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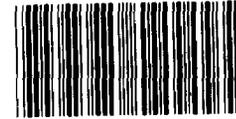


COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-200152

SEPTEMBER 3, 1980

The Honorable Gladys Noon Spellman
Chair, Subcommittee on Compensation
and Employee Benefits
Committee on Post Office and
Civil Service
House of Representatives



113499

Dear Madam Chair:

Subject: Total Compensation Comparability for Federal Employees (FPCD-80-82)

On August 7, 1979, you requested us to review the Administration's proposed total compensation comparability system (S. 1340 and H.R. 4477) and determine how it will affect Federal employees. In our assessment of the feasibility of total compensation comparability, you asked that we address the appropriateness of benefits included in the Office of Personnel Management's (OPM's) analysis, the assumptions OPM used in its actuarially based benefit evaluation models, and the methodology to be used in making annual compensation comparability adjustments.

As arranged with your office, we are sending you this interim report on the results of our review. It includes our concerns over the methods used by OPM in its full-scale test of the total compensation system. Our conclusions and recommendations will be included in the full report to be issued in October 1980. We believe that, if these concerns are not considered, the credibility and soundness of the total compensation comparability system will be affected.

Our review has shown that:

1. Secondary benefits are important.

--Some benefits received by many private sector employees are not included in OPM's formal benefit models. Our national survey of these secondary benefits showed that

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certain of these benefits represent about 3 percent of a private sector employee's base salary. Other benefits for which we did not obtain cost information could also be important.

--Failure to adequately consider these benefits in determining total compensation comparability could result in an understatement of the value of private sector compensation.

2. Many benefits are complex and difficult to measure.

--The Congressional Budget Office estimates that Federal fringe benefits may range anywhere from the equivalent of 2.8 percent of pay behind private sector programs to 7.4 percent of pay ahead of the private sector, depending on what benefits are included and how they are measured.

--OPM has many decisions to make in implementing its pension model. On a few of these decisions, we favor choices other than the ones made by OPM in its full-scale test.

--Inequities will result unless differences in benefits between white- and blue-collar workers are recognized.

3. Benefits differ on a locality basis.

--Surveys we conducted in five localities showed that benefits varied by almost 10 percentage points of pay.

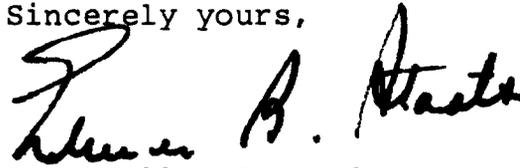
--A plan being considered by OPM would utilize locality pay and national benefits to adjust compensation in a specific locality. This could create serious inequities.

As requested by your office, we have not obtained formal agency comments on this interim report and, unless you announce its contents earlier, we plan no further distribution of the report for 30 days. At that time, we will send copies to interested parties and make copies available to others upon request.

B-200152

If you have any questions on this report we would be happy to meet with you or your staff.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Stacks". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

Enclosure



GAO'S ANALYSIS OF THE ADMINISTRATION'SPROPOSED TOTAL COMPENSATION COMPARABILITY SYSTEMINTRODUCTION

On June 6, 1979, the President sent to the Congress proposed legislation which would reform pay setting for most civilian employees of the Federal Government. It would

- broaden the comparability process to include pay and benefits, and would authorize the President to adjust Federal benefits, along with Federal pay, to achieve a "total comparability" of pay and benefits between the Federal and non-Federal sectors;
- pay most Federal white-collar employees on a locality basis;
- include State and local governments in the comparability survey; and
- make other changes to the Federal pay-setting process.

Objectives, scope, and methodology

This interim report expresses our immediate concerns about the Administration's approach for implementing "total compensation comparability" in the Federal Government. It addresses the steps taken or planned by OPM to implement the proposal, the importance of so-called "secondary" benefits to any total compensation comparison, the difficulties encountered in measuring benefits, and how these measurements could affect the total comparability results. This report also considers the impact of total compensation comparability on locality pay.

Our review was performed at OPM and the Bureau of Labor Statistics (BLS) in Washington, D.C., and in five areas-- Anchorage, Alaska; Baltimore, Maryland; Des Moines, Iowa; San Francisco, California; and Tampa and St. Petersburg, Florida--selected to provide geographic representation and because of specific congressional interest. We reviewed the proposed legislation, available Federal and non-Federal pay and benefits data, and studies of the Federal and non-Federal compensation-setting processes. We also reviewed OPM's initial implementation plans, including the benefit evaluation models planned for use in the total compensation comparability program.

We conducted two separate surveys to gather needed data. The first survey was sent to a sample of companies Nationwide to ascertain the significance of 22 secondary benefits not included in OPM's benefit evaluation models. The second survey was conducted in the five localities to obtain data on both primary and secondary benefits.

Preparing to implement
the proposed legislation

OPM has developed a "level of benefits," or standardized costing approach, to measure total compensation. In such an approach, surveys are conducted to determine benefit provisions found in the non-Federal sector. Then, using an actuarial model, the cost that would be incurred to provide these benefits to the Federal work force is determined and compared with the actual cost of the benefits currently being provided. The difference, when considered with similar comparisons of pay, indicates the size of the adjustment needed to have total comparability with the non-Federal sector.

Measurement of certain primary benefits--pension plans, life and health insurance, long-term disability insurance, accident and sickness insurance, and leave and holiday provisions--was considered necessary by OPM to make a total compensation comparison. BLS collected extensive data on these benefits in 1979 from about 1,500 private sector companies in conjunction with its National Survey of Professional, Administrative, Technical, and Clerical Pay.

OPM has not formally measured other (secondary) benefits. It has, however, collected data from available published sources which could, under the proposed legislation, be considered in the total compensation process. It has amended its collection strategy for the 1980 survey to gather frequency data on many secondary benefits.

SECONDARY BENEFITS ARE IMPORTANT

From limited data gathered, OPM has estimated that certain benefits it has not formally measured may represent a difference between the private and Federal sectors of 3 to 4 percent of pay.

We mailed questionnaires to U.S. companies employing 100 or more workers to determine their secondary benefits practices. We received responses from 371 of the 717 companies we contacted. Our results are projectable to 53.4 percent of the 22,075 companies in our original universe.

On the basis of our survey results, we estimated that selected secondary benefits, which are generally not offered to Federal employees, amount to about 3 percent of a private sector employee's base salary. These include profit-sharing plans, savings and thrift plans, stock plans, gifts, nonproduction bonuses, child care services, subsidized meals and parking, clothing and equipment, and employee discounts. Under a total compensation comparability approach, these secondary benefits alone would add about \$500 a year to the average Federal worker's compensation package.

Six of these were particularly significant. As a group they represented about 94 percent of the cost of the secondary benefits reported.

<u>Benefits</u>	<u>Percent of base pay</u>
Profit-sharing plans	1.12
Savings and thrift plans	.76
Stock ownership plans	.31
Nonproduction bonus	.27
Employee discounts	.17
Subsidized cafeteria	<u>.16</u>
Total	2.79
Others: Gifts, child care services, subsidized parking, clothing and equipment, stock bonus plans, and stock purchase plans	<u>.17</u>
Total	2.96

We also surveyed the eligibility of employees who receive additional benefits and found that these benefits--free parking, funeral and medical appointment leave (not chargeable to regular leave), and personal use of company automobiles--are offered by a large percentage of companies and, overall, a significant percentage of all employees are eligible for most of these benefits. Eligibility and participation are probably related. If they are, these benefits may also represent a significant proportion of a private sector employee's compensation.

MANY BENEFITS ARE COMPLEX
AND DIFFICULT TO MEASURE

Fringe benefit provisions range from simple to complex, are sometimes interrelated, and are often difficult to measure. The Congressional Budget Office recently reported that Federal fringe benefits may range anywhere from the equivalent of 2.8 percent of pay behind private sector practices to 7.4 percent of pay ahead of the private sector. This wide range--10.2 percentage points of pay--results both from variations in benefit programs considered to be representative of the private sector and from differences in the assumptions used in measuring them.

We reviewed OPM's benefit measurement techniques to see how it handled these problems and to determine what impact OPM's approach might have on a possible total comparability adjustment for Federal employees.

Actuarial considerations
in valuing benefits

OPM's general approach to benefit measurement is to estimate how much each private plan would cost if the plan's benefits were offered to Federal employees. Costs were estimated according to one of several standard actuarial methods.

Our actuarial analysis concentrated on pension plans. They represent a large portion of the cost of fringe benefits and are one of the most complicated benefits to evaluate. We found that the overall actuarial approach used by OPM is an acceptable one, but other acceptable approaches would have yielded different results.

On many of the individual issues OPM considered, several methods could have been used. Although in several cases, we would favor an approach other than the one used in OPM's full-scale test, we cannot call OPM's approach wrong. We do question some of OPM's decisions which resulted in a lower cost for private pension plans or a higher cost for the civil service retirement system. Our observations on these decisions are discussed below.

--Federal employees with more generous benefits: There are about 40,000 Federal law enforcement and firefighter personnel and 27,000 air traffic controllers who receive more generous benefits than regular Federal employees. Including these special benefits in the analysis for all Federal employees increases the

value of Federal retirement benefits by about 0.5 percent of pay. It may not be equitable to other Federal employees to include these special benefits in the total compensation comparability assessment.

--Pension increases to retirees: OPM has concluded that, on the average, increases granted to retirees by private pension plans were equal to about one-third of the increases in the cost of living. Plans studied were not representative of any Nation-wide average and did not correspond to the plans in the overall total compensation comparability full-scale test. OPM has developed a series of questions on pension increases, but due to BLS funding limitations, this data will not be available for 2 to 3 years.

Another area where OPM must make a decision is on the value of social security to the employee. Old-Age, Survivors, and Disability Insurance (OASDI) benefits, according to OPM, are worth 15.7 percent of pay. One approach would value OASDI for the non-Federal workers who are covered by Social Security at 7.85 percent of pay since employers and employees make matching contributions to the program. Another approach would be to subtract the employee contributions required under the law from the total value of the benefits. Following this approach, which is the approach OPM uses to determine the value of civil service retirement benefits, the value of the OASDI benefits to the employee would be 10.7 percent, or about 2.9 percent more than the other method.

Benefit differences by
employee type are important

OPM initially used a single overall measurement of benefits for both blue- and white-collar workers for testing purposes, although they have collected data for both groups. Recent studies, however, have indicated that private sector benefits differ by employee group.

Our national benefits survey measured the secondary benefits provided to three separate groups of employees--professional and administrative, technical and clerical, and production employees. For those secondary benefits for which we measured costs, significant differences were found.

<u>Employee type</u>	Secondary benefits as a percent of base pay (<u>note a</u>)
Professional and administrative	3.73
Technical and clerical	2.92
Production	0.92

a/These figures exclude those benefits on which detail by employee type was not obtained.

Eligibility for the other secondary benefits in our survey also differed significantly. For example, free parking was available for 53.1 percent of professional and administrative employees, only 41.9 percent of technical and clerical employees, but 62.7 percent of production employees. Medical and dental appointment time (not chargeable to sick or vacation time) was available to 56.4 percent of professional and administrative employees, 37.6 percent of technical and clerical employees, and 8.4 percent of production workers.

In June 1980, BLS issued summary results of the pilot national survey on primary benefits it conducted in 1979 for OPM. The survey, which collected information on the incidence and characteristics of major benefit plans in the private sector, showed that participation in these benefits also varied by employee type.

BENEFITS DIFFER ON A LOCALITY BASIS

Federal white-collar employees are currently paid under a national pay scale. The Administration has proposed to set the pay of certain Federal white-collar employees on a locality basis rather than a national basis.

One plan OPM is considering would survey pay in each of about 150 pay areas. These local pay rates would then be considered along with nationally measured benefits in determining total compensation comparability in the localities. Local benefits provisions would not be measured, nor would they be considered in deciding what adjustments should be made in pay, benefits, or both to achieve total comparability.

Total benefits varied significantly in localities we surveyed

We surveyed benefits provided to employees in private sector establishments in Anchorage, Alaska; Baltimore, Maryland; Des Moines, Iowa; San Francisco, California; and

Tampa and St. Petersburg, Florida. In our survey we asked employers to provide us with the costs of the benefits they offered to their employees during their last fiscal year. We recognize that the results of this approach may vary from those of a "level-of-benefits" approach, such as that used by OPM.

Our survey results showed that total benefits in these areas varied by about 10 percentage points of salary.

<u>Locality</u>	<u>Benefits as a percent of salary</u>	<u>Average salary</u>
San Francisco	34.5	\$16,500
Des Moines	32.6	13,700
Baltimore	31.7	14,800
Anchorage	28.2	20,300
Tampa and St. Petersburg	24.7	11,500

The primary benefits included in the survey were retirement plans, health and life insurance, accident and sickness plans, holidays, sick leave, and personal leave provisions. Secondary benefits included were profit-sharing plans, savings and thrift plans, various stock plans, nonproduction bonuses, gifts, employee discounts, clothing and equipment, subsidized parking, subsidized cafeteria, and child care services.

Benefits as a Percent of Salary

<u>Benefits</u>	<u>San Francisco</u>	<u>Des Moines</u>	<u>Baltimore</u>	<u>Anchorage</u>	<u>Tampa and St. Petersburg</u>
Primary:					
Pension and social security employer contribution	13.6	10.4	12.3	11.0	8.9
Health insurance	5.5	7.1	5.6	4.7	4.0
Vacation	6.7	6.0	5.6	6.0	3.4
Holidays	3.7	3.5	3.8	3.5	3.7
Sick leave	0.7	0.9	1.3	0.5	1.4
Life insurance	0.9	0.9	1.1	0.6	0.5
Sickness and accident insurance	0.2	0.9	0.5	-	1.5
Long-term disability insurance	0.4	0.3	0.3	0.2	0.2
Personal leave	<u>-</u>	<u>0.4</u>	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Total primary	31.7	30.4	30.6	26.5	23.7
Secondary (note a):	<u>2.7</u>	<u>2.2</u>	<u>1.1</u>	<u>1.8</u>	<u>1.2</u>
Total benefits	<u>b/ 34.4</u>	32.6	31.7	<u>b/ 28.3</u>	<u>b/ 24.9</u>

a/Includes only secondary benefits for which cost information was provided.

b/May differ due to rounding.

There were even greater differences in company practices of providing certain benefits to all or some of their employees in these localities.

Percent of Companies
in Sample Offering Surveyed Benefits

<u>Benefits</u>	<u>San Francisco</u>	<u>Des Moines</u>	<u>Baltimore</u>	<u>Anchorage</u>	<u>Tampa and St. Petersburg</u>
Primary:					
Health insurance	100.0	100.0	100.0	100.0	100.0
Vacation	100.0	100.0	100.0	100.0	100.0
Life insurance	95.1	96.1	100.0	94.3	95.1
Pension plan	94.8	79.4	73.0	68.6	60.7
Sick leave	89.7	93.0	81.9	77.1	87.9
Long-term disability	75.0	84.9	67.7	54.3	58.2
Sickness and accident insurance	40.5	53.6	56.9	48.6	42.1
Personal leave	62.8	38.7	42.7	25.7	13.7
Secondary:					
Employee discounts	65.0	48.5	47.0	68.6	54.1
Employee gifts	57.8	44.1	33.1	40.0	37.1
All stock plans (note a)	41.3	31.5	14.7	25.9	43.0
Employee profit sharing	31.0	27.6	19.1	40.0	21.0
Subsidized cafeteria	23.3	34.9	7.7	17.2	26.8
Nonproduction bonus	25.4	27.4	45.3	20.0	21.8
Savings and thrift	25.1	22.0	32.0	17.1	16.2
Clothing and equipment	15.5	27.8	22.8	8.6	4.9
Subsidized parking	0.6	11.2	13.7	2.9	-
Child care service	-	1.6	4.5	-	-

a/Includes employee stock bonus, employee stock purchase, employee stock ownership plan, and tax reduction stock ownership plan.

BLS surveys also show
that benefits vary by area

BLS surveys show the differences in benefits practices in various localities and regions. We reviewed five of the area wage surveys conducted in 1979--Philadelphia, Pennsylvania; Providence, Rhode Island; Detroit, Michigan; St. Louis, Missouri; and Seattle, Washington--and the special study of the State of Alaska. We also reviewed the latest regional summary which covers data for 1975 through 1977 for four U.S. regions--Northeast, North Central, Southern and Western regions.

The surveys showed significant differences in the benefit practices of establishments for health insurance plans, life insurance plans, pension plans, annual paid holidays, and paid vacations. While this particular BLS survey does not assess the value or cost of the benefits provided, we believe that the variances it shows are nevertheless important. Not only did benefits differ among the localities selected and regions but also between office and production workers often within the same area.

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A comparability adjustment based on a process which compares locality pay, but compares national benefits for the Federal and non-Federal work force, could result in serious inequities to Federal employees in some localities. As long as non-Federal benefits vary by locality, using a national benefits measurement could interfere with achieving true total compensation comparability for Federal employees.



