CBO PAPERS

ISSUES IN DETERMINING PAY RAISES FOR FEDERAL WHITE-COLLAR EMPLOYEES

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CONGRESSIONAL BUDGET OFFICE

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SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTES

Numbers in the text and tables may not add to totals because of rounding.

Unless othewise indicated, all years in this paper are fiscal years.

PREFACE

The system by which the federal government determines pay raises for federal white-collar employees is complex and controversial. This paper describes that system and examines three issues often raised in connection with it. In addition, it describes the advantages and disadvantages of continuing the practice of limiting pay raises for federal employees below the levels authorized under current law. The Congressional Budget Office (CBO) undertook this analysis in support of work on its annual report to the House and Senate Committees on the Budget.

R. Mark Musell of CBO's Special Studies Division prepared the analysis under the supervision of Robert W. Hartman. Susan Strandberg and Amy Plapp of CBO's Budget Analysis Division prepared the budget estimates that appear in Chapter III. Kathy Ruffing, also of the Budget Analysis Division, prepared the description of the CBO pay model and provided helpful advice and comments. Other current and former CBO analysts provided useful comments, including James L. Blum, Richard Fernandez, Leslie Griffin, James Hearn, and James Horney.

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Sherry Snyder edited the manuscript, and L. Rae Roy and Marlies Dunson prepared it for publication.

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June E. O'Neill
Director

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SUMMARY

Pay for federal civilian employees will total about $90 billion for 1995, representing about 6 percent of all federal expenditures. In his budget for 1996, President Clinton has again proposed limiting pay raises for those employees to a level well below that allowed under the Federal Employees Pay Comparability Act of 1990 (FEPCA). The act provides for annual pay raises that would, over time, move federal salaries for most white-collar employees toward comparability with nonfederal rates that prevail in different localities. Raises under the act in part reflect comparisons with nonfederal salaries. The information on nonfederal salaries used in those comparisons is collected in surveys conducted by the Bureau of Labor Statistics. The first comparability pay raise under the act occurred in 1994.

Like its predecessor, FEPCA has not been without critics. The President has expressed reservations about the methodology adopted under FEPCA for determining pay raises. Three long-standing areas of concern examined in this paper have to do with how the government collects data on nonfederal salaries, how it compares jobs, and how it applies raises.

PAY AND EMPLOYMENT UNDER THE GENERAL SCHEDULE

The General Schedule (GS) represents the government's largest pay plan, covering 76 percent of the workforce in the executive branch. This plan was the primary focus of reform under FEPCA and of pay limits proposed by the President. Employees covered by the General Schedule hold white-collar jobs in a wide array of occupations. They are concentrated, however, in occupations designated professional, administrative, and technical. Those occupations include accountants, lab technicians, and personnel administrators. The GS workforce is also well educated, with 46 percent holding a bachelor's or higher degree (see Summary Table 1). The payroll for GS employees totaled $57 billion in 1994.

The Structure of the General Schedule

The General Schedule is a table of salaries consisting of 15 pay grades. The federal government assigns jobs to a grade based mainly on the duties and responsibilities the job involves. Each pay grade of the General Schedule has a salary range divided into 10 intervals referred to as steps. Employees progress up the steps at each grade primarily on the basis of length of service.

Under FEPCA, pay at each GS grade varies among geographic areas, depending on how federal and nonfederal salaries compare in each. Base salaries--that is, salaries without locality pay factored in--range from $12,141 for a GS grade 1, step 1, to $88,326 for a GS grade 15, step 10. With locality adjustments, the highest salary reaches $95,860.

Pay Raises Under the General Schedule

Payroll for GS employees grew by 50 percent during the 1985-1994 period. About 60 percent of that growth reflects general increases in GS salaries, which rose more than 30 percent. That increase is less than the increase in private-sector salaries and in the cost of living. (A general increase refers to an adjustment that affects most

SUMMARY TABLE 1. OCCUPATIONAL DISTRIBUTION AND EDUCATIONAL ATTAINMENT OF GENERAL SCHEDULE WORKERS, SEPTEMBER 1980 AND SEPTEMBER 1993

Occupational Group	Percentage of General Schedule Workforce		Percentage of General Schedule Workforce with Bachelor's or Higher Degree	
	1980	1993	1980	1993
Professional	22	28	86	87
Administrative	26	27	44	60
Technical	22	25	13	14
Clerical	28	17	5	7
Other	3	3	7	11
All Occupations	100	100	35	46

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

NOTE: Data cover employees in the executive branch and those on full-time work schedules.

workers. Pay may also rise as a result of a promotion to a higher grade or an increase in step, but those raises are not considered general increases for purposes of this discussion.)

Under FEPCA, the government may make two adjustments in federal salaries each January. Both of those increases are guided by the principle that federal pay should be comparable with nonfederal pay for the same work. One adjustment is intended to keep federal salaries abreast of changes in private-sector rates as measured by the employment cost index (ECI). The relevant measure is the change in the ECI over a 12-month period minus one-half of a percentage point. The government canceled the 2.2 percent adjustment scheduled for 1994 and reduced the scheduled raise for 1995 from 2.6 percent to 2.0 percent. The full ECI adjustment under FEPCA for 1996 would total 2.4 percent.

The other adjustment helps federal salaries to catch up to nonfederal salaries in areas where they lag by more than 5 percent. In contrast to adjustments based on the ECI, those raises vary from locality to locality based on how federal and nonfederal salaries compare in each. The first locality adjustments, in 1994, averaged 3.95 percent and represented two-tenths of the amount needed to reduce pay gaps in 28 different areas to 5 percent. In 1995, and for the next seven years, the minimum adjustment equals one-tenth of the amount needed to reduce pay differences to 5 percent. The 1995 adjustment, which the government capped below the level authorized by FEPCA, averaged about 1 percent of pay (see Summary Table 2). The raise for 1996 under FEPCA would average 3.37 percent.

CONCERNS ABOUT LOCALITY PAY SURVEYS

The Bureau of Labor Statistics (BLS) conducts sophisticated pay surveys in support of FEPCA. Efforts by private-sector firms are often less elaborate. Nevertheless, critics over the years have charged that BLS surveys fail to reflect accurately the experience outside the federal government. (BLS also collected the data used in comparisons for the national pay system that preceded FEPCA.) In response to such concerns, BLS has repeatedly adjusted its methodology and plans further refinements, resources permitting.

To answer criticisms that its surveys are not broad enough, BLS has repeatedly added jobs and has expanded the number of industries and small firms included in the surveys. (A job, for purposes of this discussion, is a position in an occupation and at a given level--for example, entry-level secretary.) In 1979, BLS surveys produced data for 21 occupations covering 89 different jobs. By contrast, the survey

SUMMARY TABLE 2. GENERAL SCHEDULE EMPLOYMENT AND PAY GAPS, WITH 1995 LOCALITY PAY RAISES AND MINIMUM AND MAXIMUM SALARIES

Location	General Schedule Employment (Percent)[a]	Pay Gap (Percent)	1995 Locality Pay Raise (Percent)[b]	Salary (Dollars)[c] Minimum	Maximum
Atlanta	1.8	25.82	0.77	12,707	92,442
Boston	1.7	36.14	1.42	12,987	94,482
Chicago	1.9	35.92	1.50	12,981	94,438
Cincinnati	0.5	28.81	1.07	12,788	93,034
Cleveland	0.8	23.92	0.86	12,655	92,062
Columbus	0.7	28.67	2.14	12,784	93,007
Dallas	1.3	30.26	1.38	12,827	93,316
Dayton	1.2	28.18	1.37	12,771	92,910
Denver	1.7	30.68	1.16	12,839	93,405
Detroit	1.0	34.43	1.67	12,941	94,147
Houston	0.9	43.13	1.89	13,177	95,860
Huntsville	1.0	24.60	0.28	12,674	92,204
Indianapolis	0.8	25.44	0.87	12,697	92,371
Kansas City	1.3	22.74	0.65	12,623	91,833
Los Angeles	3.3	38.03	1.61	13,038	94,853
Miami	0.7	29.07	2.23	12,795	93,087
New York	4.3	37.63	1.45	13,027	94,774
Philadelphia	2.6	32.96	1.24	12,901	93,855
Portland	0.7	26.06	1.57	12,713	92,486
Richmond	0.6	22.87	0.88	12,627	91,859
Sacramento	0.8	28.56	1.52	12,781	92,981
St. Louis	1.5	24.14	1.15	12,661	92,106
San Diego	1.3	32.42	2.18	12,886	93,749
San Francisco	2.4	41.38	1.85	13,129	95,516
Seattle	1.7	31.09	1.85	12,850	93,484
Washington, D.C.	21.1	29.50	1.20	12,806	93,166
Rest of United States	42.2	21.73	0.63	12,595	91,629
Total United States	100	27.53	1.05	12,655	95,860

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

a. These data show employment in each locality as a percentage of total General Schedule employment excluding workers in Alaska and Hawaii and others not eligible for locality raises.

b. These raises are the capped levels granted under spending limits adopted in 1994.

c. Minimum salaries are for grade 1, step 1, of the General Schedule. Maximum salaries are for grade 15, step 10. Those salaries reflect locality adjustments and raises based on the employment cost index, but not special rates or interim geographic differentials. In New York and Los Angeles, interim geographic differentials push the maximum rate to about $95,400.

conducted for the 1995 locality adjustment produced data for 25 occupations and 107 jobs. Surveys for FEPCA also responded to a long-standing criticism by collecting pay data from state and local governments. The benefits of further refining the locality surveys, however, must be weighed against the added costs and complexity.

CONCERNS ABOUT HOW THE GOVERNMENT COMPARES JOBS

The pay system helps to set the salaries at each grade of the General Schedule, and the classification system assigns jobs to each grade based primarily on the duties and responsibilities each job entails. If, as critics contend, many employees hold jobs with grade assignments not justified by the work they do, workers will be over- or underpaid by these practices.

No one knows how often such misclassification occurs. The only recent information on the subject comes from Department of Defense (DoD) audits conducted by the Army and the Navy. For the years 1989 through 1992, data from more than 3,500 audits show that 2.0 percent of positions were overgraded and 1.3 percent were undergraded. (An overgraded job is at a higher grade than warranted by the work involved, and an undergraded job is at a lower grade.) The DoD figures are much lower than those in a 1983 study by the Office of Personnel Management that estimated that 14.3 percent of the GS workforce was overgraded and 1.5 percent was undergraded.

The government has a number of alternatives in dealing with misclassification. If the problem is more widespread than suggested by DoD's studies, it may require using a lower level of nonfederal work for purposes of setting locality raises. That action could have a significant impact on the pay increases granted to all employees. For example, if the government concluded that widespread overgrading warranted lowering by one level the nonfederal work used to set federal salaries, the pay gap could be reduced by between 15 and 20 percentage points.

If the problem of misclassification is not widespread, the government might be better served to leave the pay system alone and instead correct individual cases of misclassification as it finds them. That approach would primarily affect employees in misgraded jobs. The government could, for example, move jobs to the correct grade. In the case of downgrading, however, the government would experience no near-term savings because current statutes protect the grade and pay of downgraded employees for two years. Rather than change grades in cases of misclassification, the government could simply add or subtract duties and responsibilities to justify existing grade assignments. Of course, in any complex organization, one would expect a certain number of misclassifications. Some agencies, most notably the Department of Defense, already routinely audit positions and correct misclassification. If classification errors are as low as indicated in DoD audits, the question arises whether the problem merits any additional resources and attention.

CONCERNS ABOUT HOW THE GOVERNMENT APPLIES LOCALITY RAISES

Under FEPCA, all employees in an area receive the same percentage locality raise based on the difference between the average federal salary and the average nonfederal salary in the area. In other words, the government combines information for grades and occupations to come up with one raise for all employees. Under that system, employees at some grades and occupations in an area will have salaries that are higher or lower than those of their nonfederal counterparts. FEPCA requires that raises be comparable only on average.

Current practice generally will overpay employees in lower grades and less skilled jobs, relative to similar employees outside the government, and underpay employees in higher grades and more skilled occupations. The Congressional Budget Office's (CBO's) analysis suggests that over the long run, about 13 percent of the workforce will receive salaries that exceed comparability by more than 10 percent, and about 17 percent will be shortchanged by more than 10 percent.

The government could significantly reduce such over- and underpayments. Many observers have recommended having a national system for professional and administrative workers and a locality system, similar to current practice, for clerical and technical workers. Other arrangements are possible. In fact, putting all professional workers into a separate, national pay system could significantly improve the efficiency of pay setting in government. The government would have to weigh the advantages of further disaggregation of the system, however, against the added complexity and cost.

ALTERNATIVES TO CURRENT PRACTICE

If granted in full, raises under FEPCA would push the federal payroll to about $110 billion by 2000. With federal deficits projected to continue into the foreseeable future, pressures to limit this growth in salaries will probably remain unabated even in the absence of concern about pay-setting practices. Accordingly, CBO has prepared estimates of alternatives to current practices. The government could accompany those options with reforms in pay surveys, job classification, and other aspects of pay setting. Such measures, as described above, could improve the effectiveness of the pay system. Most would not, however, significantly alter the savings estimated for each option.

The estimated savings indicate how much less the government would spend under each option than it would by granting full raises under FEPCA (see Summary Table 3). The government would have to adopt much greater limits on pay and

SUMMARY TABLE 3. PAY RAISES AND OUTLAY SAVINGS UNDER ALTERNATIVES TO CURRENT LAW, 1996-2000

	1996	1997	1998	1999	2000	Cumulative Five-Year Totals
Option I: Grant No Raises in 1996						
ECI Raises (Percent)	0	3.20	3.10	3.00	3.00	12.88
Locality Raises (Percent)	0	6.05	3.96	2.65	2.68	16.20
Savings (Billions of dollars)	3.18	2.91	1.59	1.15	1.00	9.83
Option II: Grant Only ECI Raises						
ECI Raises (Percent)	2.90	3.70	3.60	3.50	3.50	18.42
Savings (Billions of dollars)	1.32	2.87	4.32	5.83	7.63	21.97
Option III: Grant Only Locality Raises						
Locality Raises (Percent)	3.37	2.59	3.96	5.10	5.65	22.42
Savings (Billions of dollars)	1.21	3.37	4. 94	5.64	5.95	21.11
Option IV: Target Locality Raises Toward the Most Underpaid Workers						
ECI Raises (Percent)	2.40	3.20	3.10	3.00	3.00	15.59
Locality Raises (Percent)	8.11	3.63	3.34	3.34	3.34	23.64
Savings (Billions of dollars)	0.16	0.74	1.44	2.21	3.14	7.68

SOURCE: Congressional Budget Office.

NOTES: The pay raises described are the average increases in pay for employees who receive them. Actual increases in federal payroll would be less because some employees--for example, those who receive special pay rates designed to help the government recruit and retain employees--do not always receive locality adjustments.

ECI = employment cost index.

employment if it wants to reduce pay below some current level rather than just limit its growth.

Under the first alternative to current practice, the government would forgo raises in 1996. That approach would save $10 billion over five years and would represent only a temporary departure from current practice. Under Option II, the government would abandon the current system of locality pay and grant only ECI-based raises. That option would save $22 billion over five years but would mean abandoning the principle of comparability. Federal salaries would keep abreast of changes in rates of nonfederal pay, but they would never catch up to that level of pay. The option would appeal to people who criticize the current locality pay system.

A less dramatic departure from current practice is embodied in Option III, under which the government would grant only locality pay raises. Pay would still reach comparability, but some of the raises necessary to get there would shift to later years. Savings would accumulate to $21 billion over five years. Finally, under Option IV, the government would grant locality raises only to employees whose salaries are far below those in the private sector. If, for example, the government granted raises only to employees in occupations it designates as professional (the group with the largest pay gaps), five-year savings would accumulate to $8 billion. That approach would direct scarce federal resources to where they were needed most.