United States General Accounting Office

GAO

Report to the Honorable John M. McHugh, House of Representatives

September 2001

U.S. POSTAL SERVICE

Few Craft Employees Earned More Than Their Postmasters, But Adequacy and Reasonableness of Pay Differences Remain Unclear

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Abbreviations

COLA	Cost-of-Living Allowances
EAS	Executive and Administrative Schedule
EVA	Economic Value Added
FAA	Federal Aviation Administration
FedEx	Federal Express
NAPUS	National Association of Postmasters of the United States
PCES	Postal Career Executive Service
SDA	Supervisory Differential Adjustment
TVA	Tennessee Valley Authority
UPS	United Parcel Service
WMATA	Washington Metropolitan Area Transit Authority

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United States General Accounting Office
Washington, D.C. 20548

September 13, 2001

The Honorable John M. McHugh
House of Representatives

Dear Mr. McHugh:

This report responds to your request for information on the U.S. Postal Service's (Service) pay practices for postmasters who supervise craft employees, including information on the Service's use of a Supervisory Differential Adjustment (SDA) that the Service applies to the pay of first-line supervisors to help ensure that they earn more than their craft employees.[1] As you know, the Postal Reorganization Act of 1970 (1970 Act)[2] requires that the Service pay wages comparable to the private sector. It also requires that the Service provide adequate and reasonable pay differences between clerks and carriers and their supervisors, such as postmasters, although the 1970 Act does not specify what constitutes adequate and reasonable differences. Furthermore, the 1970 Act requires the Service to consult with supervisor and postmaster organizations when planning and developing pay policies and other programs relating to their members.

Since the mid-1970s, the two postmaster organizations (the National Association of Postmasters of the United States and the National League of Postmasters of the United States) have voiced concerns that they do not believe an adequate and reasonable pay difference exists between postmasters and the clerks and carriers they supervise. Officials from the organizations stated that they have long sought changes to increase the pay difference and modify the consultation process. They said they were particularly concerned about extensive changes the Service made in 1996 to their pay and benefits, including the implementation of the SDA policy, and the Service's nonacceptance of many of the recommendations the organizations made during the consultations. Recently, the organizations

[1]Craft employees are bargaining unit workers, which include employees such as clerks, city carriers, rural carriers, and mail handlers.

[2]P.L. 91-375.

took their concerns to the Congress. As a result, Senator Daniel Akaka and Representative Constance Morella introduced legislation—the Postmasters' Fairness and Rights Act (H.R. 250 and S. 177)—to make substantive changes in the way postmasters' pay is determined.

To assist you in your consideration of this issue, we agreed with your office to address the following objectives:

- Describe the Postal Service's pay practices for postmasters, including how the Service determines and applies its SDA.
- Determine whether any craft employees earned more than their local postmasters during 1999 and, if so, why and to what extent.
- Determine other organizations' practices for establishing pay for supervisors whose craft employees can earn more than they do, as well as determine prevalent industry practices.

We have also included information in this report (1) comparing the Postal Reorganization Act of 1970 to proposed legislative changes in the Postmasters' Fairness and Rights Act and (2) describing the Service's and the postmaster organizations' views on the proposed act.

On June 11, 2001, we briefed representatives from your office and others on the preliminary results of our work. This letter summarizes our findings. Appendix II contains updated slides from the briefing, as well as additional information on the pay practices of the other organizations that your office requested. Appendix III contains a detailed comparison of the current law with the proposed Postmasters' Fairness and Rights Act, as well as the views of the Service and the postmaster organizations on the proposed act.

In completing our work, we reviewed the Postal Reorganization Act of 1970, its legislative history, and legal decisions regarding postmasters' pay. We discussed pay practices for supervisors with officials from the Service, postmaster organizations, and other selected organizations—the Federal Aviation Administration, Federal Express, the Tennessee Valley Authority, United Parcel Service, and the Washington Metropolitan Transit Authority. Additionally, because the Service did not have data on whether, or to what extent, craft employees earned more than their postmasters, we obtained the Service's payroll files for 1999, the most recent year for which data were available when we started our review. These files contained the biweekly pay records of over 1 million employees. We focused our work on 443,942 full-time permanent postmasters, clerks, city carriers, and rural carriers who had not been detailed to other jobs or changed their duty

stations during 1999. We then eliminated those clerks and carriers whom we could not match with their local postmasters, as well as postmasters whose locations did not match with at least one clerk or carrier. This created a study group of 201,871 employees, consisting of 191,694 clerks and carriers and the 10,177 postmasters who supervised them. The 1970 Act did not specify whether basic or gross pay should be used in determining adequate and reasonable differences in pay between clerks and carriers and their supervisors. As a result, we computed both basic and gross pay for the employees in our study group to determine if any clerks or carriers earned more than their local postmasters. For purposes of this report, we defined gross pay as all pay received during calendar year 1999, excluding severance payments, settlements, prior years' pay adjustments, annual leave sell-back payments, and terminal leave payments. Basic pay was salaries and wages paid directly for duties performed during the regular workweek. A detailed explanation of our objectives, scope, and methodology is presented in appendix I.

We conducted our review at the Postal Service Headquarters in Washington, D.C., from March 2001 through August 2001, in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Postmaster General and the presidents of the postmaster organizations. Their comments are discussed at the end of this letter and are reprinted in appendices IV, V, and VI.

Results in Brief

Most postmasters are paid under the Service's Executive and Administrative Schedule (EAS), which is the salary schedule that applies to nearly all supervisory and management employees. Generally, postmaster pay consists of basic pay; pay-for-performance; lump-sum merit awards; and supplemental pay, such as overtime. In 1996, the Service lowered the minimum basic pay of the 26 EAS grades. This resulted in the minimum basic pay of EAS-15 and EAS-16 supervisors being less than the maximum basic pay of a grade 5 clerk, which was the most populated grade and pay level of the largest bargaining unit. Because of this and the 1970 Act's requirement that an adequate and reasonable pay difference be maintained, the Service established an SDA policy for EAS-15 and above supervisors who are not eligible to receive overtime pay at time-and-one-half. This policy provides that these supervisors will be paid no less than 5 percent more than the maximum basic pay of a grade 5 clerk. Although a 1995 Service-contracted study reported that differentials ranged from 10 to 15 percent among private sector companies that maintain formal differential policies, the Service made a management decision that a 5-percent SDA

would provide a noticeable difference in pay between the minimum pay of supervisors and the maximum pay of a grade 5 clerk. However, since implementing the SDA, the Service has not conducted the analyses necessary to fully determine the implications of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA.

Our analyses showed that two craft employees earned more in basic pay than their local postmasters in 1999, and about one-half of 1 percent of craft employees earned more in gross pay than their local postmasters. With respect to postmasters, about 12 percent supervised at least 1 craft employee who earned more than they did in gross pay or earned within 5 percent of what they earned. Overtime was apparently the reason why these employees earned more or within 5 percent of what their local postmasters earned. Most postmasters who supervised at least 1 craft employee who earned more than they did were not eligible to receive the SDA. They could not receive the SDA because they were either eligible for overtime at time-and-one-half or were in grades below EAS-15.

The five organizations we selected to discuss pay practices had pay policies to minimize instances of craft employees earning more than their supervisors. These organizations indicated that craft employees will occasionally earn more than their supervisors, but this is the exception and not the norm. Four of the five organizations indicated that they used market-based pay systems that generally resulted in their organizations setting pay for supervisors high enough to prevent almost all craft employees from earning more than their supervisors. According to a 2000/2001 nationwide survey of supervisory management compensation by the Watson Wyatt consulting firm, most private sector companies use market-based pay for nonbargaining unit positions, and about 30 percent of companies had various policies in place to help ensure that supervisors earn more than their employees.

We are making recommendations to the Postmaster General to evaluate the Service's SDA policy and the pay differences between postmasters and the craft employees they supervise. The Service and the two postmaster organizations generally agreed with our findings and recommendations. However, they each believe the findings support their conflicting views of whether postmaster and craft employee pay differentials were adequate and reasonable. Because of the lack of specificity in the 1970 Act, we are not in a position to conclude whether or not our findings represent an

adequate and reasonable outcome regarding pay differences for postmasters.

Pay Practices for Postmasters

The vast majority of postmasters were paid under the Service's EAS, which has 26 pay grades and covers essentially all supervisory and management employees. Postmasters were in grades 11, 13, 14, 15, 18, 20, 21, 22, 24, and 26. The few remaining postmasters were covered by the Postal Career Executive Service pay schedule, which is comparable to the Civil Service's Senior Executive Service. The Postal Service classified a little more than half of its postmasters as nonexempt from the requirements of the Fair Labor Standards Act and, as such, they are eligible for overtime pay at time-and-one-half. The remaining postmasters were classified as exempt employees and thus not eligible for overtime pay at time-and-one-half. According to the Service, these postmasters were classified as exempt because, among other things, they supervised two or more craft employees.

During 1999, postmaster pay had four major components—basic pay, variable pay, merit awards, and premium pay. Basic pay consisted of salaries and wages paid directly for duties performed during the regular workweek. Variable pay—Economic Value Added (EVA)—was pay-for–performance cash rewards for achieving specific organizational goals and targets. Merit awards were lump-sum payments to recognize achievements beyond what was normally expected. Premium pay was supplemental pay for overtime, nights, and holidays worked. Basic pay, variable pay, and merit awards and/or premium pay made up about 95 percent, 4 percent, and 1 percent, respectively, of postmasters' gross pay.

Using the results of a 1995 Hay Management report[3] that compared EAS and private sector compensation, the Service said that in 1996 it made substantive changes to EAS pay.[4] Among other changes, the Service lowered the basic pay minimums of the 26 EAS grades. This change resulted in the basic pay minimums of EAS-15 and EAS-16 exempt supervisors being less than the basic pay maximum of a grade 5 clerk,

[3]Hay Management Consultants, *Comparison of United States Postal Service Nonbargaining-Unit Salaries and Benefits to Private Sector Market Data*, Feb. 21, 1995.

[4]The Service hired Hay Management to compare the salaries, pay practices, and benefit practices of nonbargaining unit employees to those available in the private sector. In 1995 and 1999, Hay Management issued reports of its comparative analyses to the Service.

which was the most populated grade and pay level of the largest bargaining unit. To compensate for this lack of a pay difference and comply with the requirement of the 1970 Act to provide adequate and reasonable pay differences, the Service established an SDA policy for its EAS-15 exempt supervisors and above. The Service stated that it chose grade EAS-15 exempt supervisors as the starting point of eligibility for the SDA because most exempt first-line supervisors were in grades EAS-15 and EAS-16. (There were no EAS-16 postmasters, only supervisors.) The SDA policy provided that EAS-15 exempt supervisors and above were to be paid no less than 5 percent more than the basic pay maximum of a grade 5 clerk.

The Hay Management report indicated that of the private sector companies that maintained a formal salary differential between supervisors and their subordinates, the salary differential typically ranged from 10 to 15 percent. The Service said it made a management decision to set the SDA at 5 percent because it believed this amount would provide a visible difference between the minimum pay of supervisors and the maximum basic pay of a grade 5 clerk. However, since implementing the SDA, the Service had not conducted the analyses necessary to fully determine the implications of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA.

Comparison of Craft Employees' and Postmasters' Pay

Because the 1970 Act did not specify whether the pay difference between supervisors and their craft employees should be determined using basic or gross pay, we analyzed both to determine the differences in pay between craft employees and their local postmasters. From a basic pay perspective, our analyses showed that 2 of the 48,272 clerks earned more in basic pay than their local postmasters, as shown in table 1. No city carriers earned more in basic pay than their local postmasters.[5] From a gross pay perspective, 727 of the 191,694 craft employees (about one-half of 1 percent) earned more than their local postmasters. These craft employees earned, on average, about $2,400 more than their local postmasters. Overtime paid to clerks and city carriers was the primary reason why they earned more than their local postmasters. According to the Service, the inclusion of overtime in rural carriers' basic pay was the most probable

[5]We could not determine whether any rural carriers earned more in basic pay than their local postmasters did because rural carriers' basic pay included overtime, which we were unable to identify and exclude. Unlike clerks and city carriers who are paid on an hourly basis, rural carriers are salaried employees whose basic pay includes estimated overtime.

reason why they earned more. Of the 727 craft employees earning more than their local postmasters, 562, or 77 percent, were rural carriers.

Table 1: Number of Craft Employees Who Earned More Than Their Local Postmasters in Basic and Gross Pay in 1999

Type of craft employee	Number of craft employees in the study group	Number of craft employees who earned more than their local postmaster in basic pay	Number of craft employees who earned more than their local postmaster in gross pay
Clerks	48,272	2	73
City carriers	111,608	0	92
Rural carriers	31,814	[a]	562
Total	**191,694**	**2**	**727**

[a]Rural carrier basic pay includes estimated overtime, which we were unable to identify and exclude.

Source: GAO analysis of pay data from the Postal Service's payroll file for 1999.

With respect to postmasters, about 6 percent (624 of 10,177) supervised at least 1 craft employee who earned more than they did in gross pay, as shown in table 2. Of the EAS-15 nonexempt postmasters and below, about 16 percent (430) supervised at least 1 craft employee who earned more in gross pay than they did. These postmasters were not entitled to the SDA because they were either nonexempt or in grades below EAS-15. Of the EAS-15 exempt postmasters who could receive the SDA, about 5 percent (104) supervised at least 1 craft employee who earned more in gross pay than they did. Of the EAS-18 exempt postmasters and above, about 2 percent (90) supervised at least 1 craft employee who earned more in gross pay than they did. These postmasters were not entitled to the SDA because their basic pay was more than 5 percent greater than the maximum basic pay of a grade 5 clerk. A further analysis of postmaster pay showed that an additional 6 percent of postmasters (618 of 9,553) supervised at least 1 craft employee whose earnings were within 5 percent of their postmasters' gross earnings.

Table 2: Number and Percentage of Postmasters Who Supervised at Least One Craft Employee Who Earned More Than They Did in 1999

EAS grade levels	Number of postmasters in the study group	Number of postmasters who supervised at least one craft employee who earned more than them	Percentage of postmasters who supervised at least one craft employee who earned more than them
EAS-15 nonexempt and below	2,616	430	16%
EAS-15 exempt	1,946	104	5%
EAS-18 exempt and above	5,615	90	2%
Total	**10,177**	**624**	**6%**

Source: GAO analysis of pay data from the Postal Service's payroll file for 1999.

Selected Organizations' Pay Practices for Supervisors

The five organizations we selected to discuss pay practices indicated that the potential exists for their craft employees to earn more than their immediate supervisors, but this rarely occurs because of how their pay policies were designed. Four of the five organizations indicated that they used market-based pay systems that generally resulted in their organizations setting the basic pay for their supervisors high enough to prevent almost all craft employees from earning more than their supervisors. As a general guide for determining supervisory pay scales, the organizations relied heavily on surveys of prevailing salaries and other compensation practices used by other organizations in similar markets. According to the consulting firm Watson Wyatt, most private sector companies use a market-based approach to set basic pay and other compensation policies.[6] Watson Wyatt reported that about one in three companies it surveyed (about 30 percent) had policies in place to help ensure that supervisors earn more than their employees. Watson Wyatt also reported that these companies used a combination of approaches, such as ad hoc salary increases for supervisors and SDAs, to accomplish this outcome.

[6]Watson Wyatt annually surveys employers within the United States to obtain information on their compensation, benefits, and employee practices.

Comparison of Current Law to the Proposed Postmaster Legislation

Our review of the Postal Reorganization Act of 1970 showed that the Service is required to provide a program of consultation with organizations representing supervisors and postmasters under which the organizations are entitled to participate directly in the planning and development of pay policies and other programs relating to their members. The 1970 Act, as amended, specifies additional procedures and protections for organizations representing supervisors with regard to the consultation process. For example, organizations representing supervisors are entitled to monthly meetings with the Service; if they are not satisfied with the Service's decisions, they may request a fact-finding panel to consider the matter. Organizations representing postmasters are not entitled to these additional procedures and protections.

The proposed Postmasters' Fairness and Rights Act was introduced in the 107th Congress and would provide new rights to organizations representing postmasters. Most notably, the proposed act would provide organizations representing postmasters with the right to binding arbitration with regard to pay policies and other programs affecting their members. The Service is opposed to the proposed act because it believes that it is unnecessary, that it will do irreparable damage to the Service, and that it is inconsistent with the 1970 Act and basic labor law. The two postmaster organizations support the proposed act and participated in its development. They believe the proposed act will restore equity to the pay and benefits of postmasters and provide a more level playing field for their organizations in planning and developing other programs.

Conclusions

Although the Postal Reorganization Act of 1970 requires that supervisors and other managerial personnel be paid salaries that provide them an adequate and reasonable difference in pay over that of clerks and carriers, the act did not specify what constitutes an adequate and reasonable difference or whether the difference should apply to basic or gross pay. In 1996, the Service lowered the basic pay minimums of the EAS and established an SDA of 5 percent to provide a pay difference for certain postmasters and other supervisors in order to address this statutory requirement. However, since implementing the SDA, the Service had not fully evaluated the impact of the differential on postmasters and other supervisors. Our review showed that in 1999, very few craft employees earned more than their postmasters did in basic pay. However, for gross pay, about 12 percent of the postmasters we studied supervised craft employees who either earned more than they did or earned within 5

percent of what they earned, apparently due to overtime. Our review also showed that most postmasters who earned less than their craft employees were lower graded postmasters and not eligible for the SDA.

Given the lack of specificity in the 1970 Act, we are not in a position to conclude whether or not the results we found represent an adequate and reasonable outcome regarding the pay differences for postmasters. However, prior to our providing the results of our review to the Service, it had only limited data to evaluate the impact of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA. Without such information, the Service was not in the best possible position to factually assess the adequacy and reasonableness of the Service's SDA policy or other pay differences. Now that some data are available and an approach has been developed to analyze the Service's payroll data, the Service should have the capability to do the analyses necessary to put it in a better position to make fact-based decisions on the adequacy and reasonableness of its SDA policy and pay differences.

Recommendations for Executive Action

In order to be in a better position to evaluate its SDA policy and the pay differences between postmasters and their craft employees, we recommend that the Postmaster General use postal payroll and any other comparable data to periodically (1) determine the extent to which clerks and carriers may be earning more than their local postmasters, and the reasons why, if applicable; and (2) reassess the adequacy and reasonableness of the pay differences between postmasters and the clerks and carriers they supervise.

Agency and Postmaster Organizations' Comments and Our Evaluation

We received written comments on a draft of this report from the Postmaster General dated August 27, 2001; the President of the National Association of Postmasters of the United States (NAPUS) dated August 15, 2001; and the President of the National League of Postmasters of the United States (the League) dated August 21, 2001. These comments are summarized below and are reprinted in appendices IV, V, and VI. Officials from the Service and the Tennessee Valley Authority provided oral technical and clarifying comments. Also, officials from Federal Express and the Federal Aviation Administration provided technical and clarifying comments by e-mail. All technical and clarifying comments were incorporated, where appropriate.

The Postmaster General, and the presidents of NAPUS and the League, indicated general agreement with our findings and recommendations. They believed that the findings supported their views, which conflicted, regarding whether adequate and reasonable differences in pay existed between postmasters and craft employees. That is, the Postmaster General believed the findings supported the Service's contention that adequate and reasonable differences in pay exist. Conversely, the presidents of the postmaster organizations believed that the findings supported their contention that adequate and reasonable differences do not exist. Specifically, the President of the League stated that although the Congress did not legislate the amount of the differential, the Congress considered a 25-percent differential to be reasonable and adequate.

We continue to believe that given the lack of specificity in the 1970 Act, we are not in a position to conclude whether or not the results we found represent an adequate and reasonable outcome for postmasters. With respect to the League president's comment that the Congress considered a 25-percent differential to be reasonable and adequate, we did not find any support for that view. Although the legislative history indicated that the Congress considered establishing a specific pay difference, the history also indicated that the Congress chose not to do so because it did not want to bind the Service to a fixed difference to be maintained in the future. We also note that a comment that there should be a minimum differential of at least 25 percent was made by a former Assistant Postmaster General for Personnel at a public hearing before enactment of the 1970 Act, not by the Congress.

The President of the League also expressed three concerns regarding the data, methodology, and analyses used in our work. First, he said the 1999 payroll data that we used in our analyses were outdated and did not accurately reflect current pay conditions. Second, the president was concerned that we, for various reasons, excluded over 200,000 craft employees and postmasters from our study group. Third, the president was concerned that we did not perform a thorough analysis of the earnings of certain lower graded postmasters and their craft employees. Specifically, he noted that the lack of pay difference was most prevalent for EAS-15 postmasters and below. He stated that we diminished the seriousness of the pay inadequacies experienced by these lower graded postmasters when we combined their earnings with those of higher graded postmasters to create various statistics. He said that a study of the pay differential should be limited to EAS-18 postmasters and below and their craft employees. He went on to say that the magnitude of the lack of an adequate pay

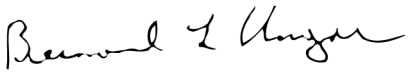
differential cannot be accurately determined without comparing the pay of all craft employees, including rural carriers, and postmasters.

We agree with the President of the League that it would be helpful to have more current data and additional analyses of the data, but this was not possible to do in our review. First, we used calendar year 1999 payroll data because, at the time we started our work, these data were the most current available. Second, in order to have a level-playing field for our analyses, we excluded certain craft employees and postmasters from our study group for the following reasons. As stated in the letter, we excluded all employees who were not postmasters, clerks, city carriers, or rural carriers. We also excluded those clerks, carriers, and postmasters who were not full-time permanent employees for the entire year, or were detailed to other jobs or changed their duty stations during 1999. Next, we eliminated those clerks and carriers whose locations did not match with a postmaster. Also, we eliminated those postmasters whose locations did not match with at least one clerk or carrier. Third, due to complexities associated with the payroll file and because of time constraints, we were unable to do a more exhaustive analysis. Finally, we were asked to review the pay of all postmasters and not just EAS-18 postmasters and below. We recognize that combining the earnings of various grades of postmasters does not provide specific data by grade; however, we believe that the data that we do provide offer some insight into the pay of postmasters that was not previously available. Also, we recognize that more exhaustive analyses of payroll data need to be done, and we believe the Service is in the best position to do these analyses. This recognition and our findings helped form the basis for our conclusions and recommendations.

We are sending copies of this report to the Chairmen and Ranking Minority Members, Senate Committee on Governmental Affairs and its Subcommittee on International Security, Proliferation and Federal Services; and to the Chairman and Ranking Minority Member, House Committee on Government Reform. We are also sending copies of this report to Representative Constance Morella because of her expressed interest in postmasters' pay; the Postmaster General and Chief Executive Officer, U.S. Postal Service; the National President, National Association of Postmasters of the United States; and the President of the National League of Postmasters of the United States.

Major contributors to this report included Don D. Allison, Gerald P. Barnes, Roger L. Lively, Anne Rhodes-Kline, George H. Quinn, and Charles F. Wicker. If you have any questions about this letter or the appendices, please contact me or Mr. Barnes on (202) 512-8387 or at ungarb@gao.gov or barnesgp@gao.gov.

Sincerely yours,



Bernard L. Ungar
Director, Physical Infrastructure Issues

Objectives, Scope, and Methodology

Our objectives were to (1) describe the Postal Service's pay practices for postmasters, including how the Service determines and applies its supervisory differential adjustment (SDA); (2) determine whether any craft employees earned more than their local postmasters during 1999 and, if so, why and to what extent; and (3) determine other organizations' practices for establishing pay for supervisors whose craft employees can earn more than they do, as well as determine prevalent industry practices.

To address our objectives, we reviewed the Postal Reorganization Act of 1970, its legislative history, legal decisions regarding postmasters' pay, the Service's pay policies, proposed legislation to change the consultation process used to determine postmaster pay, and studies of supervisory compensation practices within private industry. We discussed pay practices for supervisors with officials from the Service, postmaster organizations, Hay Management Consultants, Watson Wyatt, and other selected organizations—the Federal Aviation Administration, Federal Express, the Tennessee Valley Authority, United Parcel Service, and the Washington Metropolitan Area Transit Authority.[1] We selected these organizations by using a combination of factors, including (1) exemption from the pay provisions of Title 5 of the U.S. Code, (2) substantial overtime usage, (3) supervision of bargaining unit employees by nonbargaining unit managers, and (4) competitiveness with the Service. We also obtained the views of the Service and the postmaster organizations regarding the proposed legislation.

Additionally, because the Service did not have current data on whether, or to what extent, craft employees earned more than their postmasters, we obtained the Service's payroll files for 1999, the most recent year for which data were available when we started our review. These files contained the biweekly pay records of over 1 million employees who worked for the Service at some point during that year. Because we focused our work on postmasters, clerks, city carriers, and rural carriers, we excluded all employees who were not in one of these four occupations or were not full-time permanent employees for the entire year. We also excluded

[1]The Service hired Hay Management to compare the salaries, pay practices, and benefit practices of nonbargaining unit employees to those available in the private sector. In 1995 and 1999, Hay issued reports of its comparative analyses to the Service. Watson Wyatt annually surveys employers within the United States to obtain information on their compensation, benefits, and employment practices. In its 1995 and 1999 compensation studies, Hay Management referenced Watson Wyatt's survey results relating to supervisory differentials.

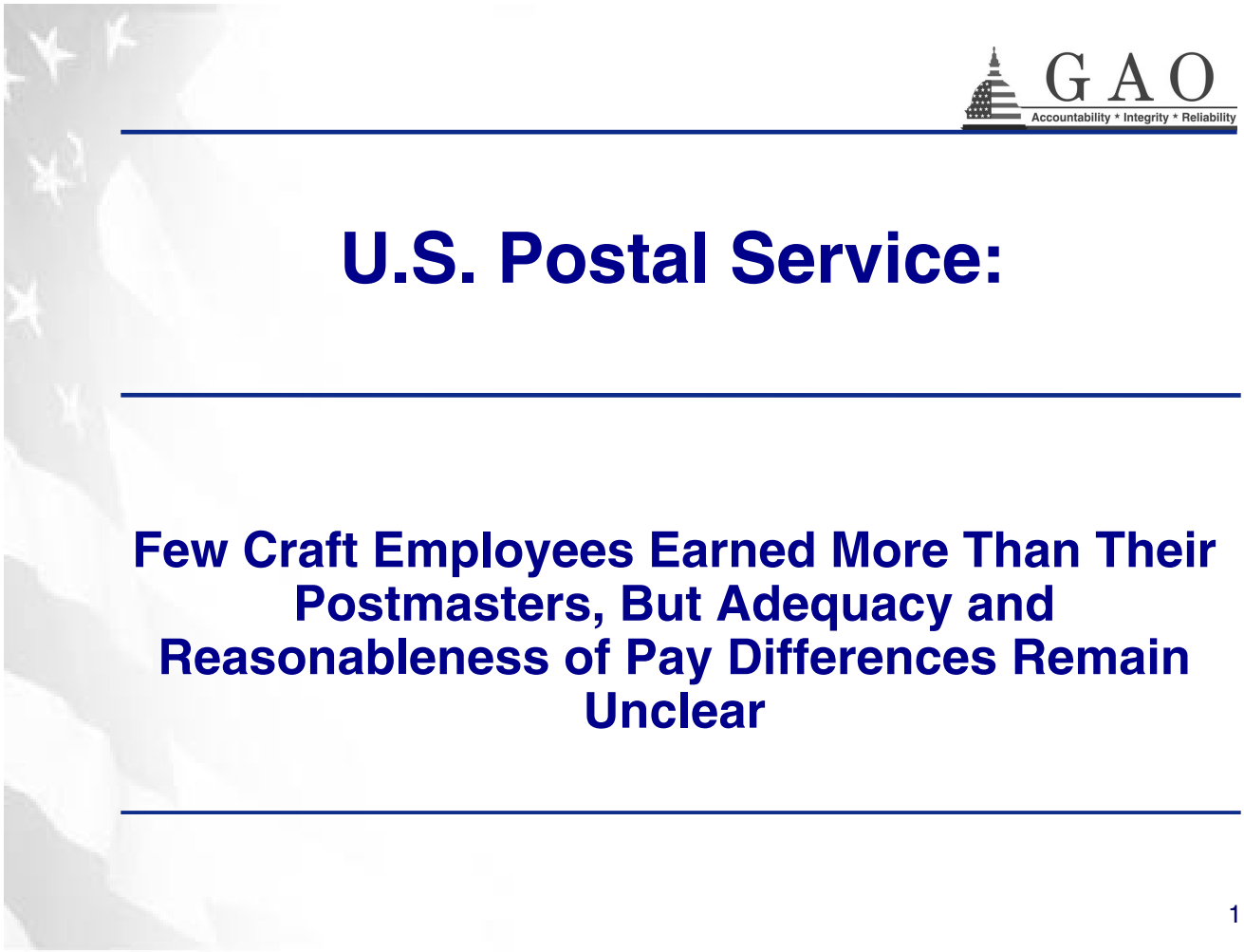
employees who, during the year, were detailed to other jobs or changed their duty stations. After these exclusions, a total of 443,942 postmasters, clerks, and carriers remained. We then matched clerks and carriers with their local postmasters according to postal facility locations and eliminated those clerks and carriers whose locations did not match with a postmaster's. We also eliminated those postmasters whose locations did not match with at least one clerk or carrier. This created a study group of 201,871 employees, consisting of 191,694 clerks and carriers and the 10,177 postmasters who supervised them.

Next, we computed the basic and gross pay of the employees in our study group to determine if any clerks or carriers earned more than their local postmasters, or if any postmasters supervised clerks or carriers who earned more than they did.[2] For purposes of this report, we defined gross pay as all pay received during calendar year 1999, excluding severance payments, settlements, prior years' pay adjustments, annual leave sell-back payments, and terminal leave payments.

We did not assess the reliability of the Service's 1999 payroll files. However, audits performed by Ernst & Young LLP on the Service's financial statements for 1998, 1999, and 2000 did not identify any material weaknesses in the Service's payroll system.

[2] In making these computations we noted that the basic pay of at least 873 postmasters (8.6 percent) exceeded the maximum basic pay for their grades. Additionally, we noted a similar situation for at least 526 craft employees (0.3 percent). According to the Service, these anomalies were primarily due to situations where employees had gone from higher to lower graded positions but retained the higher pay from their previous positions—a situation known as "saved-pay."

Briefing on Comparison of Postmasters' and Craft Employees' Pay During 1999



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2

Objectives

- Describe the Postal Service's pay practices for postmasters, including how the Service determines and applies its Supervisory Differential Adjustment (SDA).
- Determine whether any craft employees earned more than their local postmasters during 1999 and, if so, why and to what extent.
- Determine other organizations' practices for establishing pay for supervisors whose craft employees can earn more than they do, as well as determine prevalent industry practices.

3

Scope and Methodology

- Conducted work at Postal Service Headquarters, Washington, D.C.
- Interviewed
  - Service officials responsible for compensation, finance, labor relations, payroll processing, and legal issues;
  - postmaster organizations' presidents, officers, and members;
  - Federal Aviation Administration (FAA), Washington Metropolitan Area Transit Authority (WMATA), and Tennessee Valley Authority (TVA) compensation officials because these organizations were exempt from Title 5 of the U.S. Code and had high overtime usage;
  - Federal Express (FedEx) and United Parcel Service (UPS) compensation officials because these organizations were competitors of the Postal Service; and

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Scope and Methodology (cont.)

- Hay Management and Watson Wyatt Worldwide consulting firms' compensation experts.

- Reviewed the following relevant documents:
  - Postal Reorganization Act of 1970 and its legislative history;
  - National Association of Postal Supervisors v. United States Postal Service, 602 F.2d 420 (D.C. Cir. 1979);
  - USPS Employee and Labor-Relations Manual;
  - Hay Management Consultants' 1995 and 1999 comparisons of USPS' nonbargaining-unit salaries, pay, and benefits to those in the private sector;
  - Watson Wyatt Worldwide's ECS Industry Report on Supervisory Management Compensation, 2000/2001;

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Scope and Methodology (cont.)

- the Service's 1998, 1999, and 2000 annual financial reports and comprehensive statements; and
- prior GAO reports and testimonies on compensation and related issues.

- Analyzed postmaster and craft employee pay.
  - Obtained the Service's payroll files for calendar year 1999 containing pay records for over 1 million full- and part-time employees who were paid at least once during the year.
  - Identified 443,942 postmasters, clerks, and carriers who were full-time permanent employees for all of 1999 and did not change occupation or duty station.

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Scope and Methodology (cont.)

- Matched clerks and carriers with the local postmasters who supervised them, creating a study group of 201,871 employees (191,694 craft employees and 10,177 postmasters).
- Computed the basic and gross pay of postmasters, clerks, and carriers for 1999.
  - Gross pay was defined as all pay received during calendar year 1999, excluding severance payments, settlements, prior year pay adjustments, annual leave sell-back payments, and terminal leave payments.
  - Clerks' and carriers' pay included basic pay, overtime and other premium pay, bonuses, and awards.
  - Postmasters' pay included basic pay; variable pay; merit awards; and premium pay, including overtime.

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Scope and Methodology (cont.)

- Identified (1) the clerks and carriers who earned more than their local postmasters and (2) the postmasters who supervised clerks and/or carriers who earned more than they did.
- Performed various statistical and comparative analyses of the matched postmasters, clerks, and carriers.
- Although we did not assess the reliability of the Service's payroll file, the audits done by Ernst & Young LLP on the Service's financial statements for 1998, 1999, and 2000 did not identify any material weaknesses regarding the payroll system.

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Background

- The Service had a nationwide delivery and retail infrastructure that included about 798,000 career employees and about 38,000 post offices, stations, and branches in 1999.
- Craft employees accounted for the vast majority of career employees. These employees included about 292,000 clerks, 242,000 city carriers, and 55,000 rural carriers. Their pay is set through collective bargaining or binding arbitration, when needed, to resolve bargaining deadlocks.
- Postmasters accounted for about 26,000 of the 78,000 supervisory and management employees.

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Background (cont.)

- Postmasters are generally paid under the Executive and Administrative Schedule (EAS), which covers about 78,000 noncraft employees, including executives, managers, and supervisors.
  - The EAS has 26 grade levels for pay.
  - EAS postmasters were in grades 11, 13, 15, 18, 20, 21, 22, 24, and 26.
- Postmasters not paid under the EAS are paid under the Postal Career Executive Service (PCES) pay schedule, which is comparable to the Civil Service's Senior Executive Service.

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Background (cont.)

- Following the provisions of the Fair Labor Standards Act, the Service classified about 14,000 postmasters as nonexempt, and, as such, they were eligible for overtime pay at time-and-one-half. The remaining postmasters were classified as exempt employees and thus not eligible for overtime at time-and-one-half. According to the Service, these postmasters were classified as exempt because, among other things, they supervised two or more craft employees.

- The 1970 Act requires that the Service pay wages comparable to private sector wages and provide an adequate and reasonable difference in pay for supervisors and managers over that of the clerks and carriers they supervise.

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Background (cont.)

- The 1970 Act provides the Service broad discretion in setting a pay difference between postmasters and their craft employees.
  - The 1970 Act's legislative history indicates the Congress considered imposing a pay difference formula but chose not to.
  - The Congress did not want to bind the Service to a fixed difference to be maintained in the future. Instead, the Congress wanted to provide Postal Service management with maximum flexibility and control over its costs.

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Background (cont.)

- During the late 1970s, the postmaster organizations sued the Service, claiming that the Congress intended a 25-percent difference in pay between postmasters and craft employees. The Court ruled in favor of the Service, citing that the Congress did not set a fixed difference nor require that the Service set a fixed difference.

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Results in Brief

Generally, postmaster pay consists of basic pay, variable pay, lump sum merit awards, and supplemental pay, such as for overtime.

- In 1996, the Service lowered the basic pay minimums of the 26 EAS grades. This resulted in the basic pay minimums of EAS-15 and EAS-16 exempt supervisors being less than the maximum pay of a grade 5 clerk, which was the most populated grade and pay level of the largest bargaining unit.

- Because of this and the 1970 Act's requirement to maintain an adequate and reasonable pay difference, the Service established an SDA policy for EAS-15 exempt supervisors and above who are not eligible for overtime pay at time-and-one-half. The policy provides that these supervisors will be paid no less than 5 percent more than the basic pay maximum of a grade 5 clerk.

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Results in Brief (cont.)

- Although a 1995 Hay Management study reported that differentials ranged from 10 to 15 percent among private sector companies that maintain formal differential policies, the Service made a management decision that a 5-percent SDA would provide a noticeable difference in pay between the minimum pay of supervisors and the maximum pay of a grade 5 clerk.
- However, since implementing the SDA, the Service has not conducted the analyses necessary to fully determine the implications of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA.

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Results in Brief (cont.)

- Two craft employees earned more in basic pay than their local postmasters in 1999. About one-half of 1 percent of craft employees earned more in gross pay than their local postmasters.

- With regard to postmasters, about 12 percent supervised at least 1 craft employee who earned more than they did in gross pay or earned within 5 percent of what they earned. Overtime was apparently the reason why these employees earned more or within 5 percent of what their postmasters earned. Most postmasters who supervised at least 1 craft employee who earned more than they did were not eligible to receive the SDA. These postmasters could not receive the SDA because they were either eligible for overtime at time-and-one-half or were in grades below EAS-15.

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Results in Brief (cont.)

- The five organizations we selected had pay policies to minimize instances of craft employees earning more than their supervisors.
  - The five organizations indicated that craft employees will occasionally earn more than their supervisors, but this is the exception and not the norm. Four of the five organizations indicated that they used market-based pay systems that generally resulted in their organization setting pay for supervisors high enough to prevent almost all craft employees from earning more than their supervisors.
  - According to Watson Wyatt, private sector companies use market-based pay for nonbargaining unit positions, and about 30 percent of the companies had various policies in place to help ensure that supervisors earned more than their employees.

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Objective 1: Postal Service's Pay Practices for Postmasters

- During 1999, postmasters' pay had four major components:
  - Basic pay consisted of salaries and wages paid directly for duties performed during the regular workweek and accounted for, on average, 95 percent of a postmaster's pay.
  - Variable pay, Economic Value Added (EVA), was pay-for-performance cash rewards for achieving specific organizational goals and targets and accounted for, on average, 4 percent of a postmaster's pay.
  - Merit awards were lump-sum payments to recognize achievements beyond what was normally expected.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- Premium pay was supplemental pay for overtime, nights, and holidays worked.
  - Merit awards and premium pay accounted for, on average, 1 percent of a postmaster's pay.
- The Service said it used the results of a 1995 Hay Management report that compared EAS and private sector compensation as a guide in making substantive changes to the EAS pay system in 1996.
  - Among other changes, the Service lowered the basic pay minimums of the 26 EAS grades. That change resulted in the basic pay minimums of EAS-15 and EAS-16 exempt supervisors being less than the basic pay maximum of a grade 5 clerk--the most populated grade and pay level of the largest bargaining unit.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- To compensate for this lack of a pay difference and comply with the 1970 Act's requirement to provide adequate and reasonable pay differences, the Service instituted an SDA policy. This policy provides that EAS-15 exempt supervisors and above will be paid no less than 1.05 times the maximum basic pay for the most populated grade in the largest bargaining unit (grade 5, step O, clerk).

- The Service stated that it chose EAS-15 exempt supervisors as the starting point of eligibility for the SDA because most exempt first-line supervisors were in grades EAS-15 and EAS-16. (There were no EAS-16 postmasters, only supervisors.)

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- The SDA set a floor for the salaries of EAS-15 exempt supervisors and above at 5 percent more than the maximum basic pay of a grade 5 clerk (i.e., grade 5, step O).
  - In 1995, Hay Management reported to the Service that a quarter of the private sector companies maintained a formal salary differential between supervisors and subordinates. Of these companies, the differential was typically 10-15 percent.
  - In 1996, the Service made a management decision to set the SDA at 5 percent because it believed this amount would provide a visible difference between the minimum pay of exempt supervisors and the maximum basic pay of a grade 5 clerk. However, since implementing the SDA, the Service has not conducted the analyses necessary to fully determine the implications of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- SDA does not apply to EAS-15 nonexempt supervisors or EAS-14 supervisors and below.
- Although the SDA rate of 5 percent does not change, the SDA salary does change as the maximum basic pay of a grade 5 clerk is adjusted for cost-of-living-allowances (COLA) and for other general pay increases.
- Until November 1998, the SDA did not apply to exempt supervisors above EAS-16 because their basic pay minimums provided a pay difference that exceeded the 5 percent SDA rate.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- From 1996 through 1999, the SDA salary increased nine times due to various increases in the maximum basic pay of a grade 5 clerk.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

SDA Salary Increases Through 1999

Effective date	Clerk* maximum pay	SDA salary	Trigger event
8/31/96	$36,551	$38,379	Implementation
3/15/97	$36,863	$38,706	Clerk COLA
8/30/97	$37,029	$38,880	Clerk COLA
11/22/97	$37,456	$39,329	Clerk General Increase
3/14/98	$37,623	$39,504	Clerk COLA
9/12/98	$37,831	$39,723	Clerk COLA
11/21/98	$38,588	$40,517	Clerk General Increase
3/13/99	$38,650	$40,583	Clerk COLA
9/11/99	$38,983	$40,932	Clerk COLA
11/20/99	$39,515	$41,491	Clerk General Increase

*All references to a clerk refer to one at grade 5, step O.

Source: U.S. Postal Service

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- In November 1999, the maximum basic pay for EAS-15 and EAS-16 was 19 percent and 28 percent, respectively, higher than the maximum basic pay of a grade 5 clerk.
- In November 1999, basic pay for
  - EAS ranged from $20,875 to $82,349;
  - clerks ranged from $21,602 to $45,990;
  - city carriers ranged from $28,539 to $40,526; and
  - rural carriers ranged from $8,031 to $48,518.
- The EAS has 26 grades and associated pay ranges. Clerks have 10 grades with up to 18 steps. City carriers have 2 grades with 15 steps. Rural carriers are salaried employees.

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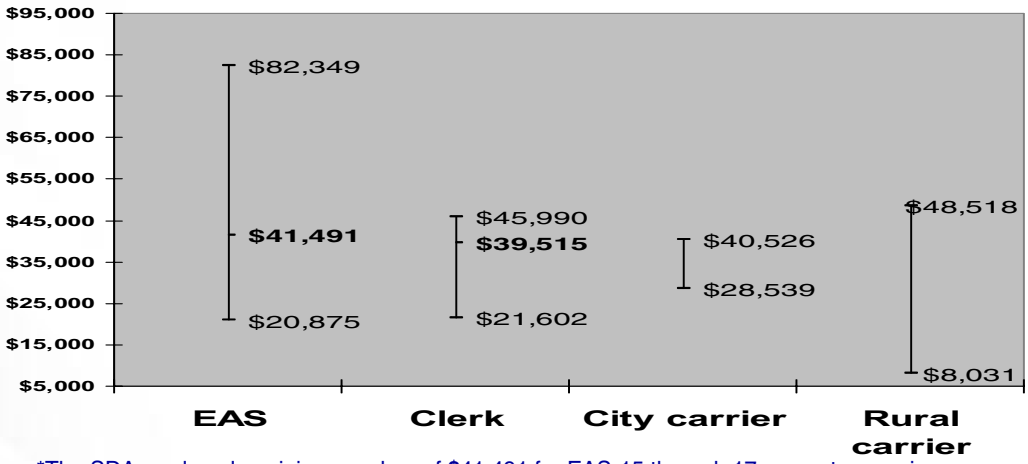
Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

EAS and Craft Pay Ranges, End of Calendar Year 1999



*The SDA produced a minimum salary of $41,491 for EAS-15 through 17 exempt supervisors. The basic pay for a, grade 5, step O clerk was $39,515.

Source: U.S. Postal Service

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

Each EAS grade has a pay range that includes a minimum, maximum, and midpoint. Postmasters were in EAS grades 11, 13, 15, 18, 20, 21, 22, 24, and 26.

- Postmasters' average basic pay in each of these EAS grades was above the midpoint salary for that grade.

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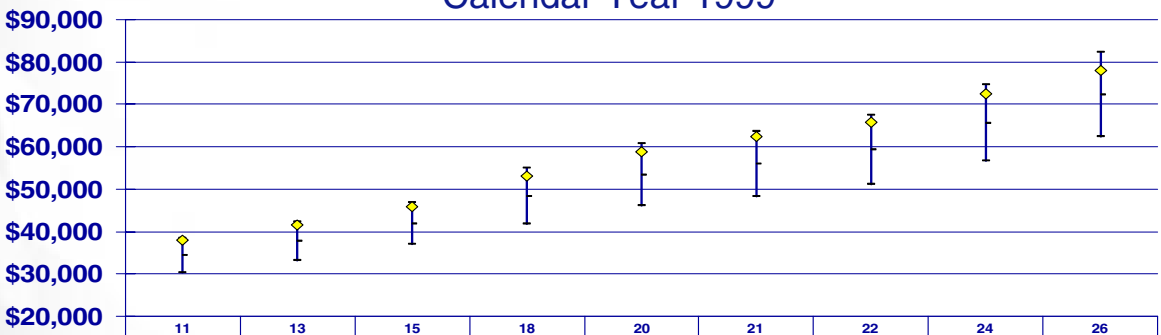
Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

Postmasters' Pay Ranges and Average Basic Pay by Grade
Calendar Year 1999



	11	13	15	18	20	21	22	24	26
Maximum	$38,532	$42,266	$46,907	$55,040	$60,776	$63,728	$67,517	$74,720	$82,349
Average	$38,037	$41,631	$46,005	$53,139	$58,891	$62,367	$65,676	$72,544	$78,082
Midpoint	$34,436	$37,773	$41,921	$48,368	$53,409	$56,003	$59,333	$65,663	$72,367
Minimum	$30,340	$33,280	$36,935	$41,697	$46,042	$48,279	$51,149	$56,606	$62,386

EAS Grade Level

Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- The Postal Reorganization Act of 1970 requires that the Service consider the following four factors in establishing the pay of its supervisors and managers. The Service's explanation of how it considered each factor also follows.
  - Provide supervisors and managers with compensation that is comparable to the private sector. In considering this factor, the Service contracted with Hay Management for a comprehensive comparison of postal supervisory/management and private sector pay. That comparison showed that 25 percent of private sector companies maintained a formal salary differential between employees and their supervisors. For those companies that maintained a formal salary differential, it ranged from 10 to 15 percent.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- Set pay at a level that will attract and retain qualified and capable supervisors and managers. The Service did not consider this factor as critical as other factors because EAS employee turnover was low, and many people sought to fill any vacant EAS positions.

- Promote supervisors' and managers' leadership status compared to the workers they supervise. Because the EAS pay system closely resembled that of craft employees, the Service changed the EAS pay system in 1996 to enhance its status and make it more similar to the PCES pay system. Also, an SDA was established to help ensure that exempt supervisors' and managers' salaries would be higher than those of the craft employees they supervised.

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Objective 1: Postal Service's Pay Practices for Postmasters (cont.)

- Provide prompt, reliable, and efficient service. To reward supervisors and managers for improvements in providing prompt, reliable, and efficient postal services, the Service also added a variable pay program (EVA) to their EAS pay system. According to the Service, EVA and other changes to the EAS pay system made in 1996 were carefully analyzed, before implementation, to assess the operational and economic impact of the changes, particularly because personnel costs account for over 75 percent of the Service's total expenses.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings

- We found that from a basic pay perspective, 2 of the 48,272 clerks earned more than their local postmasters.
  - The two clerks were grade 5s who earned the maximum basic pay; one worked for an EAS-11 postmaster, and one worked for an EAS-13.
  - No city carriers earned more in basic pay than their local postmasters.
  - Rural carriers were excluded from our basic pay analysis because their basic pay included overtime, which could not be identified and excluded.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- From a gross pay perspective, 727 (0.4 percent) of the 191,694 craft employees earned more than their local postmasters.
  - Overtime was the primary reason why clerks and city carriers earned more than their local postmasters.
    - Overtime could not be isolated for rural carriers; but according to Service officials, overtime was the most probable reason why rural carriers earned more than their local postmasters.
  - Craft employees earning more averaged about $2,400 more than their local postmasters.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- Rural carriers accounted for 77 percent (562) of the craft employees who earned more than their local postmasters. Of the remaining 165 (23 percent) craft employees who earned more than their local postmasters, 92 were city carriers and 73 were clerks.

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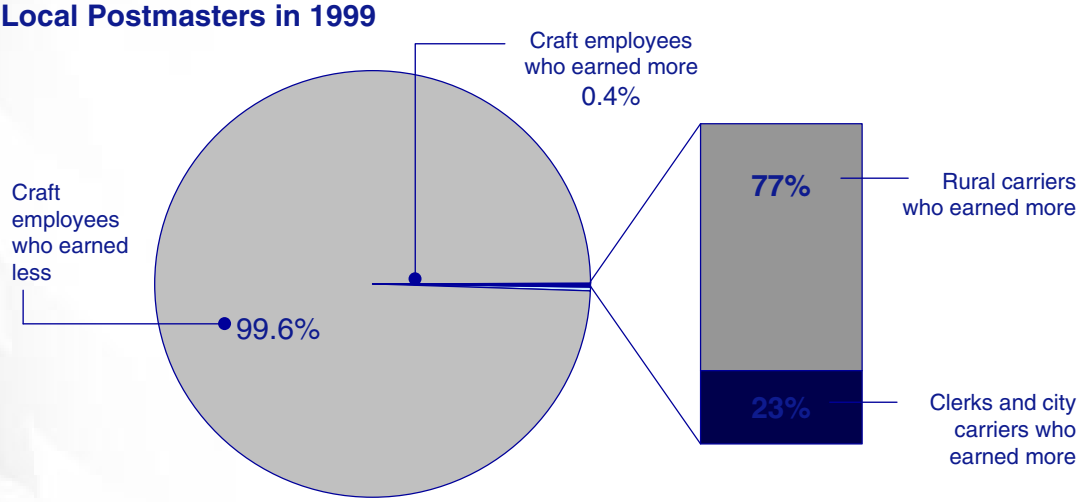
Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Percentage of Craft Employees Earning More or Less Than Their Local Postmasters in 1999



Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- Of the 727 craft employees who earned more than their local postmasters, 409 (56 percent) earned less than $2,000 more, with 4 earning less than $10 more.
  - Nine of the 727 (1 percent) craft employees earned $10,000 or more than their local postmasters.
  - One craft employee earned over $18,000 more than the local postmaster.

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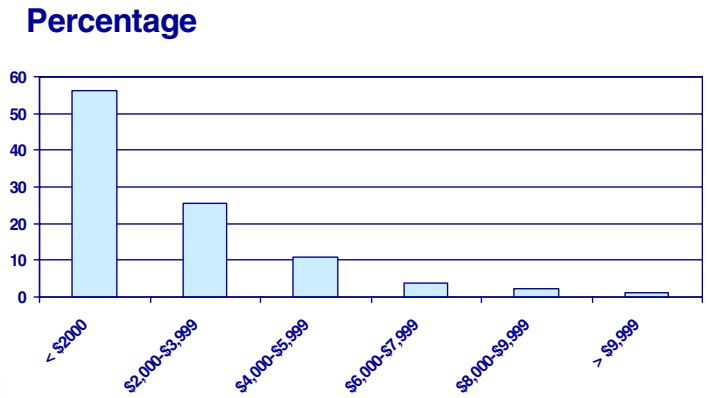
Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Percentage Distribution of the Dollar Amounts Craft Employees Earned More Than Their Postmasters



Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- Of the 190,967 craft employees who earned less than their local postmasters, 854 (0.4 percent) earned within 5 percent of what their local postmasters earned. Of these 854 craft employees
  - 132 earned within 1 percent of what their local postmasters earned.
  - 333 earned within 1 percent to 3 percent of what their local postmasters earned.
  - 389 earned within 3 percent to 5 percent of what their local postmasters earned.

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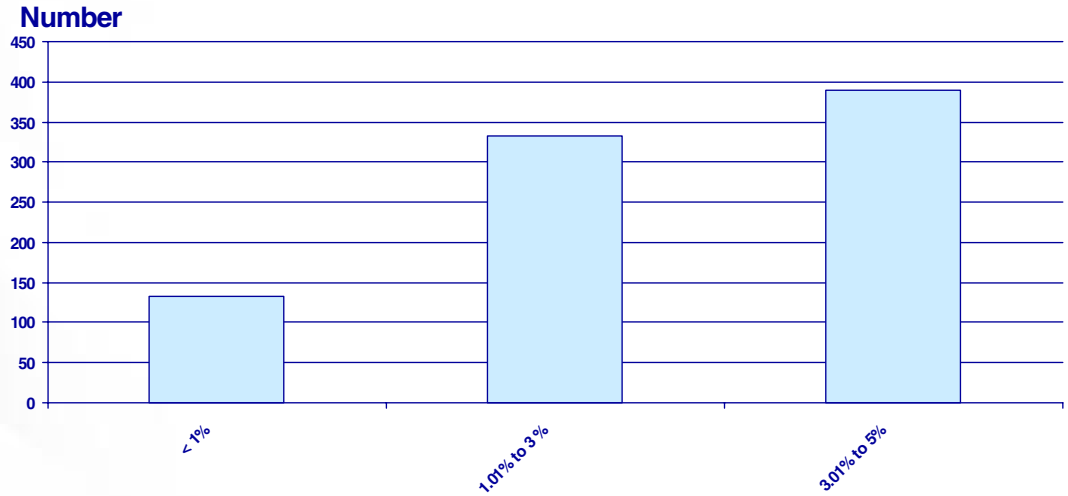
Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Number of Craft Employees Whose 1999 Gross Earnings Were Less Than the Earnings of Their Local Postmasters, but Within 5 Percent



Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Average gross pay for craft employees ranged from $39,672 for rural carriers to $43,125 for city carriers. Overall, the average gross pay for craft employees was $42,481.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

1999 Average Basic and Gross Pay for Craft Employees

Craft employees		1999 Average pay	
Study group	Number in study group	Basic pay	Gross pay
Clerks	48,272	$37,472	$42,844
City Carriers	111,608	$36,549	$43,125
Rural Carriers*	31,814	$39,489*	$39,672
Total/Average	191,694	N/A	$42,481

*Unlike clerks and city carriers, rural carriers are salaried employees whose basic pay includes overtime.

Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- With respect to postmasters, 6.1 percent of all postmasters (624 of 10,177) supervised at least 1 craft employee who earned more in gross pay than they did.
  - About 16 percent of EAS-15 nonexempt postmasters and below (430 of 2,616) supervised at least 1 craft employee who earned more in gross pay than they did--these postmasters were not entitled to the SDA because they were either EAS-15 nonexempt or in grades below EAS-15.
  - About 5 percent of EAS-15 exempt postmasters (104 of 1,946) supervised at least 1 craft employee who earned more in gross pay than they did--these postmasters could receive the SDA.

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Objective 2: Comparison of Postmaster and Craft Employee 1999 Earnings (cont.)

- About 2 percent of EAS-18 to EAS-26 exempt postmasters (90 of 5,588) supervised at least 1 craft employee who earned more in gross pay than they did. These postmasters were not entitled to the SDA because their basic pay was more than 5 percent greater than the maximum basic pay of a grade 5 clerk.
- None of the 27 PCES postmasters had a craft employee who earned more in gross pay than they did.

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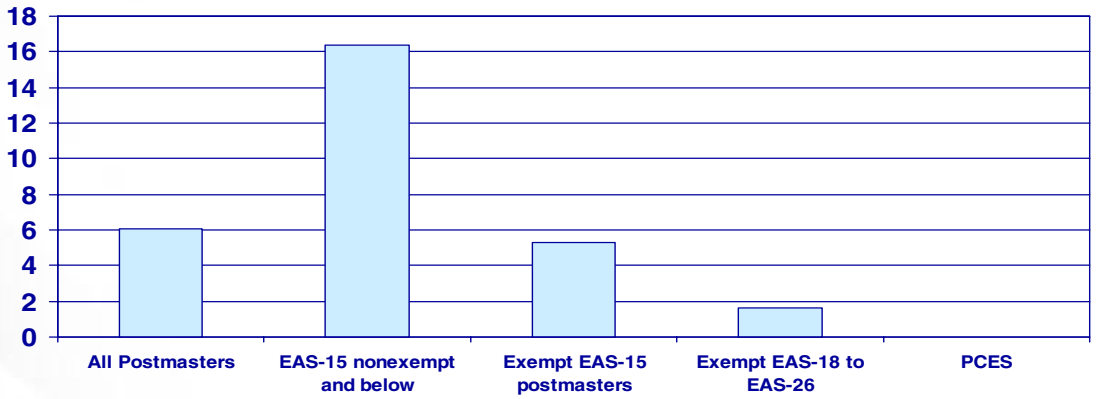
Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Percentage of Postmasters With Craft Employees Who Earned More



Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

- Of the 9,553 postmasters who supervised a craft employee who earned less than they did, 618 (6.4 percent) supervised a craft employee whose earnings were within 5 percent of their pay.
  - 103 postmasters supervised craft employees whose earnings were within 1 percent of their pay.
  - 241 postmasters supervised craft employees whose earnings were within 1 to 3 percent of their pay.
  - 274 postmasters supervised craft employees whose earnings were within 3 to 5 percent of their pay.

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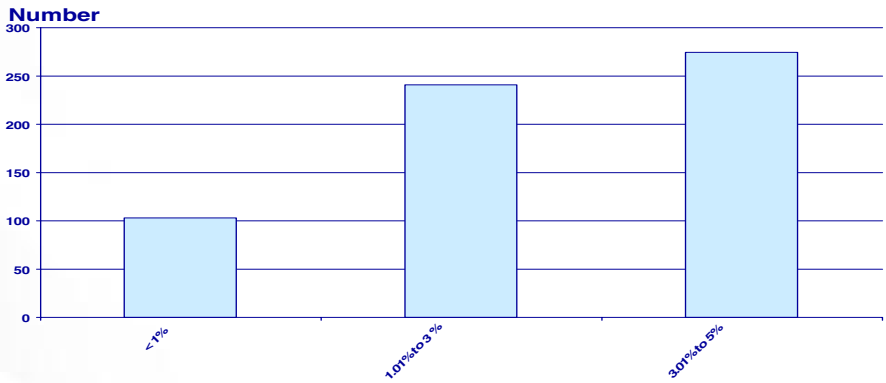
Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Number of Postmasters Who Supervised Craft Employees Whose Gross Earnings in 1999 Were Less Than Their Local Postmasters' Earnings but Were Within 5 Percent



Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

Average gross pay for postmasters ranged from $44,875 for EAS-15 nonexempt postmasters and below to $102,506 for PCES postmasters. The average gross pay for postmasters was $54,733.

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Objective 2: Comparison of Postmasters' and Craft Employees' 1999 Earnings (cont.)

1999 Average Basic and Gross Pay for Postmasters

Postmasters		1999 Average pay	
Study group	Participants in study group	Basic pay	Gross pay
EAS-15 nonexempt and below	2,616	$42,489	$44,875
EAS-15 exempt and above	7,534	$54,827	$57,985
PCES	27	$94,331	$102,506
Total/Average	10,177	$51,760	$54,733

Source: GAO analysis of U.S. Postal Service payroll data.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors

Other Organizations

- The five organizations we selected--TVA, FAA, WMATA, UPS, and FedEx--to discuss pay practices indicated that it was possible for their craft employees to earn more than their immediate supervisors, but this rarely occurs because of how their pay policies were designed.

Industry Pay Practices

- The pay practices of these five organizations generally paralleled national pay practices, as reported by Watson Wyatt from the results of its 2000-2001 survey of supervisory management compensation practices.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Key Pay Practices

- All five organizations said they used one or more of the following six pay practices to minimize the occurrence of employees' earning more than their supervisors:
    - market-based pay,
    - variable pay,
    - supervisory differentials,
    - overtime for exempt employees,
    - ad hoc payments, and
    - increased variable pay opportunities.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Market-Based Pay

- Four of these organizations had pay systems based on prevailing salaries used by other organizations in similar markets. They said the market-rate differences were usually sufficient to prevent most craft employees from earning more than their supervisors.
  - FedEx used a market-based pay system for all its employees (craft employees were not unionized).
  - TVA, WMATA, and UPS negotiated craft pay and used market-based pay for supervisory and managerial employees.
  - FAA negotiated pay with the air traffic controllers' union and used it to set pay for its nonunion air traffic control supervisors and managers.
- According to Watson Wyatt, private sector companies typically use market-based pay for nonunion positions.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Variable Pay

- All five organizations had variable pay programs applicable to supervisors and managers and/or craft employees.
  - Supervisors and managers and craft employees at TVA, FAA, and FedEx were covered by variable pay programs linked to the organization's performance.
  - Exempt supervisors and managers at all five organizations and craft employees at FAA were included in variable pay programs linked to the individual's job performance (e.g., merit pay and pay for performance).
- Watson Wyatt reported that about 70 percent of companies provided at least one type of bonus or other variable pay plan for supervisors (e.g., profit sharing, spot awards, and merit pay) representing an increase of about 28 percent since 1995.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Supervisory Differentials (an adjustment to an individual supervisor's minimum pay rate)

- All five organizations had differences in their pay structures for craft employees and supervisors; two used a differential, but they varied on which supervisors were covered and the differential's rate.
  - WMATA provided its foremen (mostly nonexempt) a 6-percent differential over the highest pay rate for the craft occupation supervised.
  - FedEx provided its managers (all exempt) a 20-percent differential over the highest hourly rate of employee supervised.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Supervisory Differentials (an adjustment to an individual supervisor's minimum pay rate) (cont.)

- According to Watson Wyatt, private sector companies that use a differential commonly apply it to the rate of the highest paid employee supervised. The average supervisory differential is 11 percent. Application varies (i.e., exempt supervisors only, nonexempt supervisors only, or both). Since 1995, use of supervisory differentials by private sector companies has decreased by more than 60 percent.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Overtime for Exempt Employees

- FAA had a policy authorizing overtime (and/or compensatory time off in lieu of overtime pay) for its exempt employees. Air traffic control supervisors and managers were eligible for overtime pay at time-and-one-half rates.
- According to Watson Wyatt, private sector practices included cash-only payments, compensatory time off, and a combination of cash and time off. Overtime compensation rates varied from straight time to time-and-one-half.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Ad Hoc Payments

- TVA used an ad hoc approach to address situations where craft employees earned more than their supervisors. TVA may authorize a lump-sum cash payment to nonbargaining unit supervisors at any time to recognize their performance and extra hours worked for periods when their craft employees are paid overtime.
- According to Watson Wyatt, the ad hoc approach was the most popular approach used by private sector companies to address situations where employees earned more than their supervisors. The flexibility of this pay practice allows companies to make compensation decisions on a case-by-case basis.

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Increased Variable Pay Opportunities

- None of the five organizations we spoke with used increased variable pay opportunities to address situations where employees earned more than their supervisors.
- According to Watson Wyatt, private sector companies that increased supervisors' opportunities for variable pay used one or more variable pay programs, such as bonuses, spot awards, gainsharing, and/or lump-sum merit pay (added to basic pay or not).

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Objective 3: Other Organizations' and Industry Pay Practices for Supervisors (cont.)

Key Pay Practices for Supervisors

	Market-based pay	Variable pay program	Supervisory differential	Exempt overtime	Ad hoc pay
TVA	X	X			X
FAA		X		X	
WMATA	X	X	X		
UPS	X	X			
FedEx	X	X	X		

Source: GAO

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Conclusions

- The 1970 Act requires that supervisors be paid salaries that provide them an adequate and reasonable difference in pay over that of clerks and carriers. However, the 1970 Act did not specify what constitutes an adequate and reasonable difference or whether the difference should apply to basic or gross pay.

- In 1996, the Service lowered the the basic pay minimums of the EAS. It also established an SDA of 5 percent to provide a pay difference for certain postmasters and other supervisors in order to address this statutory requirement. However, since implementing the SDA, the Service has not fully evaluated the impact of the differential on postmasters and other supervisors.

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Conclusions (cont.)

- Our review showed that in 1999, for gross pay, about 12 percent of postmasters supervised craft employees who either earned more than they did or earned within 5 percent of what they earned. Also, most of these postmasters were lower graded and not eligible for the SDA.
- Given the lack of specificity in the 1970 Act, we are not in a position to conclude whether or not the results we found represent an adequate and reasonable outcome regarding pay differences for postmasters. However, prior to our providing the review results to the Service, it had only limited data to evaluate the impact of its SDA policy on postmasters, including which postmasters should be eligible for, and the amount of, the SDA. Without such information, the Service was not in the best possible position to factually assess the adequacy and reasonableness of the Service's SDA policy or other pay differences.

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Conclusions (cont.)

- Now that some data are available and an approach has been developed to analyze the Service's payroll data, the Service should be in a better position to make fact-based decisions on the adequacy and reasonableness of its SDA policy and pay differences.

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Recommendations for Executive Action

- In order to be in a better position to evaluate its SDA policy and the pay differences between postmasters and their craft employees, we recommend that the Postmaster General use postal payroll and any other comparable data to periodically:
  - determine the extent to which clerks and carriers may be earning more than their local postmasters, and the reasons why, if applicable; and
  - reassess the adequacy and reasonableness of the pay differences between postmasters and the clerks and carriers they supervise.

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Comparison of Current Law to the Proposed Postmasters' Fairness and Rights Act and Views on the Proposed Act

Under the Postal Reorganization Act of 1970, the Service is required to provide a program of consultation with organizations representing supervisors and postmasters under which the organizations are entitled to participate directly in the planning and development of pay policies and schedules, fringe benefits, and other programs relating to their members (39 U.S.C. 1004(b)). Under this act, the Service must discuss its proposed policies with postmaster organizations before they go into effect; and such discussions must be conducted in a meaningful, good faith manner. However, the Service cannot be forced to accept the postmaster organizations' proposals on polices or even be compelled to negotiate those policies with them.[1]

As a result of amendments to section 1004 in 1980, organizations representing supervisors are entitled to additional protections and procedures regarding the planning and development of pay policies and other programs affecting their members. For example, unless otherwise mutually agreed to by both the Service and the organizations, the Service is required to provide monthly meetings regarding the planning and development of pay and benefit programs to organizations representing supervisors. In addition, if organizations representing supervisors are not satisfied with the Service's decisions, they may request the Federal Mediation and Conciliation Service to convene a fact-finding panel to consider the matter.[2] Organizations representing postmasters are not entitled to these protections and procedures.

The Postmaster Fairness and Rights Act (the proposed act), H.R. 250 and S. 177, introduced in the 107th Congress, would provide new rights to organizations representing postmasters with regard to the consultation process. Most notably, if the Service and postmasters were unable to resolve any differences they might have regarding proposals on pay policies or other programs, either party could refer the dispute to binding arbitration.

We requested the views of the Service and the postmaster organizations on the proposed act. The Service is opposed to the proposed act and believes that it is unnecessary and will do irreparable damage to the Service's mission. The Service believes that the proposed act will create a labor

[1] See National Association of Postmasters of U.S. v. Runyon, 821 F. Supp. 775 (D.D.C. 1993).

[2] See 39 U.S.C. 1004(c)-(h).

union relationship with supervisory and managerial employees, which is inconsistent with the intent of the Postal Reorganization Act of 1970. According to the Service, supervisory unions are also inconsistent with the intent of the National Labor Relations Act, which is the foundation for union-management relations in the United States.

The National League of Postmasters of the United States (the League) strongly supports enactment of the proposed act and participated in its development. The League told us that over the last several years, postmasters have seen a continuous erosion of pay and benefits, including diminished pay differentials, the loss of cost-of-living adjustments, and reductions in convention and administrative leave. According to the League, under the Postal Reorganization Act of 1970, postmasters have no recourse when consultations with the Service produce unsatisfactory results. The League believes that the proposed act will help restore equity to the pay and benefits of postmasters and will encourage fair and true negotiation.

The National Association of Postmasters of the United States (NAPUS) also participated in developing the proposed act. According to NAPUS, in recent years, postmasters have been denied the ability to play a constructive and productive role in discussions with senior postal management over compensatory and programmatic issues. NAPUS believes that the proposed act will provide a more level playing field. It pointed out that in a number of instances outside the Service, management-level personnel are afforded opportunities to participate in a more equitable discussion over pay and program issues. According to NAPUS, school administrators in a number of states and municipalities and airline pilots are provided with these opportunities.

Comments From the U.S. Postal Service

JOHN E. POTTER
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

August 27, 2001

Mr. Bernard L. Ungar
Director, Physical Infrastructure Issues
United States General Accounting Office
441 G Street, NW
Washington, DC 20548-0002

Dear Mr. Ungar:

Thank you for providing us with the General Accounting Office's draft report of August 8 entitled "Comparison of Postmasters' and Craft Employees' Pay During 1999." We appreciate the opportunity to provide our comments.

We believe your report demonstrates that the Postal Service has fulfilled its statutory mandate to provide an adequate and reasonable differential in pay between bargaining-unit employees and their supervisors and postmasters. As indicated in your draft, 99.6 percent of our craft employees do not earn more in gross pay than their local postmasters.

Unlike many private sector companies, the Postal Service has established a formal process to address salary compression between supervisors and craft employees. To that end, we utilize the services of an independent consulting group to examine compensation issues. Through this process, we have established a number of premium pay practices for supervisory employees, including a Supervisory Differential Adjustment (SDA) policy, to address concerns about pay comparability. While your report indicates that the SDA minimum between craft and supervisory employees is 5 percent, it should be noted that the average difference for Fiscal Year 2000 ranged from 15 percent to 37 percent. This information is shared with our postmaster groups during pay consultations.

We appreciate your recommendations for executive action. Having a fair and equitable compensation system for all employees is crucial to the success of the Postal Service. We will continue to examine and assess the adequacy and reasonableness of the pay differences between postmasters and craft employees and look for further opportunities to improve our evaluations and communications with the management associations.

We will continue to consult in good faith with the leadership of the three management associations to achieve the compensation objectives outlined in the Postal Reorganization Act.

Sincerely,

John E. Potter

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Comments From the National Association of Postmasters of the United States

CHARLES E. MOSER
NATIONAL PRESIDENT
2000 – 2001

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August 15, 2001

Mr. Bernard L. Ungar
Director, Physical Infrastructure Issues
U. S. General Accounting Office
441 G Street, NW
Washington DC 20548

Dear Bernie:

I have reviewed a draft copy of the GAO report on the Comparison of Postmasters' and Craft Employees' Pay During 1999.

We are in agreement with your findings that a significant percentage of Postmasters earn less than the prescribed pay differential (SDA). This inadequacy significantly hinders the retention and recruitment of highly motivated and effective Postmasters, as referenced in Title 39 of the U. S. Code.

Furthermore, the National Association of Postmasters of the United States is encouraged by GAO's recommendation that the Postal Service reassess the adequacy and reasonableness of the pay differential between Postmasters and craft employees. We continue to believe that the SDA as currently employed has been calculated in an arbitrary and capricious manner.

I would like to express my sincere appreciation to you and your staff for the hard work that you put into this report. It has been my pleasure to work with a professional and dedicated group such as yours.

Please feel free to contact me if you have any questions or concerns.

Sincerely,

Charles E. Moser

Comments From the National League of Postmasters of the United States

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES
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August 21, 2001

Mr. Bernard L. Ungar
Director, Physical Infrastructure Issues
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548-0002

Dear Mr. Unger:

The National League of Postmasters appreciates the opportunity to comment on the GAO Report "U.S. Postal Service: Comparison of Postmasters' and Craft Employees Pay During 1999" (GAO/01-1025R). We commend the GAO, especially you, Gerald Barnes and Don Allison, for their detailed analysis of Postmaster and craft pay and their thorough explanation of current law governing the pay practices of the U.S. Postal Service as they relate to the nation's 26,500 Postmasters.

Some important facts should be considered when reviewing the report:

- 16,700 of the current 24,942 full-time Postmasters are EAS Level 15 or below.
- The 1999 payroll data used is already outdated and does not accurately reflect the serious pay differential issues that exist today; for example, in November, 2000, city carriers were awarded Level 6 pay, an average increase of 3.7%.
- In 1999, the maximum salary for a Level 11 Postmaster was $38,532; the maximum salary for a Level 13 Postmaster was $42,266; the maximum salary for a clerk was $45,992.
- In 1996, the Postal Service eliminated COLAs for Postmasters; craft employees continue to receive COLAs.

As explained in the report, the Postal Service discusses pay and benefits for Postmasters with the two Postmaster associations through the consultative process established by the Postal Reorganization Act of 1970 (PRA) (39 USC, §1004). The law requires the Postal Service to provide adequate and reasonable pay differences between clerks and carriers and their supervisors, such as Postmasters. While Congress did not legislate the amount of the salary differential, it considered a 25% differential to be reasonable and adequate.

In 1996, the Postal Service used the results of a 1995 Hay Management study as a basis for reducing the basic pay minimums of all EAS grades. That same study indicated that most private sector companies provide a 10 to 15 percent salary differential for management personnel and their subordinates. The Postal Service made an arbitrary decision to establish a 5% differential for FLSA-exempt Level 15 postmasters and above based on the maximum salary for a Level 5 clerk. This policy excludes over 10,000 Postmasters below Level 15.

We are concerned that over 200,000 craft employees and 15,000 Postmasters were excluded from the GAO study group for a variety of reasons. We acknowledge the difficult task faced by GAO in determining a balanced study group based on the data provided by the Postal Service. It is alarming that the Postal Service has never conducted an analysis of the impact of the Supervisory Differential Adjustment (SDA) or assessed the adequacy of the pay differences between Postmasters and the employees they supervise. The Postal Service pay data did not enable an accurate determination of the basic pay for rural carriers. Rural carriers have a basic salary for a 40-hour workweek with 12 steps that range from $28,102 to $38,808.

The magnitude of the lack of adequate pay differential cannot be accurately determined without comparing the wages of ***all*** craft employees and ***all*** Postmasters. We strongly urge that further review and analysis be conducted to more accurately address these issues.

Mr. Bernard Ungar
August 21, 2001
Page 2

The GAO report clearly indicates that an adequate pay differential does not exist for a significant number of Postmasters:

- 16% of EAS 15 nonexempt Postmasters and below make less than their employees.
- 5% of EAS 15 exempt Postmasters make less than their employees.
- 2% of EAS 18 exempt Postmasters and above make less than their employees.
- 7% of Postmasters supervise employees who earn within 5% of what their Postmaster earned.

These statistics are substantial! No Postmaster should make less than any craft employee in basic pay for a 40-hour workweek.

More than 60% of all full time Postmasters are EAS Level 15 or below. A thorough analysis of these Postmasters and their employees should be conducted, taking into consideration the work hours and overtime earnings of each. The lack of pay differential is most prevalent in these offices, and using statistics from higher-level offices diminishes the seriousness of the pay inadequacies in the lower level offices. Also, by including the incomes of the small number of Postmasters in Levels 22-27 and PCES, the average gross pay for postmasters is inflated. The study of differential should be confined to EAS 18 and below Postmasters and craft.

It is important to note that there has not been an agreement on a major pay package for Postmasters since 1995. In 1998, Postmasters received an average increase of 2%. There was ***no change*** to the EAS pay schedule in 1999, although the Hay Report for 1999 indicated that a 4% pay increase for management employees in 1998 and 1999 would have been appropriate.

In recent years, the consultative process has not been conducted in the spirit of negotiation and compromise as envisioned by Congress when it developed the PRA. The decisions on pay, benefits and working conditions made by the Postal Service are final, and there is no opportunity for the Postmaster organizations to challenge these decisions. There has been a significant erosion of salaries and benefits for Postmasters in recent years.

As a result, the Postmasters Fairness and Rights Act was introduced in the House and the Senate to provide arbitration rights to the Postmaster organizations when agreement cannot be reached on important pay and benefit issues. This legislation is **not** just about adequate pay differential – it is about restoring fairness and equity to rights of Postmasters to constructively participate as a part of Postal management.

We concur with GAO's recommendation that the Postmaster General periodically review the extent to which craft employees are earning more than their Postmaster and reassess the adequacy of the pay differential. We believe the SDA should apply to all EAS 11 Postmasters and above.

Again, we recognize the difficult task faced by GAO in conducting these analyses, and the National League of Postmasters appreciates your efforts.

Sincerely,

Joseph W. Cinadr
President

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