics or through publicly available sources. We believe that the inclusion of secondary benefits in the TCC comparison would be best accomplished incrementally as better data become available and not through an exclusive enumeration in law of benefits to be included.

- Benefit Complexities and Difficulties of Measurement

We agree with the proposed report's assertion that the TCC methodology is complex and that the methods and assumptions used can influence the results obtained. The TCC analysis is complex primarily because employee benefits are inherently complex and take on widely varying forms in the private sector. Our approach is founded upon the application of widely accepted actuarial and economic methods to the analysis and comparison process.

A necessary part of this approach is the application of professional judgment and, in some cases, policy determinations where assumptions are required or data are lacking. Although, as the report notes, we have resolved some of these issues for testing purposes, the President's Compensation Agent would be responsible for such determinations in an operational TCC system.

While we agree that the results obtained cover a range depending on the assumptions and methodology used, that range is only a few percentage points, not the wide band of from 2.8 percent of pay behind the private sector to 7.4 percent ahead estimated by the Congressional Budget Office and cited in your proposed report. The CBO estimates were made before any real data were collected by the Bureau of Labor Statistics or analyzed by OPM. It is now clear that they represent two implausible extremes.

Regarding the benefit coding deficiencies noted in the report, we recognized from our initial TCC developmental efforts that the volume of benefit provision data required by the TCC methodology was massive and, due to the variety of available provisions in the real world, difficult to categorize. The 1979 full scale benefits survey test was specifically designed to uncover deficiencies in this area. The test accomplished its purpose. Almost all of the deficiencies noted in the proposed report have been corrected by survey design changes for the 1980 benefits survey test.

- Locality Benefits

The proposed report expresses concern that a TCC benefits analysis based on a national data sample may lead to inequities when combined with locality pay data for either white-collar employees (under the locality pay proposal) or blue-collar employees (under current law).

In our view, a national TCC benefit comparison would represent a major improvement over the current comparability process which entirely excludes benefits. The addition of a locality dimension would be a very costly additional refinement which has theoretical merit but which in practice might not yield enough added accuracy to be considered cost effective.

Whether locality benefit collection is economically justifiable depends on a number of factors, including resolution of the locality pay proposal for white-collar employees, observed benefit variance among localities, and the added data collection requirement for a valid sample at the local level.

In the absence of locality pay for white-collar employees, the collection of locality benefits for blue-collar employees only would be very hard to justify as a cost-effective use of resources. Even with white-collar locality pay, the report does not make a strong case that locality benefit collection would be economically warranted. The local data collected by GAO do suggest some benefit variations by area but a larger and broader sample would be required to support any specific conclusions about the size of local variations.

We intend to study the feasibility and desirability of locality benefit measurements as a further refinement of the TCC process, but we see no compelling reason to delay implementation of national TCC in the meantime.

- Employee Groups

The proposed report recommends that benefit differences among major employee groups be fully considered in the TCC process. The Bureau of Labor Statistics is collecting benefits data by three major employee groupings (professional/administrative, clerical/technical and blue-collar) which permits a separate TCC analysis for white-collar and blue-collar Federal employees.

The statutes establish one benefits package for most Federal employees. Most private sector employers, including multi-establishment employers, maintain a single benefits package for their employees for a number of very significant reasons, not the least of which are equal treatment of employees and administrative efficiency.

The consequences of your recommendation would inevitably be fragmentation of the current Federal benefits package into a number of separate packages. Such a fragmentation, it seems to us, is undesirable both from the standpoint of employee equity and from the standpoint of significant complexities and costs involved in administering numerous packages.

- Separate Pay and Benefits Adjustments

The proposed report suggests that Congress might want to require that separate pay and benefit adjustments be made in the first few years of a TCC system. This recommendation, which is not supported by any analysis in the report or by our own studies, would reduce the flexibility achieved by a total compensation comparability system and force Federal pay and benefits to be separately comparable, whether or not that were in the interests of fostering a quality career service.

I appreciate the opportunity to comment on this draft report.

Sincerely,

Gary R. Nelson
Associate Director
for Compensation

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