

# Federal Pay

## *Introduction*

President Bush's FY2008 Budget proposed a 3.0 percent salary adjustment for federal employees, marking the second consecutive year of his endorsement of pay raise parity between civilian and military employees. The Budget also included a discussion of the Administration's plans to pass legislation eliminating the General Schedule (GS) pay and classification system, along with its market-based locality pay differentials that were established as a result of the enactment of the Federal Employees Pay Comparability Act (FEPCA) of 1990. In place of the GS system, the Administration wants systems of individualized "pay for performance" that would vary by agency, and that would allow managers to vary base pay and annual pay adjustments on an individual-by-individual basis.

Although not spelled out in the President's Budget document, Administration officials have warned not to assume that the proposed 3.0 percent pay raise would be provided across-the-board or even be divided along the lines of FEPCA to include a combination of a general pay raise and additional locality adjustments. The Administration is saying, as it did last year, that it intends to establish a pot of money equivalent to what a 3.0 percent general raise would cost, and distribute it to agencies according to its own ideas. For example, they might give authority to one agency with recruitment and retention problems enough to fund raises for some workers at more than 3.0 percent. Other workers at the same agency would get less than that amount. The raises would vary by individual, occupation, agency, city, and other factors.

Even if the proposed 3.0 percent raise were distributed according to FEPCA procedures, with a combination of a national Employment Cost Index (ECI) based raise and locality differentials, last year's experience showed that an administration has enormous discretion in how even that occurs. For example, last year, even though aggregate salary accounts were adjusted by 2.2 percent, the federal employees who work in the Rest of U.S. locality received just 1.8 percent in pay raises. This amount was inadequate to allow these federal employees either to maintain their living standards or for the government to make progress on closing even a fraction of the federal-non-federal salary gap in these regions.

While AFGE strongly supports pay raise parity between civilians and the military, it should not mean inadequate pay raises for both groups. Indeed, parity is a pyrrhic victory when both groups receive inadequate salary adjustments, as was the case in 2007. Pay raise parity is also an illusion if the raises are distributed in ways that are not transparent, not tied to market comparability, and not provided to all salaries in a given locality, as the President proposes in his Budget. The rhetoric in the Budget document suggests that, given its choice, the parity proposed would be implemented on only the most superficial level, with tens of

thousands of federal employees deprived of this equivalence. AFGE will fight to ensure that all federal employees receive a salary adjustment in 2008 that reflects market data, makes progress in closing the comparability gap, and allows them to maintain a decent standard of living for themselves and their families.

AFGE activists have fought for and won in the last three years another form of "pay raise parity" i.e. guaranteed pay increases for blue collar federal employees in the Federal Wage System (FWS), as well as all employees in the Departments of Homeland Security and Defense whose pay raises have been put in jeopardy by the new personnel system authorities in those agencies. Ensuring that these federal employees receive the same salary adjustments as General Schedule employees outside DoD and DHS is a top AFGE priority.

At the same time, we urge the Congress to uphold enforcement of the existing laws pertaining to both the General Schedule and the Federal Wage System. Both are statutory systems based upon the principle of comparability with the private sector. That is, whether it is the prevailing rate system for blue collar workers, or the locality and ECI system for white collar workers, federal pay is supposed to reflect the wages and salaries paid by private employers. This is what makes the federal pay system "market-based," and allows federal agencies to compete effectively and staff federal agencies and programs with qualified personnel.

Yet at every opportunity since taking office in 2001, the Bush Administration has sought not only to reduce the pay raise that bipartisan majorities in the Congress have passed in support of both pay comparability with the private sector, and pay raise parity between civilian and military employees, but it has also sought to deviate from the practice of general pay increases that cover the entire federal workforce. Last year, even though both houses of Congress passed legislation granting a 2.7 percent salary adjustment for federal employees, the law was never enacted and thus President Bush took the opportunity to impose his preferred, lower raise of 2.2 percent.

Under the FEPCA formula, nationwide across-the-board increases for civilian employees are supposed to be calculated according to the September to September change in the Employment Cost Index (ECI) minus one half of one percentage point. The relevant ECI for 2008 is 3.0 percent. Therefore, the ECI-based component of next year's pay increase should be 2.5 percent. Locality payments under FEPCA were supposed to have been sufficient to achieve private sector comparability as of 2002. Because the locality pay provisions of FEPCA have only been implemented according to the law once in the 13 years since gap closure was undertaken, the average remaining pay gap is 18.4 percent, and AFGE is urging Congress this year to approve an adjustment of at least 4.0 percent, with 1.5 percent devoted to locality pay.

## ***Distribution of Locality Pay***

In 2007 locality pay was distributed in a slightly different way that resulted in the fact that many federal employees' overall raise was substantially below 2.2 percent. The reason for this is that the Federal Salary Council had gradually been shifting to using a new set of data for measuring the pay disparity between federal and private sector pay. As of 2007, the new data from the Department of Labor's National Compensation Survey (NCS) were fully incorporated. These new data changed the size of the measured gaps in several cities, in some cases by large amounts. The sizes of the measured pay gaps in several big cities grew significantly while the gaps in several smaller cities shrank.

Once the new pay gaps were calculated and incorporated into the GS pay tables, a new picture emerged with regard to the percentage of the "target gap" that locality pay is supposed to close. For FEPCA, the goal or "target" comparability is 95% of what the private sector earns; when full FEPCA comparability is achieved there will still be a 5% pay gap. While some cities had as much as 88% to 89% of their "targeted" gaps closed, others had just 53% to 56% of their gaps closed. In order to reduce the gaps between the gaps, the Federal Salary Council asked OPM to provide several alternative ways that locality pay could be allocated. President Bush selected one that gave considerably larger raises to cities with larger gaps, and smaller raises to those whose gaps declined under the new data.

When FEPCA was first implemented, the Bureau of Labor Statistics (BLS) was assigned the responsibility to conduct special data collections for FEPCA. Data were collected that tried to match federal jobs with jobs in the private sector and state and local governments. After those data were collected exactly once, Congress eliminated funding for the survey. As a consequence, for the next ten years, BLS "aged" that original data to calculate the federal – non-federal pay gaps. Five years ago, another BLS survey, the National Compensation Survey (NCS) started to be incorporated into the FEPCA pay gap calculation, first at 25%, later at 50%, then at 75%. At the same time as the old FEPCA data was being phased out, BLS began to make a concerted effort to provide the Federal Salary Council with specific matches for federal jobs so that NCS data would be more useful for FEPCA. In addition, NCS has refined its methodology in numerous ways over the years. Thus, simultaneously, NCS was becoming both more accurate generally, and more appropriate to FEPCA specifically.

Five significant changes to the NCS data that affected the official, measured size of the federal-nonfederal pay gap are relevant to explaining what happened with the 2007 pay adjustment. Among the five, some served to increase the size of the measured gaps, others served to lower them. The five changes (called "improvements" by BLS) are as follows:

1. They improved the connection between General Schedule jobs and the BLS Standard Occupational Classification System to allow weighting data by federal employment.
2. They excluded from the survey jobs that would be graded above GS-15.
3. They created an econometric model using survey data so that estimates could fill in for occasions when no job match could be found.
4. They implemented a “four factor” job grading system that resulted in a better “grade leveling” from NCS to GS data. The impact of this change is not fully reflected in this year’s data because only 20% (one out of five) of jobs are surveyed each year.
5. They added second and third line supervisors to the data. Prior to this, they only included a supervisor’s pay level at the highest technical level of those supervised. This is the change that has had the biggest impact on the measured pay gap for 2007.

### ***Consequences of the Changes in NCS Data***

The data changes described above increased measured pay gaps across the board. The smallest increase was Raleigh, North Carolina (+0.06%) and the biggest was the Washington/Baltimore locality that increased 13.99%. The average increase was 7.17%. Because locality pay has been provided since 1994, these data were incorporated into existing measurements of “remaining gaps.” That is, applying existing locality payments to the new gaps shows that federal employees had not made as much progress as previously thought in closing the gap in spite of 13 years of locality pay. Thus, while in 2006 the official average remaining gap was 13.4% nationwide, for 2007, the average remaining gap is 18.4% nationwide.

<u>City</u>	<u>Change in Gap between 2005 and 2006</u>
Atlanta	+7.11%
Boston	+ 6.37
Chicago	+ 8.52
Cleveland	+ 6.98
Los Angeles	+ 4.22
New York	+ 1.55
Phoenix	+11.11
Richmond, Va.	+ 8.50
Washington/Baltimore	+13.99
RUS	+ 4.63

### ***Bush Administration Pay Initiatives***

The Bush Administration likes to claim, falsely, that both the DHS and DoD pay and personnel systems were designed to adhere to the merit system principle of “equal pay for substantially equal work”. Employees who have had the

misfortune of working under “pay for performance” systems know otherwise. When surveyed, federal workers often express skepticism about their chances to excel in the workforce because their opportunities and evaluations depend so much upon their supervisor’s arbitrary set of expectations and preferences. Stanford University Business School Professor, Jeffrey Pfeffer, understands employee apprehension about individualized pay systems, noting that “supervisors in charge of judging employees have a natural tendency to favor people like themselves.” These proclivities tend to result in adverse effects on women, minorities, and sometimes older workers, who are underrepresented in the ranks of management. Indeed, women and minorities were most likely to report dissatisfaction with pay for performance demonstration projects, arguing that pay raise decisions reflected bias rather than objective assessments of a worker’s performance.

This kind of subjectivity and bias pervade the pay systems designed by DHS and DoD managements under the new personnel system authorities Congress granted them. Unlike the MaxHR or the NSPS systems, the GS system and the pay adjustment process contained in FEPCA were established upon the pay principles of neutrality and “market sensitivity” or comparability with the private sector. Salaries are set on the basis of job responsibilities, and annual adjustments reflect both the performance and experience of the job holder, and market data from the ECI and locality surveys. Under the MaxHR and NSPS systems, however, both base pay and future salary adjustments are at the discretion of a supervisor.

The Bush Administration has made it clear that even before implementation of the new pay systems in the Departments of Defense and Homeland Security, it will seek passage of its legislation to impose this kind of subjective pay for performance schemes on the remaining Executive Branch agencies. Although no legislation has been introduced to date, the President in his FY 08 Budget proposal referred to his desire to pass the “Working for America Act,” a bill that includes a thorough revamping of federal pay systems, including the elimination of the General Schedule’s classification and performance management systems, and the salary adjustment mechanisms associated with FEPCA.

Meanwhile, the DoD has been forced to scale back its initial schedules for having its employees “spiral” into the new NSPS. Last year, DoD placed 300,000 employees into NSPS, but all employees represented by unions have been dropped from the initial implementation. The delays and reductions in the numbers of employees upon whom NSPS has been imposed are at least in part a reflection of the ongoing lawsuit that AFGE filed, along with its coalition partners. It is also a belated recognition by DoD that it has blundered into what will surely be a massively complex, confusing, conflict-ridden, and costly quagmire that will deflect the Department from its warfighting mission for years to come.

## ***Federal Blue Collar Pay***

DoD and the Department of Veterans Affairs (DVA) employ the largest numbers of employees paid under the Federal Wage System (FWS), the prevailing rate system for blue collar, or skilled craft and trade employees in the federal government. Blue collar workers at both the DVA and the DoD play an invaluable role in the missions of their agencies. Despite their enormous contributions, federal blue collar workers have faced numerous obstacles in their ability to obtain either the prevailing rates promised to them by law, or even an equitable adjustment in their pay that allows them to maintain or improve living standards for themselves and their families.

## ***Pay Caps Undermine Market-Based Prevailing Rates***

Although the law requires that blue collar workers be paid prevailing private sector rates under the FWS, Congress and successive administrations have ignored this mandate almost from the system's inception. The FWS stopped providing blue collar workers with market-based prevailing rates in 1979, only seven years after the system was established. The Bush Administration has followed its predecessors by imposing pay caps, equivalent to the average GS increase, undermining the ability of the FWS to operate as a prevailing wage system. The pay caps have been put into effect through an annual provision in the Transportation, Treasury and General Appropriations Bill. Even when the government's own FWS surveys demonstrate clearly that private sector blue collar workers in various markets receive wages that are substantially above the federal rates, the caps on the FWS system mean no blue collar federal worker can ever have his wage adjusted by more than the "average" GS pay raise.

## ***FWS is Hampered by Poor Data***

One of the key statutory principles underlying the FWS is that wages should be determined by the market, described in the law as "prevailing levels of pay for comparable levels of work in the private sector within a local wage area." To carry out this statutory principle, the Defense Civilian Personnel Management Service (CPMS) conducts annual wage surveys to collect wage data from private sector firms. Even though the pay caps would prevent the data from these surveys to be used to award higher than GS raises, good data could be used to provide decent wage increases up to the GS average, if it were available. Unfortunately, the data collected in FWS wage surveys to determine FWS rates no longer reflect contemporary commuting patterns or labor markets. The major reason these data are so poor is that there is no legal mandate for local employers to participate in the surveys. In fact, it is rare when a company chooses to contribute information. Many businesses are reluctant to disclose salary data or other confidential information about their employees, and as a result the FWS rates are often based upon data from small, low-wage firms that do not offer comparable job matches for those in the federal workforce.

Consequently, until Congress began to include blue collar workers in the annual GS raise, they suffered for many of the past 25 years by receiving either no annual pay increase or an increase of only one or two cents per hour.

### ***Congress Should Continue to Provide Federal Blue Collar Employees With a Minimum Annual Pay Raise under Pay Parity***

FWS does not guarantee workers a general annual increase applied across-the-board. White collar workers who are paid under the GS system, however, are entitled to receive a minimum, annual increase. Under FEPCA, GS federal workers receive both a nationwide ECI and a locality pay raise. With the exception of those paid under special rate authority, GS workers in the same city get the same annual salary adjustment. All federal blue collar workers deserve to receive the same minimum annual adjustment that white collar workers receive. Blue and white collar workers work in the same localities, for the same employer and are parts of the same labor market. The GS percentage pay increase for each pay locality is therefore both relevant and appropriate for federal blue collar employees.

### ***The Non-Foreign COLA and Locality Pay***

Federal employees in the GS system who work in Alaska, Guam, Hawaii, Puerto Rico, the Virgin Islands, and the Marianas receive “non-foreign cost of living adjustments” ranging from five to 25 percent of base salary, tax free, to compensate them for the additional costs of living outside the continental U.S. These COLAs are derived from surveys OPM is supposed to conduct comparing the costs of a broad range of living costs between the non-foreign post and the Washington, D.C. metropolitan area. These surveys are supposed to compare the costs of maintaining the standard of living of the typical federal employee household in the D.C. area to the cost of doing so in the non-foreign area. The COLAs paid to federal employees working in these areas are treated as bonuses; they do not count as base salary and therefore are not considered either when percentage salary adjustments are made or when retirement annuities are calculated. The federal employees who work in these areas do not currently receive any locality pay under FEPCA.

In recent years, OPM has hired contractors whose data collection methods and practices have come under intense criticism. Sloppy, incomplete, inaccurate, and poorly designed data collection has resulted in arguments from OPM that the COLAs in several non-foreign areas need to be reduced from current levels. Reductions of one percentage point began in several areas in January 2007. AFGE and other groups from particular non-foreign areas have sued OPM over issues related to poor data, and while settlements are still being tested, OPM has reduced COLA payments in Puerto Rico and Alaska, without any locality pay to offset these losses.

AFGE was pleased to see in the President's FY08 Budget a proposal regarding a transition from non-foreign COLAs to locality pay as an "offset" to reduction in the COLAs. Although AFGE has not seen any detailed plan from the Administration, the Budget describes a seven-year transition period during which time the offsetting locality payments would be incorporated into base salaries. We look forward to working with the Administration on this initiative, as its previous policy of simply reducing COLAs without any corresponding locality payment has been an unwarranted and unfair reduction in compensation for federal employees in non-foreign areas.

The non-foreign COLA issue is of great importance to AFGE's members in Alaska, Hawaii, and Puerto Rico, since it represents such a significant portion of their cash compensation. The fact is that although all three areas are currently under the same program, they have profoundly different economies, labor markets, climates, and access to various resources, including those purchased by the Washington, D.C. area's "typical" federal employee household. It is possible that different solutions may be appropriate for the different areas, and that while a continuation of the COLA program is warranted in some areas, it may not be in others. As such, AFGE will urge Congress to address problems in the non-foreign COLA areas taking into consideration the unique attributes of each.

### ***Where AFGE Stands on Pay***

FEPCA represented an effort by the federal government to adopt a market-based pay system that would allow for career progression based upon performance and to gradually close the pay gap between the federal and private sectors. The pay gap, as measured by labor market data collected by BLS, should have been eliminated five years ago, but President Bush and his predecessors have refused to abide by the statutory mandates of FEPCA. The result has been a continuing disparity between federal and private sector salaries.

The method used to distribute locality pay in 2007, coupled with the paltry size of the raise, and the incorporation of new data essentially halted progress toward comparability last year. The market comparability gap stands at approximately 18 percent. We are hopeful that the new Congress will make progress on market-based comparability, even as President Bush tries to undermine the comparability standard.

The Administration's decision to push for implementation of individualized pay is a mistake. Individualized pay will be politicized pay. It will undo a generation's worth of progress in the elimination of pay disparities based upon race, gender, and other non-merit, non-market factors. Not only has "pay for performance" failed in both the private and public sectors, the government still has not fulfilled its duty under FEPCA to pursue market comparability. AFGE will work to prevent

implementation of pay schemes which replace objective market data with a supervisor's opinions as the foundation for salaries and salary adjustments.

## ***Conclusion***

If a new "pay for performance" system is implemented today it will be at least as ineffective as "merit pay" was in the 1970's, only the government will have more at stake when it fails this time around. "Pay for performance" would seriously undermine the integrity of the federal Civil Service system and would inhibit the government's ability to attract and retain qualified professionals to work for the federal government. Given that more than half of the current federal workforce is eligible for retirement, the government should make every effort to enhance its ability to employ a dedicated workforce adequate to its mission. The failure to attract qualified employees will not only harm the government, it will cause Americans who rely on government services to suffer as well.

A "pay for performance system" will not restore the living standards and buying power of federal employees and their families. FEPCA was designed to fulfill this very purpose. If the Administration would merely follow the statutory guidelines set before them, it could begin to undo damage that occurred in the previous decade and begin to pay federal employees the wages and salaries they deserve.

AFGE activists have fought annually to maintain the long tradition of parity between the salary adjustments provided to military and civilian employees of the federal government. As such, we were pleased to see the principle of parity in the President's overall budget numbers. However, the Administration's decision to combine the lowest salary adjustment in two decades in the same year that they were forced to acknowledge that the federal-nonfederal pay gap is actually significantly higher than previously reported made no sense. It certainly made a mockery of the high-minded rhetoric about adherence to market forces, market data, or market principles. It worsened the government's ability to recruit and retain a federal workforce to replace the generational cohort nearing retirement, and it made impossible federal employees' efforts to provide their families with economic stability and security. This year, AFGE urges a salary adjustment of 4.0 percent in order to undo some of last year's damage and to make progress toward the goals of comparability and fairness.