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UNITED STATES
GENERAL ACCOUNTING OFFICE
REPORT TO THE CONGRESS

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Federal White-Collar Pay Systems Need Fundamental Changes

Civil Service Commission

Office of Management and Budget

Legislation is needed to change Federal white-collar pay systems. Present white-collar pay schedules fail to recognize that the labor market consists of distinctive major groupings which have different pay treatments.

Systems should be designed around more logical groupings and the pay rates based on the geographic pay patterns of the labor market in which each group competes. Also, individual differences in employee proficiency and performance should be properly recognized in the method of progressing through the pay range of a grade.

FPCD-76-9

OCT. 30. 1975

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-167266

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need for legislation to change Federal white-collar pay systems. The fixed structure of the present white-collar pay schedules fails to recognize that the labor market consists of distinctive major groupings which have different pay treatments. Systems should be designed around more logical groupings of occupations, and the pay rates should be based on the geographic pay patterns of the labor market in which each group competes. Further, there are individual differences in employee proficiency and performance which should be recognized in the method of progressing through the pay range of a grade.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and the Chairman, Civil Service Commission.

A handwritten signature in cursive script, reading "James P. Stacks".

Comptroller General
of the United States

C o n t e n t s

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Pay policies and process	1
	Changing composition of GS workforce	3
	Scope of study	4
2	STRUCTURE OF WHITE-COLLAR PAY SYSTEMS PRECLUDES ATTAINMENT OF PURPOSES OF COMPARABILITY PRINCIPLE	6
	Occupational differences in pay rates not recognized	6
	Geographic pay patterns not recognized	18
3	LONG-RECOGNIZED NEED: CHANGE PAY PRACTICES TO OBTAIN COMPARABILITY	24
	Hoover Commissions	24
	Considerations during development of comparability process	25
	Recent studies	27
4	WITHIN-GRADE SALARY INCREASES SHOULD EM- PHASIZE PERFORMANCE RATHER THAN LONGEVITY	30
	Federal practice	30
	Private sector practices	31
	Need for more direct link between per- formance and pay	34
5	CONCLUSIONS AND RECOMMENDATIONS	36
	Recommendations	39
	Agency comments	39
	Matters for consideration by the Con- gress	40
APPENDIX		
I	Letter dated September 12, 1975, from the Assistant Director, Office of Management and Budget, to GAO	41
II	Letter dated September 24, 1975, from the Executive Director, Civil Service Commis- sion, to GAO	42

APPENDIX

Page

III Principal officials responsible for the
administration of activities discussed
in this report

43

ABBREVIATIONS

AMA	American Management Association
AWS	Area Wage Survey
BLS	Bureau of Labor Statistics
CSC	Civil Service Commission
DOD	Department of Defense
FWS	Federal Wage System
GAO	General Accounting Office
GS	General Schedule
OMB	Office of Management and Budget
PATC	National Survey of Professional, Administrative, Technical, and Clerical Pay

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FEDERAL WHITE-COLLAR PAY
SYSTEMS NEED FUNDAMENTAL
CHANGES

Civil Service Commission
Office of Management and
Budget

D I G E S T

Legislation should be enacted establishing more rational white-collar pay systems.

Separate systems should be designed around more logical groupings of occupations. Pay should be based on the rates existing in the labor market in which each group competes.

The appropriate committees of the Congress should hold hearings about these and related matters discussed in this report for the purpose of developing the necessary legislative changes.

To support this goal, the Chairman of the Civil Service Commission and the Director of the Office of Management and Budget should

- develop logical homogeneous groupings of white-collar occupations,
- design pay standards and systems appropriate to each group,
- develop an assessment and adjustment process for each system,
- develop a method of granting within-grade salary increases reflecting an individual's contribution to the job which is integrated with a performance appraisal system, and
- propose legislation to establish such pay systems and pay-setting processes.

Since these matters affect employees directly, employee representatives should participate in the development so that employees' views are considered.

The Commission was making compensation studies on the types of problems identified in this report. In June 1975 the President appointed a top-level review panel chaired by Vice President Nelson A. Rockefeller to study compensation policies and practices.

The Commission agrees that, to attain a greater degree of comparability, greater cognizance to the compensation practices of the non-Federal sector is necessary. The Office of Management and Budget stated that the report would be of value in determining appropriate actions for the executive branch.

Present law provides that Federal white-collar salaries be comparable with private sector pay for the same levels of work. Pay is assessed and adjusted periodically by administrative action. Presently, about 1.5 million white-collar employees with a payroll of \$20 billion are affected by the process.

The pay comparability principle was adopted to

- provide equity for Federal employees with the private sector,
- enable the Government to compete fairly in the labor market, and
- provide a logical and factual standard for assessing and adjusting pay. (See p. 1 and 2.)

But Federal pay differs, often substantially, from private sector pay because:

- The Government classifies many heterogeneous occupations at the same work level or grade based on job duties and responsibilities. In the private sector,

economic and other considerations cause occupations at equivalent work levels to receive different rates of pay. (See pp. 6 to 8.)

--Federal pay rates are in force Government-wide. Private sector pay, especially in the lower skill occupations, customarily varies from one locality to another. (See pp. 18 to 23.)

The fixed structures of the white-collar pay schedules are ill equipped to serve the needs of the work force which has been shifting toward higher skilled occupations. These fail to recognize that the labor market consists of distinctive major groupings which have different pay treatments. Consequently, the Government is paying, in varying degrees, more or less than labor market rates for some employees.

This situation

--places the Government in a noncompetitive or overly competitive position for recruiting and retaining competent employees,

--creates inequities between the Federal employee and his private sector counterpart, and

--creates inequities among Federal employees since, in essence, amounts employees are underpaid in certain high pay occupations or geographic areas are used to overpay employees in lower pay occupations or wage areas.

The credibility of the comparability process has become suspect. Employers, employees, and taxpayers can cite many instances of inordinate inequities between Federal and private sector pay in individual labor markets.

Many study groups over the years have recognized that the statutory pay schedules hinder comparability and that there is a

need for establishing separate pay schedules and, for some occupations, prevailing geographic rates. These would allow for a more equitable balance between internal and external relationships. (See ch. 3.)

At the time of GAO's review, the Civil Service Commission was conducting studies of Federal employees compensation matters, including the concept of dividing the white-collar occupations into major homogeneous groupings with associated pay structures and geographic pay rates.

When completed, these are to be made available to the President's top-level review panel for use in determining whether changes are needed in compensation policies and practices. GAO believes groupings of occupations should be broad and based on common characteristics and labor market characteristics.

One of the Federal pay principles provides that pay should be in proportion to the contributions of employees to efficiency and economy. Individual differences in employee proficiency and performance should be recognized in the method of progressing through the pay range of a grade.

But within-grade salary increases are primarily based upon specified times in grade, with uniform percentage increases if "performance is of an acceptable level of competence." Step increases are, for all practical purposes, automatic. (See p. 30.) This practice does not reward or motivate high performance, especially in the higher skill occupations. In the private sector, the rate of progression recognizes that each individual makes a different contribution to the job. (See pp. 31 to 34.)

CHAPTER 1

INTRODUCTION

The Government needs many different jobs done to effectively carry out its programs. In such a large organization, it is important to have an objective and systematic way of establishing the relative value of each job and to have associated pay structures. The process of valuing, or classifying, helps insure that the Government gives equal pay for jobs of equivalent duties, responsibilities, and qualifications. There are over 60 Federal pay systems and 20 systems for evaluating and ranking jobs.

The Classification Act of 1949, as amended (5 U.S.C. 5101), is the principal authority for classifying about 1.3 million of the 3 million civilian employees. The 1.3 million employees are in 22 broad occupational groups containing about 430 specific occupations. The act established 18 grades, or levels of work, into which all positions under its coverage are to be placed. It broadly defines the job difficulties and responsibilities for each of the 18 work levels, with the objective of achieving equal pay for equal work. The law also contains an associated 18-grade pay structure, the General Schedule (GS).

Excluding the United States Postal Service, about 140,000 other white-collar employees in 100 agencies are under special pay plans.

PAY POLICIES AND PROCESS

Before the comparability principle was adopted in 1962, there was no established framework in which Federal white-collar salaries could be determined. Pay adjustments were based on many factors, such as the changing purchasing power of the dollar, rates paid and wage trends elsewhere in the economy, special concern for lower grade employees, rising standard of living, increases in productivity, and budgetary and economic effects of Federal pay raises. The resultant pay rates severely curtailed pay distinctions in keeping with work and performance distinction and permitted general deterioration of the pay structure. Also, the Federal statutory pay rates had placed the Government at a disadvantage in recruiting competent employees, especially those with professional, scientific, and managerial talents. Many studies recognized the need for reform in methods of determining salaries.

In February 1962 the President sent to the Congress a special message, accompanied by draft legislation, on salary reform for white-collar employees which recommended the comparability principle. The President enunciated the logic and purposes of the comparability principle, as follows:

"Adoption of the principle of comparability will assure equity for the Federal employee with his equals throughout the national economy, enable the Government to compete fairly with private firms for qualified personnel, and provide at last a logical and factual standard for setting Federal salaries. Reflected in this single standard are such legitimate private enterprise pay considerations as cost of living, standard of living, and productivity, to the same extent that those factors are resolved into the 'going rate' over bargaining tables and other salary determining processes in private enterprise throughout the country."

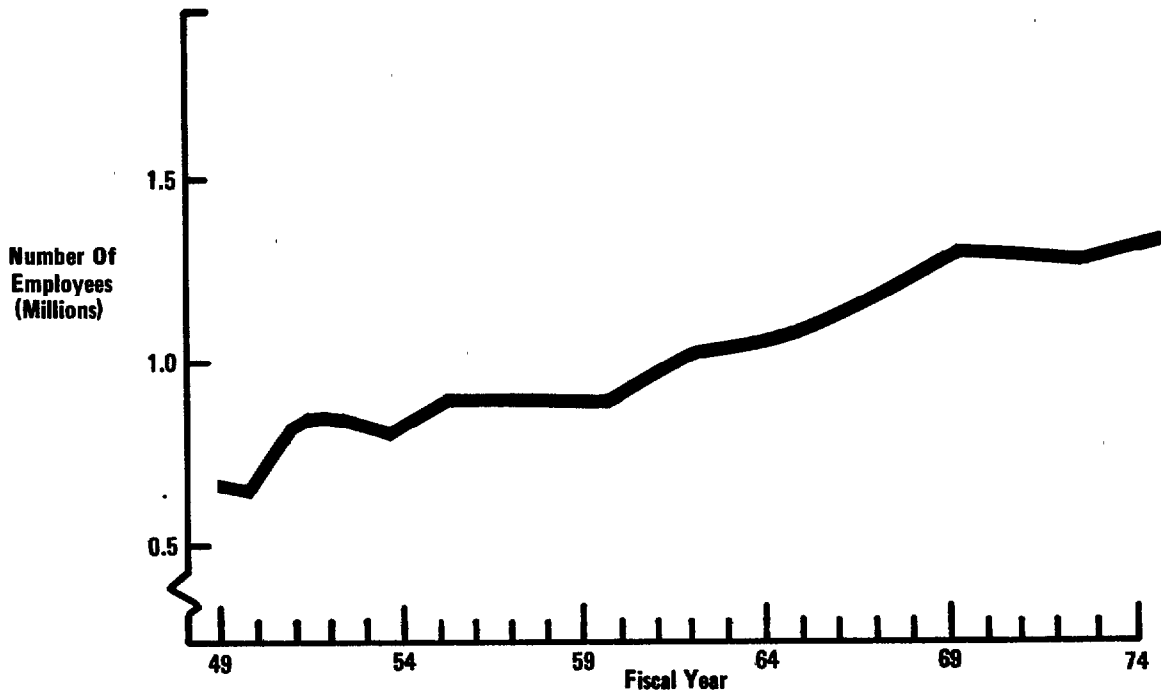
The resultant legislation declared that white-collar salary rates would be based on comparability with private enterprise rates for the same levels of work. The legislation also restated the internal equity pay principles embodied in earlier legislation: equal pay for substantially equal work and pay distinctions in keeping with work and performance distinctions.

The law, as amended, prescribes a method for annual review and adjustment of these employees' salaries by the President. Annually, a selected group of GS benchmark positions at various grades are priced in the private sector and used as the basis for setting GS salaries. Salary schedules for the other statutory pay systems--the Foreign Service schedules and the Department of Medicine and Surgery schedules in the Veterans Administration--are related to GS pay through job evaluation techniques. That is, typical duties, responsibilities, and qualifications required in one grade in the GS system are matched to those of a similar work level in another system. This provides the basis for pricing the pay structure of the dependent system. Also, other agencies elect to follow the GS system although they are not required to do so. About 1.5 million white-collar employees with a payroll cost of about \$20 billion are affected by the comparability process.

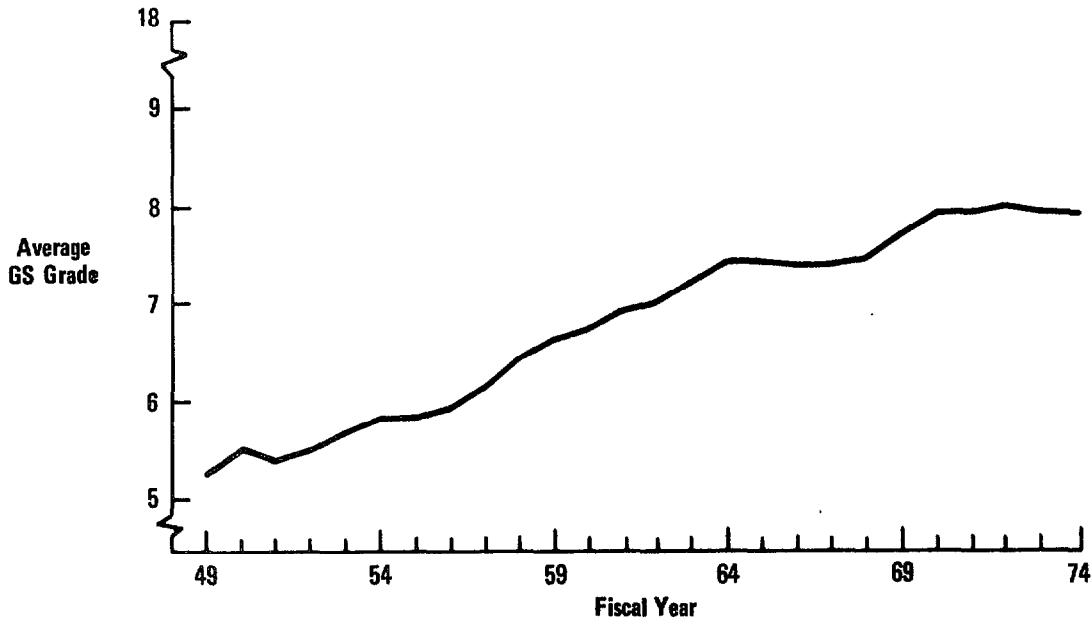
CHANGING COMPOSITION OF GS WORK FORCE

A major change in the composition of the GS work force has taken place in the quarter of a century since enactment of the Classification Act of 1949. There has been a continuing trend toward a smaller proportion of clerical, technical, and support personnel and a greater proportion of professional, managerial, and scientific. This has largely been due to the substantial effect of automation and the more complex Government programs such as space, health, research, and environmental protection.

The number of GS employees increased 84 percent--from 719,000 in 1949 to 1,322,000 in 1974.



The average grade increased 50 percent--from GS-5.25 to GS-7.87.



There has been a dramatic shift to the higher grades.

GS grades	1949		1974		Increase	
	Number of employees	Percent of total	Number of employees	Percent of total	Number	Percent
1 to 6	495,124	68.8	575,879	43.5	80,755	16.3
7 to 15	224,088	31.2	741,637	56.1	517,549	231.0
16 to 18	(a)	(a)	4,797	.4	4,797	-
	<u>719,212</u>	<u>100</u>	<u>1,322,313</u>	<u>100</u>	<u>603,101</u>	83.9

(a) These grades were created by the Classification Act of 1949, and no employees were moved into these grades when initially established.

SCOPE OF STUDY

We assessed the white-collar salary schedules, especially the GS, and use of national pay rates to determine whether they serve the purposes of the comparability principle, in view of the changed composition of the work force. Specifically, does the comparability process, as practiced:

--Provide equity for the Federal employee with his private sector counterparts?

--Enable the Government to be a fair competitor in the labor market?

--Provide a logical and factual standard for setting Federal pay?

1
2 We made our study at the headquarters offices of the Civil Service Commission (CSC) and the Bureau of Labor Statistics (BLS), Department of Labor. The study included an examination of pertinent legislation, policies, procedures, documents, records, studies, and reports. We also visited major private sector employers--multiestablishment companies with establishments in various localities--to discuss their pay policies and practices. We reviewed independent pay surveys and discussed private sector pay practices with the compensation specialists in charge of some surveys. In addition, we researched the views of employee representatives. 13
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CHAPTER 2

STRUCTURE OF WHITE-COLLAR PAY SYSTEMS PRECLUDES

ATTAINMENT OF PURPOSES OF COMPARABILITY PRINCIPLE

The GS pay system covers about 1.3 million employees in the 50 States, the District of Columbia, U.S. territories and possessions, and many foreign countries. These employees are in a broad spectrum of occupations--22 occupational groups containing about 430 specific occupations. Each occupation is slotted into one or more of the 18 grades of the single GS salary schedule with uniform pay rates ^{1/} regardless of occupation or location. This often results in significant deviations from comparability for certain occupations and/or geographic areas because:

- Comparability is determined by level of work, not by specific jobs. The Government classifies many heterogeneous occupations at the same grade. In the private sector, economic and other considerations cause occupations at equivalent work levels to receive different rates of pay.
- Federal pay rates are in force Government-wide. Private sector pay, especially in lower skill occupations, customarily varies from one locality to another.

Since the monolithic concept of the GS salary system--many varied heterogeneous occupations grouped into 18 skill levels with uniform national pay rates--differs considerably from the labor market characteristics and private sector pay practices, it creates inequities between the Government and the private sector and among Government employees. The relative competitive position of the Government as an employer (i.e., leader or follower of changes in pay) is subject to serious question because the Government is noncompetitive or overly competitive with private sector employers for recruitment and retention of competent personnel in many occupations and/or geographic areas.

OCCUPATIONAL DIFFERENCES IN PAY RATES NOT RECOGNIZED

Selected positions at various work levels are priced in the private sector. But when each position's pay rate

^{1/}Employees located outside the 48 contiguous states, however, may be paid added differentials or allowances. Also, employees in certain occupations and/or geographic areas may be paid a higher minimum rate of the applicable grade if the Government is not competitive in the specific labor market.

passes through the machinery of the pay-setting process and merges with other positions' rates, it undergoes a general transmutation so that the Federal pay rates established are not sufficiently representative of the private sector rates for such positions.

The Government classifies many heterogeneous occupations at the same work level or grade regardless of the actual pay relationships among these jobs in private industry. In the private sector, economic and other considerations cause occupations at equivalent Federal work levels to receive different rates of pay, often substantial. For example, the following table shows the number of jobs surveyed at each work level in the 1974 PATC survey ^{1/} and the range of the jobs' relative average pay rates--expressed as a percentage of the work level average rate.

<u>Equivalent work level</u>	<u>Number of jobs surveyed</u>	<u>Range of pay relatives (percent)</u>	
		<u>Low</u>	<u>High</u>
GS- 1	2	95	105
GS- 2	3	95	108
GS- 3	8	90	121
GS- 4	a/ 7	83	115
GS- 5	a/11	76	119
GS- 6	a/ 3	86	126
GS- 7	a/11	80	114
GS- 8	a/ 2	97	103
GS- 9	a/ 9	89	108
GS-11	9	93	105
GS-12	6	93	105
GS-13	5	98	107
GS-14	5	93	111
GS-15	3	91	110

a/Not all jobs were used in computing Federal rates because the President's Agent in the pay-setting process and the Federal Employees Pay Council (representatives of employee organizations) could not agree on appropriateness.

The pay relationships for the GS-5 equivalent jobs dramatically demonstrate the problem of classifying a large number of occupations with diverse characteristics in the same grade--college-hire trainee-type positions, experienced office clerical and technician jobs, and a clerical supervisory position.

^{1/}BLS' annual survey of private enterprise salary data--known as the National Survey of Professional, Administrative, Technical, and Clerical Pay (PATC) and used as the basis for adjusting Federal white-collar salaries.

<u>Job</u>	<u>Average annual private sector salary</u>	<u>Percent of average for all jobs</u>
Engineer I	\$11,901	119
Keypunch supervisor III	11,005	110
Chemist I	10,660	106
Engineering technician III	10,491	105
Draftsman II	10,443	104
Auditor I	10,352	103
Buyer I	10,073	100
Job analyst I	9,783	98
Accountant I	9,739	97
Secretary II	8,221	82
Computer operator II	7,632	76
Average (mean)	\$10,027	100

The high rate is 56 percent, or \$4,269, more than the low rate.

Not only do the absolute levels of pay vary among occupations, their yearly changes and long-term trends also vary. For example, the 1974 PATC survey shows that average salaries for the 19 occupations surveyed rose 6.4 percent from March 1973 to 1974. But increases for the individual occupations ranged from 5.2 percent to 7.3 percent. For the 13-year period from 1961 to 1974, PATC data shows the following pay movements.

	<u>Rates of increases 1961-74</u>	
	<u>Average annual</u>	<u>Cumulative</u>
Average of all occupations	4.7	82.0
Range:		
Highest occupation	5.1	91.8
Lowest occupation	4.3	72.7

BLS points out that increases in salaries, in both clerical and technical support groups, averaged 4.5 percent over the 13-year period--less than the average increases (4.9 and 4.7 percent) for the experienced and entry professional and administrative group.

Establishing intergrade differentials among diverse occupations creates further inequities

Since comparability is by "levels of work," the pay rates of all jobs surveyed at a work level are averaged to determine the private enterprise pay rate at that level. But GS salary rates are not built directly on the averages because the law also requires that pay distinctions be maintained in keeping with work distinctions (intergrade

differentials). The Office of Management and Budget (OMB) and CSC state that private enterprise averages do not provide such distinctions.

To translate the private sector work level averages into GS pay rates, a payline--a series of rates with one rate for each work level--is mathematically computed to reconcile comparability and pay distinction principles. It is then related to the GS pay structure to determine the GS salary rates.

Original designers of the pay comparability process considered that an ideal GS payline, which provided pay distinctions in keeping with work distinctions, was one that had a uniform percentage differential from GS-1 to GS-11 and differentials of double that size from GS-11 upwards. This line is termed the "uniform line."

The pattern was selected because OMB and CSC considered the work intervals covered by each of the clerical and technician grades from GS-1 to GS-11 to have been designed by the Federal position classification plan to be approximately equal. Also, professional grade work intervals, which begin at GS-5, were designed to be double the size of clerical work intervals. For example, the GS-7 professional grade would cover a range of work equivalent to that of clerical GS-7 and GS-8 combined. The professional employee's movement is from GS-5 to GS-7 to GS-9 to GS-11 and then through each successive grade. Although the 18-grade structure covers GS-1 messengers through GS-18 division heads and bureau chiefs, it is, in essence, a dual structure.

The uniform line was not used in developing paylines because it produced rates which were too far below private enterprise averages at GS-5 through GS-9 and produced rates at GS-16, 17, and 18 which were too high. A 1971 CSC and OMB publication stated that:

"* * * the line has grave practical disadvantages. It cuts 24 percent below the average of the several professional and administrative occupations surveyed at GS-5, so that a pay schedule derived from the payline would be too great a handicap in Federal hiring of college graduates. In addition, it produces rates at GS-16, GS-17, and GS-18 which, however reasonable from the comparability standpoint, are too high to be accommodated in the Federal Service unless there were a radical change in philosophy relative to salaries of Congressmen and political executives.

"The difficulty at the three highest grades can be ameliorated to a considerable extent, and that at GS-5 in some degree, if compromise is made with the principle of pay distinctions in keeping with work distinctions by using larger intergrade differentials among the lower grades with the size of the differentials gradually diminishing as the line moves upward through the grades."

OMB and CSC did compromise their ideal internal alignment by using paylines with a declining pattern of intergrade percentage differentials. Since 1969 the paylines' declining pattern of intergrade differentials had a starting difference of 2.1 percent and subsequent differences between grades of 0.2 percent less. For example, if the difference between GS-1 and GS-3 were 27.7 percent the difference between GS-3 and GS-5 payline rates would be 2.1 percent less or 25.6 percent; between GS-5 and GS-7 the differences would be 1.9 percent less, a further decrease of 0.2 percent or 23.7 percent, and so on.

This payline also results in a spread, often significant, between GS rates and private sector averages, as shown by the 1974 data.

<u>Work level</u>	<u>Private sector average</u>	<u>Payline</u>	<u>Payline rate over or under (-)</u>	
			<u>Amount</u>	<u>Percent</u>
GS- 1	\$ 5,376	\$ 5,813	\$ 437	8.13
GS- 2	5,966	6,594	628	10.53
GS- 3	7,325	7,451	126	1.72
GS- 4	8,689	8,382	-307	-3.53
GS- 5	10,494	9,394	-1,100	-10.48
GS- 6	(a)	10,486	-	-
GS- 7	12,375	11,666	-709	-5.73
GS- 8	(a)	12,930	-	-
GS- 9	14,196	14,288	92	0.65
GS-10	(a)	15,736	-	-
GS-11	17,021	17,285	264	1.55
GS-12	20,148	20,686	538	2.67
GS-13	24,349	24,529	180	0.74
GS-14	28,865	28,865	-	-
GS-15	34,708	33,765	-943	-2.72
GS-16	(a)	b/39,329	-	-
GS-17	(a)	b/45,691	-	-
GS-18	(a)	b/53,037	-	-

a/Jobs at these work levels were not surveyed or the data was not used for payline computation.

b/By law (5 U.S.C 5308), rates paid Federal employees cannot exceed the rate for level V of the Executive Schedule (prior to October 1975, \$36,000).

As can be seen, the payline rates differed from the private sector averages by more than 5 percent for 4 of the 11 levels surveyed. Looking deeper, the payline rates exceeded the rates for all jobs surveyed at GS-1 and GS-2 levels and fell below all jobs at the GS-5 level. The deviations of payline rates from private enterprise rates for the lowest and highest paid jobs at each work level follow.

<u>Work level</u>	<u>Payline more or less (-) than</u>			
	<u>Lowest paid job</u>		<u>Highest paid job</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
GS- 1	\$ 704	13.8	\$ 170	3.0
GS- 2	947	16.8	154	2.4
GS- 3	844	12.8	-1,391	-15.7
GS- 4	482	6.1	-1,165	-12.2
GS- 5	-345	-3.5	-2,507	-21.1
GS- 7	178	1.5	-1,886	-13.9
GS- 9	1,003	7.5	-872	-5.8
GS-11	1,495	9.5	-644	-3.6
GS-12	1,871	9.9	-396	-1.9
GS-13	724	3.0	-1,427	-5.5
GS-14	1,905	7.1	-3,134	-9.8
GS-15	2,296	7.3	-4,415	-11.6

These are national perspectives; geographically viewed, different pictures would emerge. (See pp. 18 to 23 for discussion on geographic pay patterns in the private sector.)

What about the GS-16 through GS-18 (supergrade) levels? The annual survey of private enterprise salary rates does not include such jobs because the nature of supergrade jobs makes them unsurveyable by the job-matching technique. The supergrade payline is determined by extrapolating the intergrade differential pattern established for the work levels surveyed.

To assess the extrapolation method of establishing supergrade pay rates, CSC, with the cooperation of the American Compensation Association, made a study in April 1974 of positions equivalent to GS-14 through GS-18 in 128 companies within the scope of the PATC survey. The jobs surveyed were priced through on-the-site position classification analysis using Federal classification standards. The June 1974 report on the study concluded that (1) the salary rates produced for GS-16 through GS-18 levels by extrapolation were "quite conservative" and (2) constant or increasing intergrade differentials existed in private industry at these levels, whereas decreasing differentials existed between such GS levels.

Specifically, the average salaries in CSC's study were considerably higher than the payline rates established from the March 1974 PATC data.

<u>Equivalent work level</u>	<u>CSC study</u>	<u>PATC payline</u>	<u>Differences</u>	
			<u>Amount</u>	<u>Percent</u>
GS-14	\$28,496	\$28,865	\$ 369	1.3
GS-15	36,230	33,765	-2,465	-6.8
GS-16	45,146	39,329	-5,817	-12.9
GS-17	56,011	45,691	-10,320	-18.4
GS-18	71,076	53,037	-18,039	-25.4

The study noted that (1) the differences in salary rates increased markedly at each succeeding level and (2) the size and frequency of bonuses in the private industry for such positions added to the disparity.

It also showed that constant or increasing intergrade differentials existed in private industry for positions at these levels, which was in general agreement with American Management Association studies and other reports. These intergrade patterns were also typically used by the companies we visited. In contrast, the GS intergrade differentials decline.

	<u>Intergrade differentials (percent)</u>	
	<u>CSC study</u>	<u>GS</u>
GS-14/GS-15	24.6	16.6
GS-15/GS-16	24.6	16.1
GS-16/GS-17	26.3	15.8
GS-17/GS-18	27.5	15.7

The use of decreasing percentage differentials between successively higher GS grades results in significant deviations from the going pay rate in the private sector.

Intergrade differentials have two primary purposes--to provide an adequate incentive for career development and to assure suitable pay distinctions between supervisors and subordinates. Promotions are normally much more rapid in the lower grades, and a smaller differential between grades has been found in private enterprise to provide adequate financial motivation. But at the higher levels, a pattern of increasing intergrade differentials is used because opportunities for promotion decrease while job responsibilities become relatively greater.

A pattern of declining intergrade differentials requires that the differentials start out relatively high at the low end of the schedule in order not to be inordinately low at the top end of the schedule. Under the GS, intergrade differentials at the entering professional level exceed 20 percent, amounting to 24.2 percent between grades 5 and 7. This is much higher than is usually found in the private

sector. Conversely, the intergrade differential between GS-17 and 18 is only 15.7 percent, which is much lower than normally found in private enterprise. The declining differential pattern compresses the range of GS salaries and does not allow the payline to reflect the relative value of positions at each end of the scale.

Grouping occupations with similar characteristics would result in more equitable pay

Over the years, many studies have shown that private companies generally use more than one pay schedule for their white-collar employees. A 1975 CSC study of 96 companies with over 1 million employees confirmed that generally multiple pay schedules were used in the private sector. The practice was also generally used by the multiestablishment companies we visited.

The Federal principles of pay comparability with private enterprise and maintaining pay distinctions in keeping with work distinctions have equal stature under the law. Grouping occupations with similar characteristics and allowing intergrade differentials to reflect market patterns would result in closer comparability to market rates and in a more rational series of pay rates. There are many ways to group occupations. For example, one broad group could be the professional and administrative occupations. This group was selected because:

- The GS classification plan considers work intervals for professional and administrative employees to be twice that of the clerical and technician occupation. (See pp. 8 to 10.)
- Private sector companies, in general, have separate salary schedules for such occupations as opposed to clerical occupations.
- The geographic pay patterns in the private sector for clerical occupations is local and for professionals the patterns are broader regionally or national in character. (See pp. 18 to 23.)

As previously stated, the professional and administrative employees movements are from GS-5 to GS-7 to GS-9 to GS-11 and then through each successive grade. We modified CSC's payline computer program by including only professional and administrative occupations (eliminating one supervisory clerical and two technician occupations at GS-5, GS-7, and GS-9) and by allowing the payline to reflect the intergrade pattern present in the 1974 PATC data (eliminating the predetermined declining pattern of intergrade differentials).

Work level	Average private sector salaries	Pay-line	Inter-grade differential (percent)	Salary deviations from payline	
				Amount	Percent
GS- 5	\$10,418	\$10,417	-	\$ 1	0.0
GS- 7	12,130	12,136	16.5	-6	-0.1
GS- 9	14,274	14,272	17.6	2	0.0
GS-11	17,021	16,912	18.5	109	0.6
GS-12	20,148	20,159	19.2	-11	-0.1
GS-13	24,349	24,131	19.7	218	0.9
GS-14	28,865	28,957	20.0	-92	-0.3
GS-15	34,708	34,777	20.1	-69	-0.2
Absolute sum of deviations				<u>\$508</u>	<u>2.2</u>

This payline achieves much closer pay comparability with the private sector. A good indicator of how well a payline fits a given set of data is measured by the absolute sum of the deviations (ignoring plus and minus signs) of the average private sector salary rates from the payline rates at each grade level. A perfect fit would have zero deviations. The 2.2 percent absolute deviation is less than 10 percent of the deviations from the actual payline.

Grade	President's Agent payline deviations		GAO-modified payline deviations	
	Amount	Percent	Amount	Percent
GS- 5	\$1,100	11.71	\$ 1	0.0
GS- 7	710	6.08	-6	-0.1
GS- 9	-92	-0.64	2	0.0
GS-11	-264	-1.53	109	0.6
GS-12	-538	-2.60	-11	-0.1
GS-13	-180	-0.73	218	0.9
GS-14	-	-	-92	-0.3
GS-15	<u>942</u>	<u>2.79</u>	<u>-69</u>	<u>-0.2</u>
Absolute sum	<u>\$3,826</u>	<u>26.08</u>	<u>\$508</u>	<u>2.2</u>

As the preceding table shows, the GAO modified payline would greatly improve comparability at both ends of the grade structure.

It would have decreased the need to use special rates ^{1/} at the professional entry levels. As of November 1974, 64 special rates were authorized: 35 covered local areas; 23 were nationwide; and 6 were worldwide. Special rates are most often used at the entering professional levels. Of the 143 times used (a single authorization often covers several grades in an occupational series), 51 were at the GS-5 level and 40 at the GS-7 level. The steps 5 and 10 are most frequently used. Thus, employees receiving special rates are paid an average of one grade higher than those not receiving special rates.

Particularly significant are the inequities for persons entering at the GS-5 level. Special rates are given for one (Engineer I) of the six jobs surveyed at this level, and the five jobs not receiving special rates are below comparability by 15 to 25 percent.

<u>Job</u>	<u>Private sector salary</u>	<u>Entry level salary</u>	<u>Difference</u>		<u>Difference after application of special rates</u>	
			<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Engineer I	\$11,901	\$8,500	\$3,401	40.0	\$854	7.7
Chemist I	10,660	8,500	2,160	25.4		
Auditor I	10,352	8,500	1,852	21.8		
Buyer I	10,073	8,500	1,573	18.5		
Job Analyst I	9,783	8,500	1,283	15.1		
Accountant I	9,739	8,500	1,239	14.6		

We believe that special rate authority should be reserved to correct occasional and temporary anomalies between Federal and private sector rates, not to correct problems originating from the use of a salary structure which is too rigid to provide reasonable comparability.

Special occupational schedules

Within the broad professional and administrative group, there are some unique occupational groups which should have separate pay treatment, such as medical and teaching occupations. About 47 percent of the special GS rates authorized are for the medical occupations. In the case of medical officers, special rates have been in effect for almost two decades. The minimum rates in effect at the time of our review for medical officers compared to the minimum GS rates follow.

^{1/}A higher minimum rate authorized for an occupation whenever the private industry rate in an area is substantially above the Federal rate and significantly handicaps the Government's recruitment or retention of well-qualified personnel.

<u>Grade</u>	<u>Entry rate</u>	<u>Special rate</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
GS-11	\$15,481	\$20,125	\$4,644	30
GS-12	18,463	23,998	5,535	30
GS-13	21,816	28,359	6,543	30
GS-14	25,581	31,552	5,971	23
GS-15	29,818	33,794	3,976	13

As shown above, medical officers' pay was 13 to 30 percent more than other occupations at the same work levels. About half of the medical officers are at the GS-15 level. Since it is the only occupation authorized special rates at this grade, medical officers are paid almost \$4,000 more than personnel in any other occupation.

Moreover, medical occupations are scattered among various pay systems. In addition to GS, civilian physicians, osteopaths, dentists, and nurses are under the Department of Medicine and Surgery and under a U.S. Public Health Service salary system. Thus one agency pays a group of employees differently from their counterparts in other agencies, which creates competition between agencies in the recruitment and retention of personnel.

CSC has characterized the present status of Federal health services professionals as both fragmented and perilous. CSC takes the position that these disparate systems must be replaced by a single, unified structure so that each Federal health practitioner, regardless of agency affiliation, will be evaluated and paid like the rest of his professional colleagues in the Federal service. Accordingly, legislation has been proposed to provide for a single classification and pay structure for selected health services professions.

The preponderance of teachers in the Government are employed by the Department of Defense (DOD) and the Bureau of Indian Affairs, which use different pay systems. Through 1958, DOD teachers were under the GS. DOD requested that its teachers be exempt from the Classification Act of 1949 and related civil service laws which prevented the use of salary administration practices in accordance with the professional standards and practices followed by most public jurisdictions. This was accomplished by legislation passed in July 1959 (Public Law 86-91).

DOD pay policies are now closely patterned after those in public school jurisdictions. They are based on initial qualifications, subsequent education, and length of service. In addition, salaries are based on those prevailing in certain school districts. Teachers are paid for the school

year with no reduction in pay for standard school holidays, and additional compensation is provided for extra duties such as summer school teaching. DOD considers that the current system is a great improvement over the GS.

In contrast, the Bureau of Indian Affairs operates under the Classification Act of 1949. To receive full salary, teachers are required to work 12 months a year, with a 40-hour weekly schedule. In the past, teachers often were required to do maintenance work during the summer months. Now, however, the periods when school is not in session are taken up by workshops and the like. Inexperienced teachers are normally hired at the GS-5 level and advanced to a GS-7 within a year. Teachers fully qualified in their subject areas can progress to the GS-9 level regardless of academic qualifications.

Because of the fundamental differences between the pay-setting practices of GS (duties and responsibilities) and of the non-Federal sector (academic qualifications and experience), it is doubtful whether it is possible to equitably compensate teachers under the GS pay system. To exempt all classroom teachers from the Classification Act, as was done in DOD, would not necessarily be an ideal solution. The Classification Act was intended to assure that similar positions would be treated equally. Establishing systems outside the act's "umbrella," which are administered by various departments and agencies, has created a situation where there is no assurance of equitable treatment among agencies.

A better solution would be to amend the Classification Act to allow CSC to determine what classification and pay system best suits a particular occupation, service, or agency. If CSC determines that the traditional principles of position classification are not appropriate to a specific profession, group, or agency, it would have the authority to develop a method of classification and pay tailored to specific occupations for use by all agencies. This would assure Government-wide consistency and provide for the use of recognized professional or other standards in establishing the classification or ranking and pay systems in employing groups, such as teachers.

Supergrade pay system

The present system of determining supergrade pay rates results in rates which are considerably lower than market rates. We are not suggesting that such rates be comparable to market rates; but they should be within reason. A separate pay system for supergrades would be desirable.

Extrapolation of the GAO-modified payline would also result in supergrade pay rates closer to the findings in CSC's June 1974 study of positions equivalent to GS-14 through GS-18. That is, supergrade pay rates would be closer to market rates, as shown in the following comparison of the salaries produced by the official payline, GAO's modified payline, and CSC's GS-14 through GS-18 study.

	<u>GS-16</u>	<u>GS-17</u>	<u>GS-18</u>
PATC payline	\$39,329	\$45,691	\$53,037
GAO's modified payline	41,732	49,954	59,545
CSC study (mean salaries)	45,146	56,011	71,076

Intergrade differentials between GS-15 and GS-18 decrease, but CSC's study showed that intergrade differentials between private sector equivalents to jobs at the supergrade levels progressively increased. These findings are consistent with American Management Association (AMA) studies, which indicate that companies generally use either constant or increasing differentials for upper level jobs.

Another problem with the supergrade pay structure is the pay ranges. Each grade through GS-15 has a 10-step, or 30-percent, pay range; the salary range decreases to 9 steps, or 27 percent, at GS-16; 5 steps, or 13 percent, at GS-17; and a single rate at GS-18. In contrast, AMA and CSC studies show that salary ranges progressively increase in the private sector at the higher grade levels as the latitude for performance becomes greater.

We believe that establishing a unified executive personnel system with an associated pay structure would be highly desirable. This system should have (1) a broad salary band (e.g., from a specific point on the GS-15 band to the level V rate), (2) individuals' compensation based on their capability or contributions to the job, and (3) midpoint congressional control. Changes are desirable to give management greater flexibility in assigning pay and establishing responsibility levels. The three supergrade responsibility levels are often too restrictive.

GEOGRAPHIC PAY PATTERNS NOT RECOGNIZED

Federal pay rates are in force Government-wide. Various independent studies show that the private sector workforce consists of distinctive major subdivisions with different salary treatments.

Generally, the labor market and salary patterns for the lower skill occupations--office clerical and technical

occupations--are local in character. Employees in such occupations are locally recruited and locally employed; generally have or desire little mobility in transferring outside the locality; possess skills and experience for which there is normally no cross-country or national competition, recruitment, transfer, or demand; and are employed in occupations or jobs for which the salaries customarily vary significantly from one locality to another because of local labor market conditions or other local factors.

However, the labor market and salary patterns for the higher skills--professional and administrative occupations--are regional or national in character. Employees for such jobs are commonly recruited on a nationwide basis, often are employed at locations different from the recruitment or previous residence locality, and are transferred from area to area with some degree of frequency to meet the needs of their employers and to advance their careers. Competition for these employees by both private industry and Government is often nationwide. Therefore, salaries offered or paid by private industry and Government have to be competitive in the area of recruitment.

The pay policies of multiestablishment companies with establishments in various localities generally recognize the characteristics of the various labor markets and establish their salary levels accordingly.

Since Federal white-collar pay systems require uniform, national salary rates, the PATC survey is designed to estimate only the national averages of the private sector salary rates. Thus, it does not supply sufficient data for analysis of locality or area pay patterns. The data, however, shows a greater degree of dispersion from the median salary for clerical occupations than for the professional and administrative occupations. BLS states that the dispersions reflect a variety of factors, one of which is geographical variations, particularly for clerical employees. BLS points out that clerical employees are usually recruited locally and that the job field tends to be broader regionally, often national in scope, for professional and administrative occupations.

BLS's annual occupational wage surveys of metropolitan areas, known as Area Wage Surveys (AWS), have consistently shown significant differences among the metropolitan areas in the average salaries paid by the private sector for the office clerical occupational group. (This group includes the preponderance of the lower skill occupations used in the PATC survey). For example, the February 1974 data, the latest data published, shows that the office clerical group's relative pay levels--expressed as a percentage of the nationwide average for that group--ranged from 80 to 118. To

express it differently, the average rates in the highest paid area were 48 percent higher than those in the lowest.

The pay relative distribution for the 93 metropolitan areas in the AWS survey and the number of GS employees working in the areas follows.

Pay relatives	Number of areas	GS employees		
		Number	Percent of total	
			in AWS areas	in U.S.
80- 84	3	28,625	3.3	2.2
85- 89	17	77,098	8.8	5.8
90- 94	20	69,899	7.9	5.3
95- 99	27	206,369	23.4	15.6
100-104	14	122,187	13.9	9.2
105-109	8	327,220	37.1	24.7
110-114	2	35,464	4.0	2.7
115-120	2	13,878	1.6	1.1
	<u>93</u>	<u>880,740</u>	<u>100.0</u>	<u>66.6</u>

In the areas surveyed, 63 percent of the GS employees were located in areas outside the middle 10-percent pay relative range (95 through 104) and 18 percent were located in areas outside the 90 through 109 range.

The AWS data shows that the highest salaries for office clerical workers in the private sector have consistently been paid in the same metropolitan areas from year to year. For example, for the 5 years ending in 1974, Detroit paid the highest and San Antonio the lowest.

BLS states that many factors affect the level of earnings in an area, including industrial composition (types of industries), size and location of the area, extent of unionization, availability of workers, and the general economic condition. Earnings as determined by BLS are based on average straight-time weekly earnings and do not reflect interarea differences in the length of workweek. When adjusted for the length of the workweek, the pay relative distribution between the 93 areas broadens slightly; 67 percent of the GS employees were located in areas outside the 95 through 104 pay relative range and 19 percent were located in areas outside the 90 through 109 range.

Adjusting pay relatives based on length of workweek increases relative earnings in some cases and decreases them in others. According to BLS, the pay relative for office-workers in the New York metropolitan area--who traditionally have had shorter workweeks than their counterparts in other areas--would increase from 108 to 116 based on average hourly earnings.

Pay differences can be very pronounced when comparisons of individual jobs are made between localities, as illustrated by these 16 clerical positions in San Antonio and Detroit.

<u>Job</u>	<u>Salaries</u>		<u>Difference</u>	
	<u>San Antonio</u>	<u>Detroit</u>	<u>Amount</u>	<u>Percent</u>
Messenger	\$4,836	\$ 6,500	\$1,664	34
Clerk, File I	4,576	5,616	1,040	23
Clerk, File II	4,680	6,344	1,664	36
Clerk, File III	(a)	8,320	-	-
Key punch operator I	5,148	8,060	2,912	57
Key punch operator II	6,344	8,788	2,444	39
Typist I	4,680	6,656	1,976	42
Typist II	5,148	8,528	3,380	66
Clerk, Accounting I	5,356	7,124	1,768	33
Clerk, Accounting II	6,500	10,452	3,952	61
Stenographer, General	5,512	7,852	2,340	42
Stenographer, Senior	7,124	9,516	2,392	34
Secretary I	6,344	9,152	2,808	44
Secretary II	6,708	10,712	4,004	60
Secretary III	7,072	11,284	4,212	60
Secretary IV	7,748	11,804	4,056	52

a/Data not published.

Thus, the labor market rate is local in character and the use of national averages for fixing pay of clerical workers does not necessarily reflect the local labor market rates in which the Government is competing with private employers.

What is the Government's competitive posture in the local labor markets? There are differences, often significant, between Federal pay rates and local labor market rates. In some areas Federal rates are less, and in other areas more, than local rates. For example, the percentage differences between Federal pay and private sector pay ^{1/} in San Antonio and Detroit for 16 clerical occupations follow:

^{1/}Private sector pay as of March 1974. Federal pay is after October 1974 adjustment because the adjustment is based on March 1974 private sector pay rates.

<u>Job</u>	Percent Federal pay more (less) than private sec- tor pay	
	<u>San Antonio</u>	<u>Detroit</u>
Messenger	11.83	-16.80
Clerk, File I	18.18	-3.70
Clerk, File II	32.22	-2.46
Clerk, File III	(a)	-12.50
Keypunch operator I	20.20	-23.23
Keypunch operator II	14.75	-17.16
Typist I	32.22	-7.03
Typist II	41.41	-14.63
Clerk, Accounting I	35.92	2.19
Clerk, Accounting II	31.20	-18.41
Stenographer, General	32.08	-7.29
Stenographer, Senior	19.71	-10.38
Secretary I	34.43	-6.82
Secretary II	44.19	-9.71
Secretary III	55.15	-2.77
Secretary IV	53.02	.44

a/Data not published.

Although salary data by geographic area was ample for lower skill occupations, we could not find similar data for the higher skill occupations. But many independent studies substantiate the previously mentioned BLS conclusion (see p. 19) that the labor market for higher skill occupations (e.g., professional and administrative) is broader than for the lower skill occupations.

For example, AMA's 1974 Middle Management Report states that AMA has made continuous studies and analyses to ascertain the influence of geographical location upon compensation at all levels of management. These investigations have consistently led to the conclusion that other factors are usually far more important in determining compensation than location, among which are industry or market category, scope and responsibility of job, and salary administration policy.

AMA concluded that, since management personnel have a high degree of mobility and companies seeking new employees conduct their searches throughout the country, the companies must offer compensation which is competitive with that paid in all areas of the country. AMA studies also show that most companies with establishments at more than one location have uniform national salary structures for higher skill personnel.

In a 1971 study, AMA found that 85 percent of companies with more than one location have uniform national salary

structures within an industry and occupation above the \$8,000 to \$12,000 level. It concluded that the value of jobs tended to be the same at different locations and that, when geographical differences were found above this salary level, a close analysis would usually reveal that the positions were not really similar.

One large multiestablishment firm we visited used separate rate schedules for management positions in 77 areas throughout the United States. Jobs in the highest grade of each schedule exist in nine of these locations for which the pay relatives--expressed as a percentage of the average of all nine jobs--ranged from 92 to 106. Very infrequently did the pay relatives for any of the lower graded jobs fall outside this range. In most cases, the salaries for management positions in any given location fell within 5 percent of the average salary for all locations. The company's compensation manager said that, while salaries for management personnel varied little from area to area, the company was committed to paying locality-oriented rates for all positions.

In the private sector, the value of a job is determined by the labor market in which you are competing for people with the desired skills. To achieve the purpose of the comparability principle and enable the Government to compete fairly in the various labor markets, it is necessary that separate pay schedules be established and that, for some schedules, pay be based on prevailing local or regional rates.

CHAPTER 3

LONG-RECOGNIZED NEED: CHANGE PAY

PRACTICES TO OBTAIN COMPARABILITY

Over the years, it has been recognized that the white-collar pay structures hinder comparability and that different salary treatments for the varied occupations are required to obtain Federal pay rates closer to the going labor market rates.

HOOVER COMMISSIONS

The first comprehensive post-World War II study on pay and personnel matters was made by the first Hoover Commission (Commission on Organization of the Executive Branch of the Government, established pursuant to Public Law 162, approved July 7, 1947). The Commission's January 1949 Task Force Report on Federal Personnel, in discussing major defects in Federal pay policies and procedures, stated that the Government had not considered locality or industry differentials in compensating employees other than those in the trades. The Task Force found wide variations in pay rates for typical office clerical jobs in different cities. It concluded that if the Government was to be a truly competitive employer in every major labor market, avoiding excessive over and under payment, it must devise a plan for compensating jobs in the lower brackets with some regard to prevailing rates. The Commission's January 1949 report recommended to the Congress that:

"In order to maintain a realistic pay relationship between comparable positions in Federal and private employment, locality, area, and industry differentials shall be a primary consideration in fixing and adjusting pay scales for clerical, sub-professional, postal, and 'blue-collar' jobs."

In 1955, the Task Force on Personnel and Civil Service of the second Hoover Commission recommended fixing pay on a locality basis, consistent with recommendations of the first Commission. The Task Force stated:

"* * * in dealing with the great number of clerical employees * * *, the Government would be able to pay realistic wages and to meet competition for manpower in a practical way. It would also avoid the embarrassment of paying salaries which seem extravagant by local standards * * *."

The second Hoover Commission on this point did not go as far as its Task Force. The Commission recommended that:

"The Civil Service Commission and the appropriate Committees of the Congress review the positions now under the Classification Act to determine whether additional positions might in the interests of economy and efficiency be paid under local wage board arrangements."

But no legislation resulted from these Hoover Commissions' recommendations.

CONSIDERATIONS DURING DEVELOPMENT OF COMPARABILITY PROCESS

The next comprehensive civilian pay study dealing with locality pay plans, among other matters, was made in 1957 by the Interdepartmental Committee on Civilian Compensation. A report prepared by the steering committee concluded that the most serious problem in connection with Federal civilian compensation under statutory pay plans was the lack of timely and adequate response to changes in non-Federal salary levels which had a serious effect on the recruitment, retention, and motivation of Federal employees, particularly at the higher work levels. The report pointed out that Federal salaries in the lower grades closely approximated industry rates but salaries in the upper grades were much lower and far out of line with industry rates. In general, the steering committee recommended that (1) pay rates for Federal white-collar employees should be uniform nationwide and should be adjusted to reflect the general levels of non-Federal pay as determined by an annual national survey and (2) exceptions should be permitted by occupation when required in certain localities to meet urgent recruitment and retention problems.

The staff of the committee considered a system of providing national rates for higher level jobs and locality rates for lower level jobs. The staff stated that such a system could be justified on the basis that employees for higher level jobs, particularly professional, were recruited nationwide and their salary rates tended to be fairly uniform across the nation while clerical workers were recruited locally and their salary rates were geared more closely to locality. Staff studies of companies with multiple plants indicated that in many instances such a pay-setting arrangement was being followed. The staff recommended, however, against using nationwide and local rate schedules because of administrative problems concerning salary surveys of the non-Federal sector and adverse reaction and effect upon lower skill employees.

The Administration accepted the principle that Federal white-collar salary rates should be reasonably comparable with those of the non-Federal sector for the same kind of work. Therefore, a special group was established in 1958 to design a survey of white-collar salary rates in the non-Federal sector. In its April 1959 report on survey design, the group made certain assumptions relative to pay policy; one of which was that the nationwide application of pay rates would remain essentially unchanged for at least the next year or two. The group, however, stated that it was not recommending pay policy and such assumptions were very proper subjects for review by higher authority. In fiscal year 1960, the Congress made funds available for BLS to launch the survey program. The results of the first survey were published in late 1960; reports have since been issued annually.

In February 1962 the President recommended to the Congress Federal salary reform for white-collar employees which contained the comparability principle.

Administration's position on local rates
before enactment of comparability principle
not valid today

During congressional hearings on the Administration's proposed comparability principle in 1962, the then-Chairman of the CSC, in response to questions on whether prevailing locality rates would be used for white-collar employees, stated that national rates would be continued under the comparability principle because:

- Salary rates for white-collar employees in the private sector tended to be national rates with the exception of the jobs at the lower clerical levels.
- The task of determining local rates would be a tremendous administrative problem, particularly for postal employees. The wide dispersion and the many locations--more than 30,000 postal locations at the time--would present an exceedingly complicated and difficult task to define localities and to conduct annually the thousands of surveys needed.

We believe these factors are no longer valid for continuing to use national salary rates.

Average salary levels differ significantly between various localities for office clerical occupations and these differences will probably continue. The lower skill occupations represent a large number--about 500,000--of the

Federal white-collar work force, and the Federal policy of basing salaries on national averages affects the relative competitiveness of the Government in the local labor market.

Postal employees (about 700,000, mostly clerical) have been removed (under the provisions of the Postal Reorganization Act, Public Law 91-375, August 1970) from the white-collar pay comparability process, and their salaries are now set by collective bargaining. This action has alleviated many of the administrative problems perceived in 1962 for not using locality rates.

The geographical distribution of white-collar employees subject to the comparability principle and the evolution of salary and wage survey processes over the years make it feasible, in our opinion, to make appropriate salary surveys of lower skill occupations to use as bases for establishing locality salary rates. Most of the white-collar employees are in metropolitan areas covered by the BLS's annual AWS. The AWS occupations include most of the clerical and technical occupations in the annual PATC survey. Also, most white-collar employees are located in the same areas as blue-collar employees--employees in crafts, trades, and laboring occupations under the Federal Wage System (FWS) whose wages are set in accordance with prevailing rates in the localities where they work.

RECENT STUDIES

A 1969 House report on Federal job evaluation and ranking ^{1/} contained many comments from officials responsible for newer programs that the pay system was not flexible enough to provide a sound basis for the recruitment and retention of high-quality personnel to meet the demands brought on by technological change and new areas of Government activity. As one official stated:

"* * * It is more important to pay scientists an adequate salary in relation to other scientists, both within the Government and outside Government, than it is to align scientists with psychologists or with other occupations."

^{1/}"Report on Job Evaluation and Ranking in the Federal Government" by the Subcommittee on Position Classification, House Committee on Post Office and Civil Service (H. Rept. 91-28, Feb. 27, 1969).

One of the findings in the report was:

"The fact that the Federal Government has had to pay higher salaries than provided by its pay scales to attract employees in some areas and some occupations has resulted in overclassification and put pressure on the classification systems to increase grade levels. Only a more flexible pay policy and pay ranges will prevent this from continuing in the future, even though comparability increases are applied to the schedules generally."

As a result of the subcommittee's study the Job Evaluation and Pay Review Task Force was established pursuant to Public Law 91-216, March 17, 1970. This Task Force conducted a comprehensive study of the Federal pay systems. Its January 1972 final report contained a number of recommendations designed to achieve a close and equitable relationship between the ranking and compensation of positions.

The Task Force's studies indicated that private industry generally had separate pay systems for lower skill and higher skill employees. Also, the private sector pay systems for office clerical and technician positions were most frequently based on prevailing local rates. Thus, in some areas pay for such Federal workers was higher than average industry pay; in other areas the reverse was true. The Task Force recommended various pay systems designed around the similarity of the occupations and their labor market characteristics. It also recommended that the use of local prevailing rates by the Government include clerical, office machine technician, and other similar positions. The Task Force believed that area wage rates for these relatively immobile employees should correct imbalances in high-salary urban areas and in jurisdictions (usually small cities) where Federal salaries are out of line with local prevailing pay rates.

In June 1972, the Chairman, CSC, told the Subcommittee on Employee Benefits of the House Committee on Post Office and Civil Service that the Task Force had some very persuasive arguments in favor of some of its pay proposals. He stated, however, that the evidence was not conclusive enough to seek legislation at that time and that CSC intended to pursue the pay matters through further study and review.

In January 1974, CSC obtained funds from the Congress for various compensation studies, including the desirability and feasibility of subdividing the GS into major homogeneous groupings and of basing Federal rates on local prevailing rates. At the time of our review, CSC had not completed its studies.

BEST DOCUMENT AVAILABLE

The President has established a **top-level panel**, chaired by the Vice President, to review and make **recommendations** in Government compensation policy and practice. **The matters we** are presenting in this report should be **considered** by the panel and the President in their **deliberation**.

CHAPTER 4

WITHIN-GRADE SALARY INCREASES SHOULD EMPHASIZE

PERFORMANCE RATHER THAN LONGEVITY

The previous chapters centered on determination of pay rates for a job, not the individual filling the job for the individual's job performance. Individual differences in employee proficiency and performance should be recognized in the method of progressing through the pay range of a grade.

In the Federal sector, such progressions are primarily based upon specified times in grade with uniform percentage increases. In essence, the method of progression assumes each employee achieves uniform proficiency in the job at equal intervals in time. In the private sector, seniority and performance are not synonymous; rather, the rate of progression recognizes that each individual makes a different contribution to the efficiency and economy of the organization.

FEDERAL PRACTICE

The law (5 U.S.C. 5332) establishes the matrix for the GS salary schedule. Grades 1 through 15 have a 30-percent pay range with 10 uniform steps; GS-16 has a 27-percent range with 9 steps; GS-17 has a 13-percent range with 5 steps; and GS-18 has a single rate. Each step is worth 3.3 percent of the minimum rate for the grade. These step increases are in addition to the general salary increases which result each year from the comparability adjustment.

Employees advance to the next step after completing 1 year in steps one through three; 2 years in steps four through six; and 3 years in steps seven through nine, provided that performance is "of an acceptable level of competence." Step increases are, for all practical purposes, automatic--99 percent of all GS employees receive them on the date of eligibility.

Additional step increases can be given in recognition of high-quality performance. But such increases do not always result from a performance appraisal.

The automatic progression through a grade range, especially for the higher skill levels, seems contradictory to Federal pay principles. One purpose of the Classification Act of 1949 (5 U.S.C. 5101), as amended, is that, in determining pay:

"* * * variations in rates of basic pay paid to different employees will be in proportion to substantial differences in the difficulty, responsibility, and qualification requirements of the work performed and to the contributions of employees to efficiency and economy in the service * * *" (Underscoring supplied.)

This pay principle was restated in law (5 U.S.C. 5301) with enactment of the Federal pay comparability system which provides that:

"* * * Pay distinctions be maintained in keeping with work and performance distinctions * * *" (Underscoring supplied.)

It is obvious that the Federal ingrade progression practices do not reward or motivate high performance, especially in the higher skill occupations; nor do they conform to the practices in the private sector.

PRIVATE SECTOR PRACTICES

Private sector compensation specialists told us that the accepted practice for supervisory and middle and upper management levels was to have open salary ranges which become progressively wider in the higher grades and to require that employees perform above the satisfactory level of competence for salary advancement beyond some point in the range, usually the midpoint. Increases were given concurrently with performance evaluations. Most company officials made it clear that their companies granted increases when earned and that the mere passing of time, length of service, or length of time in a job do not justify increases. They believed that more powerful incentives to improve or maintain a high level of performance were provided by paying for performance. Also, management's role is strengthened because it is given a greater voice in determining who gets the raises and the amount.

We were told that emphasis on merit programs had increased over the past few years, providing increased rewards for superior employees. In 1974, when the inflation rate hit 12 percent, many companies gave uncustomary across-the-board increases which seriously cut into their merit budgets. In 1975, with inflation abating and employees in anything but short supply, pay increases were being tied more closely than ever to performance.

AMA's 1971 Salary and Administration Report stated that a grade spread of approximately 30 percent at the lower end

of the scale and 50 percent at the higher end was typical. The increased spread in management positions results from incumbents remaining in their jobs longer and greater latitude for performance. This was generally supported by a 1974 CSC study of positions equivalent to GS-14 through GS-18, which found that private enterprise salary rates were progressively wider than under the GS--averaging about 50 percent at top levels. A contributing factor to wider ranges in the private sector at higher levels is that, for some occupations, fewer skill levels are recognized in the salary structure.

Extracts from policy statements of various companies in the 1971 AMA report clearly show the relationship between pay and performance.

"It is our policy to pay salary rates based upon the value of positions and on the proficiency with which employees perform their duties and discharge their responsibilities."

* * * * *

"It should be emphasized that these [merit] review periods will not result in automatic increases; to warrant an increase, performance must be satisfactory in all respects. For fifth and sixth step increases, performance is expected to be very outstanding in all respects. Steps 5 and 6 of the salary schedule are reserved for only those employees who are giving outstanding performance, and who demonstrate by day-to-day performance and conduct for an extended period of time that they are fully competent to maintain a high standard of productivity in performing all major duties of the position. Only the most qualified and outstanding employees in any position shall be increased to the maximum of the salary range."

* * * * *

"In considering an employee for a merit increase, attention should be paid to the position of his present rate within the salary range applicable to his job. Only employees whose job performance ratings are consistently superior shall be eligible for merit increases above the mid-points of the salary ranges applicable to their jobs."

Some companies present their merit increase policies in simplified forms, which clearly show their employees the relationship between performance rating, size of increase merited, and length of time between increases. One company we visited explained pay policy to its employees, as follows:

"Market rates determine the value of your salary ranges; your job is slotted into the appropriate salary grade and range on the basis of a formal evaluation of your job duties. Then, based upon the supervisor's appraisal of your job performance, a determination is made as to where in the salary range you should be paid. Thus, when our market data is correct, when your job is properly evaluated and slotted into the correct grade, and when your performance is accurately appraised, your salary will then be equitable relative to other [company] employees with similar performance and job levels, and competitive with market rates for comparable work. Your pay in your salary range and your promotion to higher salary grades are directly related to your desire and ability to improve your performance on assigned jobs and to improve your qualifications for assignment of higher level duties. Your supervisor will make every effort to provide effective guidance and training; however, you must assume the responsibility for achievement of your own job and pay objectives."

AMA's 1974 supervisory and middle management reports both showed that over 85 percent of the participating companies based within-grade increases on merit reviews.

A 1975 CSC report on compensation practices generally confirmed the above private sector policies and practices. It stated that structures with step rates were used infrequently. When used, they typically covered lower skilled employees only. Two-thirds of the firms surveyed granted increases concurrently with a performance evaluation and equated the midpoint of the grade to the "going rate".

In 1972 the Job Evaluation and Pay Review Task Force recognized that the Government was not following private sector practices in granting within-grade increases. In general, the Task Force found that open salary ranges were used by the great majority of private employers and salary advancement was tied to performance reviews. This was particularly prevalent in the higher skill levels where the level of individual performance has a greater effect on the

value of the job to the organization. In contrast, office clerical positions were more comparable to blue-collar jobs, characterized by narrower ranges and step increases based on longevity.

NEED FOR MORE DIRECT LINK
BETWEEN PERFORMANCE AND PAY

The Classification Act of 1949 requires that pay be based on individual contributions to economy and efficiency. This principle was reaffirmed by the Federal Pay Comparability Act of 1970 which requires that pay distinctions be maintained, in keeping with work and performance distinctions. Presently, however, there is no direct connection between performance levels, as established by performance evaluations, and within-grade salary increases.

The Performance Rating Act of 1950 requires each agency to establish rating systems. The act restricted within-grade increases to employees receiving a rating of satisfactory or better. Since 99 percent of Federal employees consistently receive such a rating, only a fraction of a percent are denied within-grade pay increases.

The Federal Salary Reform Act of 1962 was passed to provide greater flexibility in pay administration. The act allows the agency head to require an "acceptable level of competence" for granting within-grade increases and to deny an increase for performance below the acceptable level. It also authorizes granting an additional step increase in recognition of high-quality performance or performance above that normally found in the position.

In fiscal year 1974, 47,815 GS employees received quality step increases. A performance rating of satisfactory allows an employee to receive a quality step increase as long as the condition of high-quality performance is met. However, a quality step increase does not always result from a rating of outstanding. Thus, it is likely that such increases are frequently given employees who, on the basis of performance evaluations, do not perform as well as others who do not receive them.

Because 99 percent of the Federal work force are rated satisfactory and receive their within-grade longevity increases on schedule, the Government has no effective system for differentiating between and paying for performances. It is particularly important in the higher skill levels for the Government to have an effective medium for signaling employees what behavior it wants and will pay to get. However, the GS

structure does not always allow for proper pay distinctions. This is particularly critical at the supergrade level, where the structure narrows to a single rate at the top grade. Thus, in some cases, the structure precludes any financial recognition of individual performance.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

To effectively carry out its programs, the Government must obtain and retain capable people. To do so, reasonable and equitable pay levels must be achieved and maintained. The standards for pay should be in line with the pay of the Nation. The Government should be a good employer. It should not pay less than other employers, but it cannot afford to be a more generous employer than the industries that support it with their taxes. The discipline of the market sets a limit on what industry can pay without going bankrupt. Compensation policies and practices of the Government must be in harmony with those of other employers.

The legislative pay principle of comparability was adopted to provide a "fair wage" standard that the U.S. economy places as the proper value of the services obtained by the Government. But the fixed structure of the Federal salary schedules does not permit realistic pay alignment between comparable positions in the Federal and private sectors. The GS pay system, the major white-collar system, covers 1.3 million employees located throughout the United States, its possessions, and many foreign countries. The many varied and nonhomogeneous occupations are grouped into 18 skill levels with uniform national pay rates. The GS structure is ill equipped to serve the needs of the work force, which is shifting toward higher skilled occupations. It does not provide the framework in which employees at many different skill levels and in a broad spectrum of occupations and geographic areas can be reasonably compensated; it fails to recognize that the labor market consists of distinctive major groupings, which have different pay treatments. In the private sector, economic and other considerations cause occupations at equivalent Federal work levels to receive different rates of pay, often substantial. Also, pay rates often vary from one geographic area to another.

Since Federal white-collar pay practices do not sufficiently recognize the existence of the various labor markets, the Government has, in essence, different pay policies in the various labor markets. That is, the Government is paying, in varying degrees, more or less than the labor market rates for certain employees.

This situation often places the Government in a non-competitive or overly competitive position with private employers for recruitment and retention of competent employees. In high-pay occupations or high-wage areas, the

Government may be at a competitive disadvantage and an undesirable side effect can be created by overclassifying Federal jobs to pay higher salaries to be competitive. In low-pay occupations or low-wage areas, high Government salaries can exert upward pressure on compensation in the private sector.

In addition, this situation often creates gross inequities between the Federal employee and his private sector counterpart in the various labor markets since Federal salary rates lead private sector rates in some markets and lag in others. Such situations also create inequities among Federal employees since their salaries are based on the national averages, which results, in essence, in the amounts underpaid Federal employees working in high-pay occupations or in high-wage areas being used to overpay employees in low-paying occupations or wage areas.

Finally, the credibility of the entire comparability process becomes suspect since employers, employees, and taxpayers can cite many instances of inordinate inequities between Federal and private sector pay in individual labor markets. We believe that a high degree of confidence in the pay determination process is essential to the effectiveness of any pay policy.

Such inequities do not allow the purposes of the comparability principle to be met. These principles are

- to provide equity for the Federal employee with his private sector counterparts,
- to enable the Government to be a fair competitor in the labor market, and
- to provide an objective standard on which to assess and adjust pay rates, assuring that Government rates are neither more nor less than the going market rates.

Many study groups over the years have recognized that the statutory pay schedules hinder comparability and that there is a need for establishing separate pay schedules and, for some occupations, locally prevailing rate schedules which would allow for a more equitable balance between internal and external pay relationships.

At the time of our review, CSC was conducting various studies on Federal employee compensation. Included was the concept of dividing the white-collar employees into major

homogeneous groupings with associated pay structures and geographic pay rates. In June 1975 the President appointed a top-level review panel to make appropriate recommendations.

We believe that, in developing recommendations for major groupings, most white-collar pay systems should be considered--not just GS. The groupings should be broad and based on common characteristics of the occupations and their labor market characteristics so as to avoid over-fragmentation. Such broad groupings may include:

- A salary system for the supergrades. In the last few years, improvements to the executive personnel system have been proposed, including a complementary salary system with (1) broad salary bands (e.g., from a specific point on the GS-15 band to the Level V rate), (2) compensation based on individual capability or contributions to the job, and (3) midpoint congressional control. Changes are desirable to give management greater flexibility in assigning pay and establishing responsibility levels. The three supergrade responsibility levels are often too restrictive.
- A system for professional and administrative employees (e.g., accountants, personnel officers). Some specific occupational (e.g., medical) schedules may be desirable.
- A system for lower skilled employees (e.g., office clerical). Since their labor markets are generally local in nature, their salaries should be based on non-Federal rates prevailing in the locality.
- Separate salary treatment for certain supervisors (e.g., office supervisors). This would insure reasonable salary differentials between supervisors and employees being supervised.

In addition to office clerical salaries, some other systems' salaries should be based on the rates prevailing in a geographic area.

The current pay assessment and adjustment processes, of course, would need to be changed. For example, area surveys rather than national surveys would be required for some groups.

Pay should be based on individual job performance, as well as the value of the job. Differences in employee proficiency and performance should be recognized in the method of advancing through the rate ranges at the various work levels.

In the Federal sector, such progressions are primarily based on specified times in grade with uniform percentage increases. Step increases are, for all practical purposes, automatic; all but 1 percent of the Federal work force are rated satisfactory and receive them on schedule. In essence, this assumes each employee achieves uniform proficiency in the job at equal intervals in time.

It is particularly important in the higher skill levels for the Government to have an effective system for differentiating between and paying for performance.

RECOMMENDATIONS

We recommend that the Chairman, CSC, in coordination with the Director, OMB:

- Develop logical homogeneous groupings of white-collar occupations.
- Design appropriate pay standards and systems around each group.
- Develop an assessment and adjustment process around each system.
- Develop a method of granting within-grade salary increases which adequately reflect an individual's contribution to the job and which is integrated with a performance appraisal system.
- Propose legislation to establish such pay systems and pay-setting processes.

AGENCY COMMENTS

OMB and CSC stated that CSC is making compensation studies on the types of problems we identified in this report and, when completed, are to be made available to the President's top-level review panel to use in determining whether any changes are needed in compensation policies and practices.

CSC generally agrees that it is necessary to give greater cognizance to non-Federal compensation practices to attain a greater degree of comparability. OMB stated that this report identifies and perceptively analyzes some of the more critical problems associated with the pay-setting process and that it will be of valuable assistance in framing the issues and determining appropriate actions for the Executive Branch to pursue.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We recommend that the appropriate committees of the Congress hold hearings about the matters discussed in this report for the purpose of developing the legislative changes necessary to establish more rational pay systems.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
September 12, 1975

Mr. David P. Sorando
Acting Director
Federal Personnel and
Compensation Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Sorando:

We have reviewed with interest your draft report, "Federal White-Collar Pay Systems Need Substantial Changes".

The report identifies and perceptively analyzes some of the more critical problems associated with the pay-setting process for Federal white-collar employees.

As implied in the report, most of the imperfections cited have not been unknown to the Office of Management and Budget and the Civil Service Commission. It was this awareness that prompted the CSC in coordination with OMB, to initiate a host of compensation studies to determine appropriate remedial actions. Many of the studies have been completed and the findings are in various stages of consideration, while other studies are awaiting completion. Study findings are being made available to the President's Panel on Federal Compensation. As you know, the Panel, which has representation from OMB and CSC, is now conducting a comprehensive review of the major Federal compensation systems with the objective of ascertaining any needed changes in policies and practices. The recommendations and views expressed in your report will undoubtedly be of valuable assistance in framing the issues and determining appropriate actions for the Executive Branch to pursue.

We appreciate your interest in improving the process for determining pay for Federal white-collar employees.

Sincerely,

A handwritten signature in cursive script that reads "Edward F. Preston".

Edward F. Preston
Assistant Director



UNITED STATES CIVIL SERVICE COMMISSION
 BUREAU OF POLICIES AND STANDARDS
 WASHINGTON, D.C. 20415

IN REPLY PLEASE REFER TO

SEP 24 1975

YOUR REFERENCE

Mr. H. L. Krieger, Director
 Federal Personnel and Compensation
 Division
 United States General Accounting
 Office
 Washington, D.C. 20548

Dear Mr. Krieger:

Thank you for allowing us the opportunity to review and comment on the General Accounting Office's draft report to Congress entitled "Federal White-Collar Pay Systems Need Substantial Changes."

We are in general agreement with the overall thrust of your draft report, that is, to attain a greater degree of comparability with the non-Federal sector, it is necessary to give greater cognizance to compensation practices of that sector. As you are aware, several issues relating to the improvement of Federal compensation practices are currently being studied both by the Commission and the President's Panel on Federal Compensation. The Panel is scheduled to submit its report to the President in November; staff reports on the Commission's pay research studies will also be completed in the near future.

In effect, there are no substantive differences in our thinking. We are looking forward to receiving your published report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Raymond Jacobson".

Raymond Jacobson
 Executive Director

THE MERIT SYSTEM—A GOOD INVESTMENT IN GOOD GOVERNMENT

PRINCIPAL OFFICIALS RESPONSIBLE FOR THE
ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

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From To

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Robert P. Mayo	Jan. 1969	June 1970
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