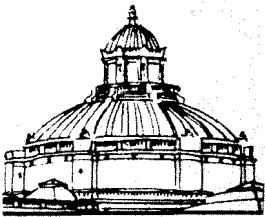


Issue Brief

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PAY COMPARABILITY FOR FEDERAL WHITE-COLLAR WORKERS

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BY

Barbara Schwemle

Government Division

Congressional Research Service

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ISSUE DEFINITION

Federal white-collar salaries are, theoretically, adjusted annually to make them comparable to private sector wage rates. Congress, in its budget resolution for fiscal year 1986, has frozen Federal pay for one year.

BACKGROUND AND POLICY ANALYSIS

The Federal Pay Comparability Act of 1970, P.L. 91-556, 84 Stat. 1946, and as amended by P.L. 94-82, 89 Stat. 420, mandated that "there be equal pay for substantially equal work" and that "Federal pay rates be comparable with private enterprise pay rates for the same levels of work." It also established the framework for determining comparability and gave the President primary authority to adjust General Schedule pay rates.

Most Federal white-collar occupations are grouped into 15 General Schedule grades (a few top positions are in grades 16-18) with levels of pay based on job difficulty. Each grade has 10 steps.

The following are eight aspects of the comparability statute:

- *Authorizes annual adjustments to Federal white-collar pay, determined by comparing public with private sector wage rates.
- *Mandates that an annual National Survey of Professional, Administrative, Technical, and Clerical Pay (PATC) be conducted by the Bureau of Labor Statistics to establish the pay comparison; survey results are submitted to the President's Pay Agent.
- *Creates the following three bodies to implement the comparability process:
 - (1) President's Pay Agent -- comprised of the Directors of the Office of Personnel Management and the Office of Management and Budget and the Secretary of Labor; determines the industries to be surveyed, geographic scope, size of establishments to be included, and occupational coverage of the PATC survey; formulates the comparability formula; establishes and confers with the Federal Employees Pay Council; and recommends an annual comparability adjustment to the President.
 - (2) Advisory Committee on Federal Pay -- comprised of three members representing the private sector; provides the President with advice on comparability pay proposals. Current members are Martin Duggan, Eva Robins, and Frank Zarb.

- (3) Federal Employees Pay Council -- comprised of five members of Federal employee organizations which represent substantial numbers of Federal workers; meets with and recommends comparability adjustments to the President's Pay Agent. Current members are Kenneth Blaylock (AFGE), John Layden (AFL-CIO), James Peirce (NFFE), John Sturdivant (AFGE), and Robert Tobias (NTEU).
- *Uses a pay-setting formula that weights average rates of pay for each of the jobs included in the PATC survey according to their frequency in the Federal sector; establishes a pay range for each of the four PATC occupational groups -- Professional, Administrative, Technical, and Clerical; merges these four pay ranges into a PATC pay line that is used to derive a weighted private sector pay rate for each General Schedule grade; compares the weighted Federal and private sector averages to compute a comparability adjustment.
 - *Empowers the President to decide the size of the comparability adjustment and mandates that he report the findings of his Pay Agent and the Advisory Committee on Federal Pay to Congress.
 - *Grants the President the authority to override comparability and issue an alternative pay plan by September 1 for reasons of national emergency or economic conditions; alternative plan can recommend that no increase be granted, that the comparability adjustment be changed or that the effective date be changed.
 - *Provides that Congress can override the President by a simple majority of either House within 30 calendar days of continuous session following announcement of the President's plan; the Pay Agent's recommended comparability adjustment would then be granted by October 1.
 - *Establishes the first pay period on or after October 1 of each year as the effective date of the comparability adjustment; the statute authorized that the first two adjustments under the Act (1971 and 1972) be effective on or after Jan. 1.

Several varying comparability adjustments have been discussed recently. President Reagan proposed a 5% cut in Federal wages effective Jan. 1, 1986 in his FY86 budget. The President's Pay Agent reported in 1984 that an 18.28% increase would be necessary to align public with private sector salaries while the Advisory Committee on Federal Pay recommended a 5.5% increase. A "Study of Total Compensation in the Federal, State, and Private Sectors" prepared by Hay/Huggins Company and Hay Management Consultants for the House Committee on Post Office and Civil Service revealed that Federal total cash

compensation lags behind private sector pay levels by 10.3%. When all forms of compensation (such as retirement, leave, and health benefits) are totaled Hay found the comparability gap to be 7.2%. Finally, the Office of Personnel Management in its report entitled, "Reforming Federal Pay: An Examination of More Realistic Pay Alternatives," asserts that a truly representative PATC survey would show that less than a 2% increase is required to ensure parity with private industry.

The Congressional budget resolution for FY86, S.Con.Res. 32, passed the Senate May 9, 1985 by a 50 to 49 vote. This measure, the result of a compromise between the Senate Republican leadership and the White House, freezes Federal civilian pay in FY86. Federal wages would increase by 3.8% in 1987 and by 4.7% in 1988. Additionally, within-grade increases would not be granted in FY86.

In the House, H.Con.Res. 152, its version of the budget resolution for FY86, passed by a vote of 258 to 170 on May 23, 1985. As in the Senate, this budget plan freezes Federal civilian pay in FY86 and provides 3.8% and 4.7% pay increases in FY87 and FY88.

House and Senate differences were reconciled in a Conference Committee which reported out on Aug. 1, 1985 (H.Rept. 99-249). On the same day, the House and Senate agreed to the conference report by votes of 309 to 119 and 67 to 32, respectively.

The fiscal year 1986 budget resolution freezes Federal employee pay for one year and postpones future increases from Oct. 1 to Jan. 1 of each year, beginning in FY87. Pay raises of 3.8% and 4.7% will be awarded in 1987 and 1988, respectively.

The resolution also extends the use of 2,087 work year hours, rather than 2,080 hours, in computing General Schedule pay. The Senate provision to freeze within-grade increases for one year was deleted from the resolution in conference.

CONCERNS

Federal employees received a 3.5% comparability increase for fiscal year 1985 but its effective date was postponed until Jan. 1, 1985.

This latest pay increase granted to Federal workers illustrates how the comparability process has operated recently. The increase was authorized by the President under an alternative plan and its effective date was delayed by three months. Indeed, since 1977, the President has used alternative plans to grant Federal salary increases, making this procedure the rule rather than the exception. "Of the 11 pay increases under the Act, only 4 have fully followed the Act's principles." (A Decade of Federal White-Collar Pay Comparability," p. 12.)

Many observers on both sides of the Federal pay issue believe that the credibility of the comparability system has been reduced because of the seven following reasons.

*PATC survey is narrow in scope and design.
For instance --

State and local Governments, non profit

organizations, and workers in small and medium sized firms (those with under 250 employees) are excluded; this exclusion totals approximately 40 to 60% of the U.S. non-farm workforce.

Only 25% of the Federal workforce is surveyed; 113 levels of work in 25 occupational categories out of more than 400 different jobs are included.

One-third of the workers surveyed are in firms employing 2500 or more workers.

Many of the survey's work levels comprise highly skilled jobs such as lawyers, accountants, and engineers; only 13% of technical workers and 10% of administrative workers are represented.

- *A wide range of jobs are grouped into the General Schedule grades.
- *Entry and lower level professional and clerical positions are grouped together.
- *Differences in regions or locales are not considered in setting pay scales, except in Alaska and Hawaii; "Federal salaries equated to a national average exceed pay in many communities," (Decade of Federal White-Collar Pay Comparability," p. 24).
- *Overclassification and underclassification of Federal jobs has resulted from salaries which have been either lesser than or greater than comparability.
- *Pay setting system prevents the Federal Government from being competitive with the private sector in recruiting and hiring candidates for hard-to-fill occupations.
- *General public does not understand the system; compares Federal salaries according to overall averages rather than against those for like jobs.

OFFICE OF PERSONNEL MANAGEMENT PROPOSAL

In December 1984 OPM issued a report entitled "Reforming Federal Pay: An Examination of More Realistic Pay Alternatives." OPM officials have described it as a legislative agenda for the agency during the 99th Congress. The report's central theme is that the present white-collar General Schedule system should be replaced by one that places Federal jobs into broad classification and pay bands. Furthermore, the competitive recruiting position of the Federal Government vis-a-vis the private sector would be used to set salaries. That is, salary increases would be established by the use of quit rates (the pace at which Federal workers voluntarily leave

Government). Employees in occupations with high turnover rates would receive salary increases while those in jobs with low quit rates would receive smaller raises or be denied increases.

OPM reports that the Federal Government quit rate was 3.8% in 1983 while private sector averages were 13.2% in 1981 (manufacturing), 18% in 1981 (nonmanufacturing), and 13.4% in 1969 (postal service). The personnel management agency concludes that "overall compensation [in the Federal Government] is too high" and recommends the following adjustments to the Federal pay system.

- (1) Federal jobs would be analyzed separately by grade level.
- (2) Local pay rates would set technical and clerical salaries, national pay rates would set professional and administrative salaries.
- (3) Federal pay increases would be based on quit rates calculated for each occupation.

A full raise would be granted to employees in jobs with quit rates between 7 and 12%.

One-half the amount of a full raise would be granted to employees in occupations with quit rates between 3 and 6%.

No pay increases would be granted to workers in jobs with quit rates below 3%.

Pay increases would be effective on Jan. 1 of each year.

- (4) Special salary rates of up to 60% above regular schedule rates would be established for hard-to-fill occupations; all occupations with quit rates above 12% would be candidates for special rates.
- (5) PATC survey would be expanded to include smaller firms and state and local workers; (in 1985 firms employing 50 or more workers will be included; in 1986 non-profit firms employing 20 or more workers will be surveyed and state and local employees will be surveyed for informational purposes, pending legislative authorization).
- (6) Terms the expected proposal to cut Federal employee pay by 5% in fiscal year 1986 a plan which would make the Federal pay system more rational and move Federal salaries back toward market levels.

OPM estimates that 6% of the Federal civilian workforce, excluding postal and defense employees, would be affected by its proposal. Some observers of the Federal bureaucracy have indicated that Federal employee morale, which they believe is already low, would plummet and that many employees would be driven from the public to the private sector. The Advisory Committee on Federal Pay in its report entitled "A Decade of Federal White-Collar Pay Comparability 1970-1980," observed that arguments pairing low turnover with excessive Federal pay rates disregard the internal mobility that occurs in the Federal Government because of its size. The report also states that "job security cannot be converted to dollars and cents" (p. 25).

CONGRESSIONAL STAFF REPORT ON "REFORMING FEDERAL PAY"

An investigatory staff report "into the accuracy and comparability of the data presented in ...Reforming Federal Pay" was issued by the House Committee on Post Office and Civil Service on Apr. 18, 1985. Representative William D. Ford (MI), Chairman of the Committee, requested the review which focused on "the authenticity and comparability of the various quit rate data (page 29-end of report) used in the report and ...subject mater qualifications of the OPM personnel who contributed to the report."

The review concludes that "available statistics and reports were misrepresented in an attempt to prove ... that Government quit rates are much lower than those in the private sector." Two major findings of the review are the following:

* Patrick S. Korten, OPM Executive Assistant Director for Policy and Communications who prepared the quit rate analysis "has no discernible experience in personnel management generally or in compensation practices particularly" and "made no effort to enlist the assistance of OPM professionals with compensation expertise" or the authors of the documents he used to prepare the analysis.

* The report uses data bases that are not comparable.

- (1) Private sector data included temporary, part-time, and seasonal employees. "Voluntary movement of workers from one establishment to another was recorded as a quit." Turnovers which resulted from retirements, firings, and deaths were counted as voluntary quits in the nonmanufacturing sector.
- (2) Federal Government data only included full-time permanent employees and counted only resignations as voluntary quits. "It appears that employment changes between agencies or large units within an agency, are not counted as quits."
- (3) Postal Service data included temporary and part-time employees. Statistics used were outdated and had been superseded by more current information.
- (4) Quit rate data for the telephone communications

industry, whose occupational profile is perhaps more similar to and whose quit rate is lower than the Federal Government, was excluded.

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION PROPOSALS

Upon recommendation of his Cabinet Council on Management and Administration, President Reagan has approved the Pay Agent's development of possible "market based models for setting General Schedule salaries." According to the Council's report, "a market model would set total pay for Federal employees at levels no higher than necessary to recruit and retain the quality and quantity of personnel necessary to perform the work." The Pay Agent's models are expected to be detailed in its August 1985 report.

The Council also agreed to look at OPM's quit rate proposal but, emphasized that "quit rate comparisons would require careful evaluation."

LEGISLATION

H.Con.Res. 152 (Gray)

Concurrent resolution setting forth the congressional budget for the United States Government for fiscal years, 1986, 1987, and 1988. Reported to House by Committee on Budget (Report No. 99-133) May 20, 1985. Passed House May 23, 1985 by a 258 to 170 vote.

S.Con.Res. 32 (Domenici)

Concurrent resolution setting forth the congressional budget for the United States Government for the fiscal years 1986, 1987, and 1988. Reported to the Senate by the Committee on the Budget (Report no. 99-15) Mar. 20, 1985. Revised by a compromise between the Senate Republican leadership and the White House. Passed the Senate on May 9, 1985 by a 50 to 49 vote. Reported out of conference on Aug. 1, 1985 (H.Rept. 99-249). Conference Report agreed to in the House and Senate on Aug. 1, 1985 by votes of 309 to 119, and 67 to 32, respectively.

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