

## Clarifying Federal Compensation Strategy

Stephen E. Condrey, Rex L. Facer II, Jared J. Llorens

In *Memos to National Leaders - Strengthening the Federal Workforce*, we addressed several critical issues in the area of federal human capital management. However, our assessment and recommendations concerning federal pay comparability have received the most attention and, from our standpoint, would benefit from the additional clarification provided in this supplemental memo.

In both the popular press and academic literature, there has been an ongoing debate concerning federal General Schedule (GS) pay rates and the extent to which they are comparable to private sector pay rates. Recent news reports have added fuel to this debate by highlighting a finding, this fall, by the Federal Salary Council that even after taking into account locality pay, the “overall remaining pay disparity is 34.6 percent” for federal employees when compared to employees in similar positions in the private sector.

In our memo on federal compensation, we recommended two strategies to better address the issue of pay comparability and to improve overall compensation practices in the federal government. First, allowing for grade specific pay rate adjustments (as opposed to the current uniform approach) to target pay disparities in those grades where there exists a systematic pattern of disparity. Second, broadening the pay range within grades to provide a greater range of potential pay. Taken together, we believe these reforms would increase the ability of the federal government to pay more competitive wages throughout the system.

In our recommendations we also noted that Bureau of Labor Statistics data show that “when disaggregated by grade level, lower graded employees tend to be overpaid while higher graded employees are generally underpaid.” Some interest groups have mistakenly assumed that because of that general pattern we would encourage the reduction or freezing of pay rates for lower graded employees. On the contrary, we still hold that lower graded positions should be eligible for Employment Cost Index (ECI) and within-grade pay increases, but we do believe that pay comparability adjustments should be limited to those grade levels that have experienced consistent underpayment. Overall, our position is that compensation should be strategically oriented and structured to accomplish specific purposes (e.g., job based compensation, keeping up with inflation, rewarding performance, and closing the gap between public and private jobs, etc.). Additionally, we acknowledge that pay for employees in the lowest GS grades is near the poverty threshold. For example, the Census Bureau reports, that for a four-person household, the poverty threshold is \$23,021 (FY2011) per year, but for many employees in GS grades 1-2, their annual pay rates fall at or below this threshold. Therefore, we do not recommend reducing the pay of lower-graded employees for any reason, especially for the purpose of funding or partially funding increases for higher-

graded employees. Indeed, the "overpayment" at this level is the result of a position classification system that values the internal worth of jobs to the government in combination with their worth in the external market.

In sum, the primary purpose of our original memo on compensation was to promote changes in compensation practices which are feasible and which will improve the strategic position of compensation given the needs of the federal government. In recent months we have written two additional pieces, which address broader issues of compensation reform (Condrey et al 2012a; 2012b). We believe these additional articulations highlight a broad strategy for an effective federal compensation system. We provide links to the articles published in academic journals below.

Condrey, Stephen E., Rex L. Facer II, and Jared J. Llorens. 2012a. "Getting It Right: How and Why We Should Compare Federal and Private Sector Compensation" *Public Administration Review*. Forthcoming.

<http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6210.2012.02664.x/abstract>

Condrey, Stephen E., Rex L. Facer II, and Jared J. Llorens. 2012b. "Reforming Federal Pay" *Compensation and Benefits Review* 44 (4): 202-203, 205, 207.

<http://cbr.sagepub.com/content/44/4/201.citation>