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

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The Honorable Ted Stevens
Chairman, Subcommittee on Civil
Service, Post Office, and
General Services
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This letter is in response to your request that we evaluate your proposal to raise the "pay cap" for Federal career executives by 14.7 percent to $57,500. Your proposal also would raise the pay limitations for Executive Level III and IV positions to $59,500 and $58,500, respectively. Salary levels for Members of Congress, Cabinet officials, and equivalent positions in the executive, legislative, and judicial branches would not be changed.

While your proposal to raise but not lift entirely the pay restrictions for career executives and certain other Federal executives, excluding Members of Congress, would not fully alleviate the critical pay compression problem, it would provide a much-needed measure of relief. Moreover, if it encourages affected executives to delay their retirements for 3 years, the savings would offset virtually all of the additional salary costs involved.

The proposed raise would relieve some of the existing pay compression among career executives and senior managers, provide needed pay increases to most Federal executives, and preserve the small but important pay distinctions among the various executive levels. Raising the pay limitations and allowing a portion of the scheduled pay increases to become effective should have a positive effect on the Senior Executive Service (SES); the recruitment, retention, and morale of Federal executives and senior managers; and, ultimately, the management and operation of Government programs.

In our opinion, the executive pay dilemma is one of the most critical but perhaps least understood and appreciated problems facing the Government today. Since March 1977, the executive pay ceiling has been increased by only 5.5 percent. During that same period, retired Federal executives received annuity cost-of-living adjustments totaling 55 percent; Federal white-collar pay rates have been increased by 38 percent; and private sector executive pay has gone up about 40 percent.

Federal executives have been denied scheduled increases totaling 22.4 percent in the last 3 years. Executives were due pay raises of 7.02 percent, 9.1 percent, and 4.8 percent in October 1979, October 1980, and October 1981, respectively, but appropriation act language prohibited payment of these scheduled increases. The current appropriation restriction on the payment of the legal salaries of career executives and other top Federal officials expires on November 20, 1981. If the restriction is not reimposed, executive salaries, including those for Members of Congress, will rise by 22.4 percent to their legal levels.

Because of appropriation act pay restrictions, about 46,000 career executives at eight different levels of responsibility now receive the same salary--$50,112.50. As we stated at your Subcommittee's September 14, 1981, hearing on the "Government Brain Drain," this absurd situation creates a multitude of recruitment, retention, morale, and other problems. If allowed to continue, executive pay compression and its resulting adverse effects threaten to undermine the SES and other important reforms the Congress mandated in the Civil Service Reform Act of 1978. More critically, the effective management and operation of Government programs is at stake.

The Government is losing its most valuable, experienced career executives at a time when our country can least afford it. Experienced Federal executives at the peak of their managerial career are retiring at alarmingly high rates; 3,137 top executives retired in 1980, compared with only 508 in 1977. Besides the lost expertise and continuity, such retirements are very expensive. Not only must executives' retirement annuities be paid for a longer period, but salaries must be paid to their replacements as well. Thus, for each executive who retires, the Government must actually pay two persons--the retiree and his or her replacement--to get one job done.

We estimated the cost effects of raising the pay cap for the 34,000 Federal executives and senior managers who at September 30, 1981, were at the $50,112.50 pay ceiling. Raising the pay cap from $50,112.50 to $57,500 would result in a pay raise averaging about 11 percent for that group. A basic premise was that an 11 percent pay increase would cause executives to defer their retirements for 3 years. Conversely, with no immediate pay raise, we assumed that retirement-eligible executives would retire and be replaced.

According to our analysis, raising the pay cap to $57,500 would be cost effective. The net estimated present value of the additional salaries and retirement annuities, including income tax considerations, that would be paid over the remaining lifespans of the 34,000 executives and their replacements would be only about $230 million. The net additional long-range cost would represent an increase of less than 1 percent over the total cost if the cap is not raised. Granting the raise would reduce Federal outlays for the first 3 years because executives at the pay cap would not retire and replacement salary costs would be avoided.

Our analysis did not consider several other important factors such as the value of executives' experience, training, and morale, but if quantifiable, they would serve to enhance the cost effectiveness of raising the pay cap.

We trust that this letter is responsive to your request and will assist the Congress in evaluating the merits and cost effectiveness of lifting or raising the executive pay cap.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States