EXECUTIVE, LEGISLATIVE, AND JUDICIAL SALARY OPTIONS FOR FISCAL YEAR 1980

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SUMMARY

An estimated 6,200 top-level federal officials have not received a pay increase since March 1977, and an additional 11,100 now have their salaries frozen, most at $47,500. These officials include Members of Congress, judges, senior staff in the legislative and judicial branches, heads of departments and major agencies, and the highest levels of military and civilian management positions in the executive branch. What type of pay adjustment, if any, should these federal employees receive in fiscal year 1980?

Past salary increases for federal executives have been subject to considerable public scrutiny. Although the salaries of top-level officials represent only about 1 percent of the total federal payroll, their pay levels arouse a great deal of public concern. Egalitarian attitudes and a general lack of confidence in government contribute to the political sensitivity of executive, legislative, and judicial compensation. The Congress, responding to public attitudes, has explicitly increased the salaries for top-level officials only twice during the past decade:

- o In October 1975, an across-the-board increase of 5.0 percent was applied to all officials; and
- o In March 1977, increases averaging 28 percent were approved after a review by the third quadrennial Commission on Executive, Legislative, and Judicial Salaries.

A continuation of the present pay freeze is likely to create difficulties in recruiting and retaining people in these categories, according to a recent study by the General Accounting Office.

If top-level salaries are not increased this October:

- o The real salaries of top officials, in terms of purchasing power, will have decreased by 20 percent since March 1977;

- o The number of executives earning the same salary but having widely different responsibilities will have increased sixfold since 1977--from 4,800 to 29,900;
- o The number of federal executives retiring or leaving to accept another job will likely increase; and
- o In 1981 a quadrennial adjustment of about 40 percent will be required if lost purchasing power is to be restored, assuming salaries have not otherwise changed.

Some of the problems created by the freeze on top-level pay will be minimized by the recent establishment of the Senior Executive Service (SES). Cash bonuses and stipends, although awarded on a selective basis, can increase earnings in a given year from $47,500 to as much as $66,000. In addition, SES members may accumulate all unused annual leave (which is limited to 30 days for other employees), and be eligible for a paid sabbatical after completing certain requirements regarding years of federal service. Not all SES employees, however, will benefit from these compensation provisions at any given time. Even more important, some 10,300 executive, legislative, and judicial officials remain outside the SES system.

Options for 1980

Salary options for fiscal year 1980 range from taking no action, which would permit top-level pay to increase this October by two annual cost-of-living increases totaling 12.9 percent, to denying any increase at all. For purposes of analysis, this paper presents four general options--although many others are possible.

Option I. Take No Action and Thus Allow Top-Level Pay to Increase by 12.9 Percent. This option would mitigate problems created by the current salary freeze but would provide an increase in excess of both the Administration's existing wage and price guidelines for the private sector and the October 1979 adjustment proposed for federal white-collar employees.

Option I would increase federal spending by $98 million.

Option II. Continue to Freeze Salaries of Top Government Officials. This option finds support among those who believe that it would be inappropriate to increase the pay of Members of Congress and other top-level officials at a time of rising prices and economic uncertainty. Salaries for federal officials, they argue, should set an example for the rest of the country. Opponents of the option note that it would aggravate the problems created by the current pay freeze--namely, the difficulty in attracting and retaining top-level officials; the declining purchasing power of executive salaries; the elimination of salary differentials that reflect differences in job responsibility; and the monetary incentive to retire early.

A continuation of the pay freeze under Option II would eliminate the $98 million increase that would occur under Option I.

Option III. Allow Top Officials to Receive the 7.0 Percent Pay Increase Proposed for Federal White-Collar Employees. The pay increase provided by this alternative would be consistent with the President's wage-price guidelines. It would be conservative when compared with the 10.4 percent increase that federal white-collar employees would receive if their pay were allowed to increase to levels comparable to those in private industry.

Option III would save $40 million compared to the cost of taking no action (Option I).

Option IV. Hold Pay and Annuity Increases at 5.5 Percent for All Active and Retired Federal Employees. Like Options I and III, this alternative would alleviate some of the problems created by the current freeze on executive pay. It would, however, limit both federal pay and annuity adjustments for October 1979 to 5.5 percent. Under current law, the October adjustment for federal retirees would be 6.9 percent. Retirees are likely to argue that their benefits should not be capped, especially during a period of high inflation. But even with a 5.5 percent cap, federal retirees would still receive greater protection from inflation than that commonly available in the private sector.

Option IV is advanced mainly for budgetary reasons since it would reduce 1980 spending by $1.27 billion below the cost of the 12.9 percent increase under Option I.

The remainder of this paper provides background on the kinds of employees affected by executive pay decisions; identifies the effects of the pay freeze on real income, salary differentials, and executive retirement; and analyzes the four options presented.

BACKGROUND ON SALARY GROUPS

Three groups of top-level federal employees currently receive salaries of $47,500 or more (see Table 1):

- The first group comprises about 2,900 executive, legislative, and judicial employees. It includes Members of Congress, judges, political appointees, certain other individuals, and officials who are paid according to their rank on the Executive Schedule. The latter schedule consists of five salary levels ranging from $47,500 (Level V) to $66,000 (Level I).

- The second group includes approximately 7,300 military and civilian (General Schedule and other pay systems) employees whose salaries are frozen at Level V of the Executive Schedule, currently $47,500. These employees have widely different classifications ranging from GS grade 15 (step 9) to GS grade 18. If their pay were not linked to the Executive Schedule, they would receive salaries ranging from $48,300 to $61,400.

- The third group is the select Senior Executive Service (SES), numbering about 7,000. The SES was created by the Civil Service Reform Act of 1978 as a means to increase management flexibility, strengthen accountability for program accomplishments, and offer incentives for individual performance. The SES also removes some of the roadblocks in compensating federal executives since they may receive substantial bonuses and stipends as well as certain other benefits.

Provisions for Pay Adjustments

The salaries of employees of all of these three groups are affected by (1) a quadrennial review of executive-level pay and (2) the annual pay adjustments for federal white-collar employees.

TABLE 1. NUMBERS AND PAYROLL OF TOP-LEVEL FEDERAL OFFICIALS RECEIVING SALARIES OF $47,500 OR MORE IN FISCAL YEAR 1979

Group	Number a/	Payroll (in millions of dollars)
Executive, Legislative, and Judicial Officials		
Members of Congress	500	31
Judges and court staff	1,100 b/	60
Executive Schedule and other officials, including Congressional staff	1,300	63
Subtotal	2,900	154
Employees whose pay is frozen at $47,500 (General Schedule and other pay systems)	7,300 c/	348
Senior Executive Service	7,000	332
TOTAL d/	17,300	835
Recapitulation by Branch of Government		
Executive	14,600	698
Legislative	1,400	75
Judicial	1,200	61
TOTAL d/	17,300	835

a/ The numbers of top-level officials are based on the most recent employment estimates available.

b/ The estimate includes part-time U.S. Magistrates and Bankruptcy Judges according to the total number of full work years paid.

c/ The estimate includes employees of the General Accounting Office, the Government Printing Office, and the Library of Congress.

d/ Of employees with a salary of $47,500 or more, approximately 6,200 have not received a pay increase since March 1977. Components may not add to totals because of rounding.

The Quadrennial Review. Once every four years a special Commission on Executive, Legislative, and Judicial Salaries reviews the compensation received by judges, Members of Congress, and certain top-level officials who are paid according to their rank on the Executive Schedule. Positions covered by the Executive Schedule include cabinet secretaries and heads of major agencies, their deputies, and their principal subordinates.

The authorizing legislation gives the quadrennial commission complete discretion in recommending "appropriate levels" of pay for top officials. The Commission's pay recommendations need not, therefore, reflect salary levels prevailing in the private sector for jobs of similar responsibility. After reviewing the Commission's recommendations, the President submits proposed pay adjustments to the Congress. Under current law, the President's recommendations must be accepted by a majority of both houses of Congress. 1/ The most recent quadrennial adjustment, in March 1977, increased Congressional salaries by $12,900 and affected the pay of approximately 23,500 government officials (see Table 2).

TABLE 2. SALARIES OF TOP FEDERAL OFFICIALS: IN THOUSANDS OF DOLLARS

Year	Executive Level I	Executive Level II	Executive Level III	Executive Level IV	Executive Level V	Members of Congress	Associate Justices of the Supreme Court
1969 a/	60.0	42.5	40.0	38.0	36.0	42.5	60.0
1975 b/	63.0	44.6	42.0	39.9	37.8	44.6	63.0
1977 c/	66.0	57.5	52.5	50.0	47.5	57.5	72.0

a/ Salaries that became effective in March 1969, resulting from the first quadrennial review.

b/ Salaries resulting from the October 1975 pay adjustment for General Schedule employees.

c/ Salaries that became effective in March 1977, resulting from the third quadrennial review, and remain in effect today.

1/ Until 1977 the President's quadrennial pay proposals became effective unless voted down by either house within 30 days.

Salaries for officials directly covered by the quadrennial review establish limitations on other federal pay systems. Pay for military and most civilian employees cannot exceed that for Executive Level V, the lowest salary covered by the quadrennial review. Thus the current salary freeze on executive pay indirectly affects nearly 14,400 federal employees, most of whom are in positions equivalent to grade 15 (step 9) of the General Schedule or above. 2/

Annual Pay Adjustments for White-Collar Employees. Every October the President must either adjust salaries to levels comparable with those in the private sector or propose an alternative plan that takes account of general economic conditions. The October pay adjustments affect most civilian and military personnel in the federal government, although the $47,500 ceiling has prevented top-level salaries from rising.

The enactment of the Executive Salary Cost-of-Living Adjustment Act of 1975 extended the annual October adjustment to top-level officials covered by the quadrennial review. The act recognized that without annual adjustments quadrennial pay increases would need to be unrealistically large in order to keep pace with inflation. The October 1975 increase of 5.0 percent was, however, the first and last adjustment received by top officials under the 1975 act. 3/

Special Provisions for the Senior Executive Service

The Senior Executive Service (SES) was created by selectively transferring some 8,400 positions from the Executive Schedule (Levels IV and V), the General Schedule (grades 16 through 18), and equivalent positions in other pay systems. 4/

2/ Federal employees with salaries at or equivalent to either of the first two steps of grade 16 of the General Schedule are not yet affected by the $47,500 ceiling.

3/ The October 1976 pay adjustment was denied employees directly covered by the Quadrennial Commission on Executive, Legislative, and Judicial Salaries. The Comptroller General ruled, however, that the freeze did not constrain salary adjustments for other federal employees. Consequently, the salary limitations for the other employees increased from $37,800 to $39,600.

4/ About 7,000 of the authorized SES positions were filled as of August 15, 1979.

Basic Salary. The SES provides for six basic salary levels--currently ranging from $44,800 to $50,000. The salary level assigned to a particular SES member reflects personal qualifications, responsibilities, and performance--not the position occupied. The lowest SES salary level is set by the beginning pay for grade 16 of the General Schedule, and the highest level by the pay for Executive Level IV. Future SES salary adjustments will thus depend both on the October pay adjustments for General Schedule employees and on the quadrennial review of executive salaries.

Bonuses and Stipends. An employee now earning $47,500 could--under the Senior Executive Service--receive bonuses and stipends totaling as much as $18,500 in a given year, based on current salaries. Beginning in calendar year 1980, performance bonuses may be awarded as a lump sum to career SES employees. 5/ Bonuses may be as large as 20 percent of basic pay, and top performers may receive them every year. 6/ Such bonuses can supplement existing basic pay by as much as $10,000. Another cash incentive above basic pay is provided by presidential stipends. Once every five years, an SES employee may receive a stipend of either $10,000 for meritorious service or $20,000 for distinguished service. 7/ Total compensation in the form of salaries, bonuses, and stipends may not exceed Executive Level I salaries, currently at $66,000.

5/ The SES distinguishes between career, political, and short-term appointments. Noncareer appointments cannot exceed 10 percent of all SES positions; limited appointments cannot exceed 5 percent.

6/ While all career SES employees are eligible to receive bonuses, the total number awarded in any year may not exceed 50 percent of all SES positions in a particular agency. The Office of Personnel Management (OPM) believes that "the typical competent executive can expect to receive a bonus about twice every three years"--some more often, others less. See OPM, Senior Executive Service, Conversion Information for Federal Executives, February 1979, p. 17.

7/ A presidential stipend for meritorious service may be awarded to as many as 5 percent of all SES positions but may be received only by career employees. Stipends for distinguished service may not exceed 1 percent of all SES positions and are also limited to career employees.

A career employee now earning $47,500 could thus receive as much as $18,500 in supplements to basic pay. Political appointees, however, are not eligible for such supplements and may therefore receive less pay than some of their subordinates.

Extra Fringe Benefits. In addition to pay, SES employees receive other benefits that are not available to other top-level employees. An 11-month paid sabbatical may be awarded to those who meet certain seniority requirements. 8/ SES officials are also exempt from the 30-day limit on the amount of unused annual leave that may be accumulated. The accumulated leave may be used in a later year or converted to cash on leaving federal service. The unlimited accumulation of annual leave is a particularly valuable benefit, since many SES members are likely to have accumulated 30 days already.

EFFECTS OF THE SALARY FREEZE

In the last 10 years, the cost of living as measured by changes in the Consumer Price Index has nearly doubled. During this period, the Congress has allowed only two salary increases for top government officials directly covered by the quadrennial review. The first increase was a 5.0 percent across-the-board adjustment in October 1975. A second increase, averaging 28 percent, in March 1977 implemented the President's executive pay proposals based on the third quadrennial commission's recommendations. Thus, in the last decade salary adjustments for top government officials have recovered only a third of the increases in the cost of living. 9/ Today, salaries of these officials remain at 1977 levels.

The current salary freeze has had several consequences. It has (1) reduced employee purchasing power, (2) eliminated pay

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8/ To be eligible for an SES sabbatical, an SES employee must have a total of at least seven years at the GS 16-18 or equivalent level, of which at least two years must be in SES.

9/ Supplemental Appropriations Bill, 1979, S. Rept. 224, 96 Cong. 1 sess. (1979), pp. 97-99.

differentials for various levels of job responsibility and performance, and (3) possibly influenced some executives to retire earlier than they otherwise would.

Employee Purchasing Power. Without a pay increase this October, the purchasing power of top government salaries will have decreased by 20 percent since March 1977. 10/ During this same period, federal retirement benefits will have kept up with the cost of living and federal white-collar employees, as a group, will realize only a slight loss in real income. 11/

Pay Differentials. Unless the salary ceiling is adjusted, the number of federal executives receiving $47,500 will increase from approximately 4,800 in March 1977 to about 29,900 in October 1979. This means that an employee at grade 15 (step 6) will receive the same salary as a bureau chief at Executive Level V. The disappearance of pay differentials occurs because federal salaries for military and most civilian personnel cannot exceed the pay for Executive Level V.

The General Accounting Office (GAO) recently analyzed the impact of the $47,500 pay ceiling on federal employees and recommended that top government officials receive the annual October pay adjustments as authorized by the Executive Salary Cost-of-Living Adjustment Act of 1975. According to GAO, such adjustments would "improve pay distinctions and reduce agencies' recruitment and retention problems." 12/

10/ Between March 1977 and October 1979, the cost of living is expected to increase by about 25 percent, according to estimated changes in the Consumer Price Index. This corresponds to a 20 percent decrease in average purchasing power.

11/ From March 1977 through October 1979, the average pay for federal white-collar employees in grades 1-15 of the General Schedule will have increased by an estimated 23.4 percent. This increase includes the effect of promotions, longevity (within-grade) increases, annual rate adjustments each October, and factors such as employee turnover that affect the average grade of the federal work force.

12/ General Accounting Office, Annual Adjustments--The Key to Federal Executive Pay, May 17, 1979, p. 30.

The cash incentives available to career employees participating in the Senior Executive Service should alleviate some of the problems related to the lack of pay differentials among top-level managers in the executive branch. Only about 4,200 SES employees may receive bonuses in a given year, however; and approximately 10,300 top-level personnel in the executive, legislative, and judicial branches are not covered by SES at all.

Executive Retirement. The freeze on executive pay may encourage some executives to retire earlier than they otherwise would. For example, a hypothetical executive retiring next February with a salary of $47,500 could receive an initial annuity of some $31,100 and be free to consider other pursuits. 13/ By February 1985 the annuity would have increased to about $45,400 under current economic assumptions. If the same executive continued to work until 1985, and if his pay remained capped at $47,500, he would receive a retirement annuity of only $36,000--reflecting five more years of service but no salary or cost-of-living increases.

Retirement decisions, of course, are usually made with uncertainty as to future salary levels; in the case of the Senior Executive Service, the uncertainty extends to extra pay that may be earned for individual performance. Nonfinancial factors also play an important role in retirement decisions. The fact remains that the number of employees at top salary levels of $47,500 or more who are eligible to retire increased from 1,300 in October 1977 to about 3,800 in January 1979, and that the number of executives actually retiring also increased.

OPTIONS FOR FISCAL YEAR 1980

A number of alternatives present themselves for fiscal year 1980. The Congress could choose to take no action, which would allow pay levels in top brackets to increase 12.9 percent. At the other extreme, it could deny any increase at all in top-level pay. For purposes of analysis, these and two other alternatives are presented:

13/ This hypothetical example assumes that the employee has 34 years of federal service, and schedules his retirement to take advantage of the October 1979 increase in federal retirement benefits.

Option I: Take no action and thus allow top-level pay to increase by 12.9 percent;

Option II: Continue to freeze salaries of top government officials;

Option III: Allow top officials to receive the 7.0 percent pay increase proposed for federal white-collar employees;

Option IV: Hold pay and annuity increases at 5.5 percent for all active and retired federal employees.

Option I. Take No Action and Thus Allow Top-Level Pay to Increase by 12.9 Percent

Unless the Congress takes further action, the pay for Members of Congress, judges, and top-level officials will increase 12.9 percent in October. This will occur because: (a) the appropriation language denying top officials the October 1978 increase of 5.5 percent will expire; 14/ and (b) it is expected that the October 1979 increase for federal white-collar employees will be 7.0 percent.

The salary level for top officials resulting from Option I would still be well below what it might have been if pay had been linked in the past to adjustments for federal white-collar (General Schedule) employees or for federal retirees. For example, if, beginning in March 1969, salaries for Members of Congress had been adjusted according to the annual comparability process for General Schedule employees, Congressional salaries would be about $85,200 in October 1979. They would have increased even more if the adjustments had been tied to the cost-of-living increases for federal retirees.

Option I would restore about half of the real income lost by federal executives since March 1977, improve salary differen-

14/ Legislative Branch Appropriation Act, 1979, Title III, Section 304.

tials, and deter some executives from early retirement. Opponents of Option I note that it would provide a pay increase for top officials exceeding both the 7.0 percent adjustment proposed for federal white-collar workers and the Administrations existing wage-price guidelines. The 12.9 percent pay adjustment under Option I would cost around $98 million.

Option II. Continue to Freeze Salaries of Top Government Officials

Option II would continue salaries for Members of Congress, judges, and top-level officials at the levels established in 1977. Certain employees in the Senior Executive Service would still receive additional pay in the form of cash awards based on individual performance.

Choice of this alternative would follow from the belief that federal leaders should not receive any pay increase during a period of rising prices and economic uncertainty. Advocates of Option II maintain that the forthcoming quadrennial review will provide an appropriate process for determining adjustments for executive-level salaries. The President's quadrennial pay recommendations will be included in his proposed budget for fiscal year 1982, and, if approved by the Congress, will take effect in the spring of 1981.

Opponents of Option II believe that a continuation of the pay freeze would increase the incentive for federal executives to retire early, and further reduce the government's ability to attract and retain qualified executives. 15/ They point to the pay erosion that has already occurred and note that the real income of top officials will continue to decline unless pay is increased this October. Although the next quadrennial review could conceivably restore lost purchasing power, it would require an increase of 40 percent over current salaries if they are not increased in the interim. While this may appear reasonable in comparison to the cumulative increases received by other employees both in and out of government in recent years, a 40 percent increase in 1981 is not likely to be achieved--especially if the Congress denies smaller annual adjustments. Option II would also result in 29,900 officials, having widely different responsibilities, receiving the same salary. The differential

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15/ General Accounting Office, Annual Adjustments, pp. 18 and 27.

between the highest and lowest levels of SES basic pay would also diminish, dropping from $5,200 to $2,500.

A continuation of the pay freeze under Option II would prevent the $98 million pay increase costs that would occur if no action were taken (Option I).

Option III. Allow Top Officials to Receive the 7.0 Percent Pay Increase Proposed for Federal White-Collar Employees

Option III would increase pay for top-level officials by the 7.0 percent adjustment proposed by the President for other federal white-collar employees. This alternative would prevent the 14,700 employees whose salaries are now limited by the pay ceiling from increasing in number to some 29,900. If executive pay were further increased in subsequent years, salary differentials among top officials would broaden again to take account of differences in job responsibilities. Advocates of Option III believe it also would improve recruitment for top-level positions and offer an incentive for continued federal service. It would, however, increase 1980 spending slightly above the targets in the first concurrent budget resolution, but would cost $40 million less than Option I. 16/

The 7.0 percent pay increase under Option III is consistent with the guidelines issued by the Council on Wage and Price Stability and modest in comparison to pay increases in the private sector. Under current procedures, salaries for federal white-collar employees would have to rise an average of 10.4 percent to be comparable with the private sector. If this comparability increase were applied on a grade by grade basis, salaries for officials in grades 16 through 18 of the General Schedule would increase by about 34 percent.

Pay increases for Members of Congress and other top officials may encounter political opposition from sectors of the public concerned with high official salaries and critical of government performance. Some analysts suggest that adjustments

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16/ The first concurrent budget resolution for fiscal year 1980 assumes that the pay for federal employees, top-level officials included, will increase by 5.5 percent.

in Congressional salaries be considered separately from those of other officials. Members of Congress, unlike career civil servants, may accept fees and honorariums for speeches, articles, and appearances. 17/ There are other reasons for treating Congressional salaries separately. Although the level of Congressional pay has been identical with that of Executive Level II since 1967, the General Accounting Office has recommended that this linkage be discontinued, finding "few parallels between the career patterns, career expectations, and responsibilities of Congressmen and Level II executives." 18/

Several variations of Option III could increase executive salaries but continue Congressional pay at $57,500. For example, a salary adjustment could exclude Members of Congress or, alternatively, all officials at Executive Levels I and II. Under such approaches, Congressional pay increases would be deferred until the quadrennial adjustment in the spring of 1981. Opponents of such separation argue that Members of Congress face the same increases in living costs as other officials and also need the October adjustment.

Option IV. Hold Pay and Annuity Increases at 5.5 Percent for All Active and Retired Federal Employees

Option IV would: (a) provide Congressmen, judges, and other top-level officials with their first salary increase since March 1977; and (b) cap federal pay and annuity adjustments for October 1979 at 5.5 percent. This alternative would be selected mainly as a means to restrain federal spending. Caps on comparability pay increases for federal employees have been proposed for economic and budgetary reasons. From this standpoint, an October cap of 5.5 percent could apply to both active and retired federal employees.

Under current law, benefits for federal retirees will increase an estimated 11.1 percent during calendar year 1979. Option IV would reduce the October 1979 adjustment from 6.9 to

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17/ The Senate has recently postponed, from January 1979 to 1983, rules that would further limit the outside earnings of Senators.

18/ General Accounting Office, Annual Adjustments, p. 30.

5.5 percent and thus provide an annual increase of 9.6 percent. Even with the October cap, federal retirees would receive substantially greater protection from inflation than they would if cost-of-living adjustments reflected private sector practices. 19/

Option IV would encounter widespread opposition, particularly among federal civilian and military retirees whose real income would be reduced during a period of high inflation. Civilian retirees believe a cap on retirement increases would be unfair, arguing that their benefits are derived from contributions made by them and their employing agencies in earlier years. It should be noted, however, that cost-of-living adjustments are not included in determining the contribution rate for civil service retirement.

Option IV would cost about $1.27 billion less than Option I (no action). The difference includes savings of $0.33 billion from the 5.5 percent cap on retirement adjustments and $0.94 billion from the associated limit on federal pay, including top-level salaries ($0.05 billion).

19/ About half of the employees in the private sector do not have their Social Security augmented by a company pension. Of those who do, only a small minority (about 3 percent) receive automatic cost-of-living adjustments. If cost-of-living provisions for federal retirees were equivalent to those in the private sector (as measured by combining the increase in Social Security benefits with the increase in benefits of a representative company plan) the annual adjustment in 1979 would be 7.8 percent rather than the 9.6 percent under Option IV. For further discussion, see Congressional Budget Office, Options for Federal Civil Service Retirement, Budget Issue Paper, December 1978, pp. 16-20.