Moving Towards a More Strategic Federal Pay Comparability Policy

A Policy Engagement Paper sponsored by the American Society for Public Administration’s Human Resources Policy Task Force - Subcommittee on Federal Pay

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Executive Summary

Over the past twelve months there has been a renewed emphasis on public sector compensation and pay comparability. In response to both budgetary pressures and more ideological driven views of public sector pay, human resources management leaders have increasingly sought new and more strategic means of maintaining competitive compensation policies. At the federal level, this renewed emphasis has focused primarily on pay comparability with the private sector and the extent to which the federal government can establish itself as a competitive employer in the broader labor market. Given the role of the U.S. Office of Personnel Management (OPM) as the federal government’s lead human resources management agency, this Policy Engagement Paper is intended to serve as a resource for OPM by critically assessing existing mechanisms for setting General Schedule (GS) pay rates and providing specific policy recommendations on how these mechanisms can be restructured in light of growing calls for more efficient and effective compensation systems. With an emphasis on the more technical aspects of federal pay setting, these recommendations include amending the current policy of across-the-board pay adjustments to allow for disaggregated pay increases by grade level and expanding the within-grade salary range from 30 percent to 40 percent or higher. It is the view of the Subcommittee that these policy changes will position OPM and the federal government as a whole to more strategically address the issue of pay comparability and salary compression for mission critical occupations.

Introduction and Overview

Adequately compensating employees is one of the key components of building and maintaining a high performing workforce. Traditional wisdom and experience have held that those employers able to provide competitive compensation packages are better positioned to benefit from higher employee commitment, decreased turnover intent and a competitive advantage in the marketplace for talented employees. Although compensation encompasses a wide range of elements, employee pay serves as the critical foundation in determining the competitiveness of an employer’s total compensation package. While many job seekers value related benefits such as available retirement plans, family friendly workplace policies and healthcare insurance, wage and salary rates typically serve as the defining characteristic of a compensation package, especially for younger professionals entering the workforce.

Enjoying the benefits of competitive pay rates, however, has been an elusive goal for public sector employers at all levels of government given the manner in which public sector compensation practices are established and the inevitable politicization that accompanies any process that is directly tied to tax revenues. At the federal level, this challenge has become readily apparent over the last twenty-five years with the rapid shift towards more specialized
occupations designed to address an ever growing array of federal mandates. In areas such as IT security and contract management, the federal government has increasingly been called upon to recruit and hire workers with more advanced educational and professional backgrounds and to do so within a labor market made more competitive by generous private sector compensation packages. It is apparent that now, more than ever, is a critical period for the federal government, led by the U.S. Office of Personnel Management, to begin the process of exploring available avenues to increase the competitiveness of federal pay.

The goal of this Policy Engagement Paper, sponsored by the American Society for Public Administration’s (ASPA) Human Resources Policy Task Force - Subcommittee on Federal Pay, is to assist OPM by taking a critical look at the current mechanisms in place for setting federal pay rates for rank-and-file General Schedule employees, and to provide practical recommendations on how the federal government can work to make current pay setting practices more efficient and effective.

Strengths and Opportunities for Improvement

In contrast to pay setting processes at the state and local government levels, the federal process is one that is characterized by transparency and standardization. As outlined in the Federal Employees Pay Comparability Act of 1990 (FEPCA) and 5 U.S.C. 5301, GS pay rates are adjusted annually based upon statistical comparisons of pay rates between federal and non-federal jobs and the goal that “Federal pay rates be comparable with non-Federal pay rates for the same levels of work within the same local pay area.” Annual comparisons are provided by the Bureau of Labor Statistics (BLS) and are estimated using data from the Bureau’s National Compensation Survey. These comparisons are then submitted to the Federal Salary Council which makes pay rate change recommendations to the President’s Pay Agent that, in turn, makes final recommendations to the U.S. Congress. Although FEPCA mandates that federal GS pay rates fall within five percent of comparable non-federal jobs, past practice has shown that actual pay rate changes proposed by the Pay Agent fall considerably below meeting this requirement.

Even though federal pay rates have yet to reach full comparability with non-federal rates since the passage of FEPCA, the current pay setting system possesses a number of strengths that should be fully considered in any future compensation reform effort. One of the primary benefits of the current system is its transparency. Compared to pay setting practices in the private sector, which lean more heavily towards pay variability on an individual employee basis, the federal system affords both managers and employees the opportunity to observe how pay rates are determined across the entire spectrum of federal occupations and geographic locations. While such a system may not provide opportunities for individual employees to negotiate their own unique pay rates, it does benefit overall internal equity and the appearance of fairness in the pay setting process.
A related benefit of the current compensation system’s focus on internal equity is its ability to limit pay disparities based upon race and gender. Unlike common private sector compensation systems which afford substantial levels of managerial discretion in the initial pay setting process, initial pay rates at the federal level, as well as at the state and local levels, are based almost solely on the duties and required competencies of individual positions. As a result, there are far fewer opportunities for hiring managers to base pay decisions on non-job related factors. As past research has demonstrated, one important effect of this emphasis on internal equity in public sector compensation systems has been reduced wage discrimination for women and minorities.3

A final benefit of the current pay setting system is its ability to leverage the resources and skills of the Bureau of Labor Statistics. While private sector institutions and most state and local governments rely on the services of limited human resources staff or external compensation consultants in determining comparable or competitive pay rates, the federal government benefits from having a highly educated and dedicated staff that are statutorily mandated to provide pay comparability estimates on an annual basis.

While the strengths highlighted above contribute to an overall sense of professionalism, equity and fairness in the federal pay setting process, the system’s inherent standardization has also resulted in a number of weaknesses that substantially impede efforts to maintain a high performing workforce. While there has been passionate debate over the statistical methodology used by BLS to measure pay comparability, perhaps the most critical weakness of the current pay setting system for GS employees is its inability to vary pay adjustments within its classification system. Current regulations regarding pay mandate that annual pay adjustments be applied across the entire GS classification system, regardless of variation in comparability estimates for particular occupations or grade levels. Ultimately, this one-size-fits-all approach has resulted in a pay system where positions at lower grade levels (e.g. clerks and administrative assistants) have enjoyed pay levels above comparable market rates while higher graded positions (e.g., senior executives and advanced professionals) have received pay increases at levels inadequate to meet their comparable market rates. This has limited the federal government to being a competitive employer only for its least critical positions, a clear departure from the goals of strategic human resources management.

This unintended consequence of existing pay policy has also led many outside of the federal community to criticize federal pay rates for being too generous when, in reality, this is true for only a portion of federal employees, not the entire workforce. For example, recent pay gap estimates provided by BLS to the Federal Salary Council show that federal employees in grades 7 and lower are actually paid at rates approximately 1% to 14% higher than their non-federal

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counterparts. However, employees in grades 9 and above are paid at rates approximately 9% to 30% lower than their non-federal counterparts. This variation in the federal pay gap by grade level has also been substantiated using non-federal, commercial salary survey data. In 2002, the Congressional Budget Office (CBO) estimated pay gaps, using data provided by the Hay Group, for lower graded clerical and technical occupations and higher graded administrative and professional occupations. Consistent with the most recent pay gap estimates provided by BLS, the CBO found that pay for higher graded administrative and professional occupations fell considerably below that of comparable private sector occupations, but that “jobs in technical and clerical occupations show much smaller differences in pay between federal and private workers.” If not addressed in the near term, this critical issue will only grow in importance as the federal workforce becomes increasingly professionalized and reliant upon the skills of highly educated employees.

This aggregated approach to pay setting in the General Schedule system has also limited the ability of the federal government, and OPM in particular, to accurately and effectively make the political case for federal pay comparability. As currently mandated, the President’s Pay Agent makes only one pay recommendation to Congress, overlooking the variation in pay comparability by grade level. As a result, when the Pay Agent recommends a pay increase to meet the goal of comparability, critics are able to point out that an increase at any level benefits employees who are already overpaid.

Last, the standardization in pay increases also limits the ability of the federal government to use employee pay as an asset in the federal goal setting processes. This disconnect between pay and organizational goals results in several disadvantages. First, pay increases cannot be targeted to mission critical or developing occupations limiting public managers’ ability to use human capital planning to meet strategic goals. Additionally, the current standardized system of pay increases does not take advantage of the opportunity to support strategic planning by emphasizing those employee efforts that directly further organizational goals. For more than a decade, the federal government has emphasized human capital planning as an essential component in organizational success yet the standardized approach to pay reduces the options federal managers have to fully utilize human capital resources.

**Recommendations for Increased Efficiency and Effectiveness**

In the past 5 years, there has been no shortage of recommendations and attempts to reform public sector compensation practices at all levels of government, with pay-for-performance and pay-
bANDING being two of the most commonly proposed reforms. While both of these reforms benefit from their ability to target pay rates to individual employees on the basis of skills, performance or market demand, their successful implementation has been substantially limited by inadequate performance appraisal systems, insufficient available pay ranges and strong resistance from public sector unions. Given the recent history of these reform efforts within the Departments of Defense and Homeland Security, it is the opinion of the ASPA Human Resources Policy Task Force that more feasible improvements can be made by focusing potential compensation reform efforts on more technical aspects of the current General Schedule pay and classification system.

Our first recommendation is for OPM to propose to the Administration and Congress that the current practice of allowing for just one pay adjustment to the General Schedule system be amended to allow for multiple pay adjustments by grade level.\(^6\) Such a shift would be theoretically in-line with existing locality pay adjustments and specialty pay rate plans for GS employees. For example, simply enacting dual pay adjustments for GS grades above and below the GS-9 grade level would enable the Pay Agent to propose increases for those grade levels currently at below comparable rates and freeze pay rates for those grade levels currently above comparable rates. It can even be asserted that OPM possesses the ability implement such a change under its current special pay rate authority which holds that OPM can “establish special rates to address staffing problems caused by – significantly higher non-Federal pay rates than those payable by the Federal government within the area, location, or occupational group involved.”\(^7\)

Related to the first recommendation above, our second recommendation is that OPM propose adjustments to the current GS system to increase the salary range within grade levels. Increasing the salary range within the existing system would have the benefit of easing pay compression for highly skilled positions and addressing pay comparability at higher grade levels, while at the same time avoiding many of the shortcomings traditionally associated with pay-banding. Pay-banding has prompted concerns over diminished internal pay equity and the potential for reduced employee motivation. Rather than merging two or more grades into a single pay range as pay-banding involves, it is our recommendation to expand existing pay grades to create a greater range than the approximately 30 percent span that currently exits. Such an extension, to at least 40 percent or greater, will ensure that no pay grades are eliminated and that the proportional difference between pay grades remains the same while the overall pay interval within each grade is increased to allow for expansion when necessary. The result would maintain the structure of the current GS while allowing for higher pay when needed to target the highly skilled positions where pay lags behind comparable market rates.

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\(^6\) It should be noted that this is not a recommendation of pay adjustments by occupation.

\(^7\) U.S. Office of Personnel Management guidance on Special Rates; found at http://apps.opm.gov/SpecialRates/Index.aspx
Concluding Thoughts

The federal pay system is distinguished by a high level of transparency that provides exceptional internal equity and procedural uniformity. When considering modifications to the GS system, it is essential to ensure that these strengths are maintained. However, the inability of the federal government to target pay increases to those positions that are highly technical and comparably underpaid poses substantial strategic challenges. Our recommendations to allow for multiple pay adjustments and an expansion in the salary range within grade levels are designed to preserve the assets of the current system while addressing the concerns of meeting federal human capital needs into the future.