

MEMO #1: MOVING TOWARDS A MORE STRATEGIC FEDERAL PAY COMPARABILITY POLICY

Abstract: To address existing shortcomings in the federal pay setting process, the President and Congress should take immediate steps to reform the General Schedule pay system to provide greater flexibility in making annual pay adjustments and enhanced opportunities for employees and supervisors to progress within their occupational grade levels.

Background

Spurred by the current freeze on federal pay, the issue of federal pay comparability has taken on renewed importance in recent years. Mirroring discussions taking place at the state and local levels of government, both policymakers and independent researchers have devoted a great deal of attention to questions concerning the extent to which federal employee pay rates are comparable to rates available in the private sector, as well as appropriate strategies for ensuring that federal human resources management systems are capable of recruiting and retaining the best and brightest candidates.

Perhaps the most contested issue in recent federal pay discussions concerns the proper methodological approach for both comparing federal and private sector pay rates and providing annual pay increases to employees. As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA), the U.S. Federal Salary Council must make annual pay rate recommendations to the President's Pay Agent based upon salary survey data provided by the Bureau of Labor Statistics (BLS). With comparability estimates constructed from a survey of occupational salaries in the private sector, BLS data has consistently highlighted that, on average, federal employees working in the General Schedule (GS) system tend to be substantially underpaid when compared to their private sector counterparts; but when disaggregated by grade level, lower graded employees tend to be overpaid while higher graded employees are generally underpaid.

Table. 1 Federal GS Wage Gap - March 2010			
Grade	BLS - Estimated Comparable Annual Pay	GS Average Annual Pay w/ Locality Adjustment	BLS - Estimated % Pay Gap w/ Locality Adjustment
1	\$ 20,092	\$ 23,608	-14.89%
2	\$ 20,916	\$ 25,011	-16.37%
3	\$ 24,819	\$ 28,199	-11.99%
4	\$ 29,129	\$ 31,849	-8.54%
5	\$ 33,096	\$ 35,585	-6.99%
6	\$ 39,239	\$ 40,135	-2.23%
7	\$ 44,227	\$ 44,594	-0.82%
8	\$ 51,733	\$ 51,616	0.23%
9	\$ 58,621	\$ 53,683	9.20%
10	\$ 71,859	\$ 60,481	18.81%
11	\$ 76,990	\$ 65,205	18.07%
12	\$ 102,496	\$ 78,939	29.84%
13	\$ 110,770	\$ 94,632	17.05%
14	\$ 147,581	\$ 112,266	31.46%
15	\$ 167,877	\$ 134,320	24.98%
Weighted Average	\$ 70,330	\$ 61,313	14.71%

As 2010 BLS estimates highlight above, there is a distinct break in federal pay comparability for those employees in grade levels higher than GS-7, with higher graded employees experiencing pay gaps of up to 31% in some cases.¹

While there is considerable disagreement as to whether occupation-based pay comparisons provided by the BLS accurately capture comparability levels between the Federal Government and private sector, perhaps the most significant shortcoming of the Federal Government's existing approach is that it fails to account for differences in pay comparability between grade levels within the GS system. As mandated by FEPCA, the Federal Salary Council can make only one annual pay adjustment recommendation for the entire GS system. In practice, this means that annual pay increases are applied uniformly across all pay grades, thus overlooking variation in pay comparability between grade levels. While the Federal Salary Council has historically recommended pay increases at levels aimed to bring average pay rates within 5% of private sector pay rates (as mandated by FEPCA), actual pay increases have been much smaller (between 1% and 3%), and have had the ultimate effect of increasing pay premiums for lower graded employees without substantially affecting underpayment for higher graded employees.

Recommended Actions

- From a strategic human resources management perspective, the current federal pay setting policy leaves much to be desired and the President and Congress should take proactive steps to reform the current system in a manner that will allow federal agencies and managers to better compete in the broader labor market. While we acknowledge concerns with the current process for estimating pay comparability, there are two relatively simple policy reforms that would provide immediate improvements upon the current system.
- **The President and Congress should take steps to end the practice of across-the-board GS pay scale increases to address public/private pay disparities and allow for grade-level adjustments based upon disaggregated comparability estimates.** This policy shift would grant the Federal Salary Council and President's Pay Agent the ability to strategically target pay increases for those GS grade levels found to be the furthest below the private sector labor market in an effort to boost the recruitment, retention, and performance of federal employees. However, it would also allow for general cost-of-living adjustments for all grade levels.

The President and Congress should take steps to expand the pay ranges within the existing GS pay system to allow for greater pay progression within GS grade levels. Current pay ranges are insufficient to accommodate acceptable pay progression and ultimately contribute to salary compression at the higher grade levels. When combined with the first recommendation, this system reform would provide employees with greater opportunities to progress within existing grade levels without the need to consistently seek out higher graded positions.

¹ Data provided at the October 29, 2010 Federal Salary Council meeting in Washington, DC. Estimates reflect the difference between comparable federal and private sector salaries using data from the National Compensation Survey. Final averages weighted by PATCO and employment by grade level. In the third column, positive estimates reflect a private sector advantage and negative estimates reflect an advantage to the Federal Government.