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

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July 15, 1975

B-101892

The Honorable David N. Henderson
Chairman, Committee on Post Office
and Civil Service
House of Representatives

HSE 02900

Dear Mr. Chairman:

On February 25, 1975, we issued a report to the Congress emphasizing the critical need for a better system for adjusting top executive, legislative, and judicial salaries. This report pointed out that there has been no adjustment in such salaries since March 1969, and concluded that the provisions of the Federal Salary Act of 1967, which contemplated that salary adjustments for such positions would be made every four years, have failed.

To date, no action has been taken on our recommendation that immediate legislation be enacted to reform the salary adjustment process for top officials. We recommended that a new process should provide that salaries be adjusted annually on the basis of either the annual change in the cost-of-living index or the average percentage increase in General Schedule salaries and that these pay levels be periodically reviewed by an independent commission.

Under the current quadrennial review and adjustment process, the next earliest possible adjustment could not occur until 1977. We believe that if adjustments are not made before then, the adverse effects on recruitment, retention, and incentive for advancement throughout the Federal service will continue to cause serious damage to the capability to manage Federal programs economically and effectively.

[redacted]

FPC-76-2

Enclosed is an updated synopsis of information included in our February report showing that the situation continues to worsen for Federal executives and their employing agencies and promises to deteriorate even further.

We trust that this information will assist the Congress in its consideration of this matter.

Sincerely yours,

Comptroller General
of the United States

Enclosure

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WASHINGTON, D.C. 20548

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The Honorable Gale W. McGee
Chairman, Committee on Post Office
and Civil Service
United States Senate

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Sincerely yours,

Thomas B. Staats

Comptroller General
of the United States

Enclosure

GENERAL ACCOUNTING OFFICE

THE EXECUTIVE PAY PROBLEM IS BECOMING INCREASINGLY CRITICAL

In February 1975, we reported to the Congress that there was a critical need for a better system for adjusting top executive, legislative, and judicial salaries. As we reported, the impasse on adjusting top officials' salaries has frozen salaries since March 1969 for Members of Congress, judges, Presidential and other appointees, and about 14,700 career civil service personnel.

The quadrennial review and adjustment process has failed. It is much too long a period in our dynamic economy. Increases should be automatic. The last increase was proposed in 1974. A significant percentage increase was needed but the Senate rejected the President's proposed three stage increase. Failure to adjust top officials' salaries and resultant compression in other systems create great inequities and are having serious adverse effects on recruitment, retention, and incentives for advancement throughout the Federal service.

To date, no action has been taken on the General Accounting Office recommendation that legislation be enacted to reform the salary adjustment process for top officials. This paper updates information included in our February report which shows that the situation continues to worsen for Federal executives and their employing agencies and promises to deteriorate even further.

Erosion of purchasing power

Inflation has continued to erode the purchasing power of executive, legislative, and judicial salaries. By May 1975, individuals holding these positions had lost almost a third of the purchasing power of their March 1969 salaries.

Executive level	March 1969 salary	May 1975 purchasing power
I	$60,000	$40,680
II	42,500	28,815
III	40,000	27,120
IV	38,000	25,764
V	36,000	24,408

To put it another way, a Level V official would have to earn about $53,000 a year just to maintain the same standard of living he had in 1969.

The compression problem is becoming more severe

Since March 1969, General Schedule employees have received seven pay raises accumulating to about 50 percent. Estimates of the next General Schedule increase, scheduled for October 1975, run as high as nine percent. While the President has indicated a desire to hold the raise to five percent, additional employees will reach $36,000 regardless of the percentage increase.

	Percent of employees at $36,000		
	Current	If October raise is	
GS	pay rates	Five percent	Nine percent
18	100	100	100
17	100	100	100
16	89	100	100
15	19	46	62
14	-	-	3

Non-Federal executives have received substantial pay increases

From 1969 through 1974, non-Federal executives' salaries increased about 37 percent and were projected to increase another 10 percent during 1975. Similarly, senior civil service employees in other countries have had substantial pay increases since 1969. The pay of top government positions in England, Germany, and Italy increased anywhere from 50 to 150 percent between 1969 and 1975. Many officials in these countries now receive more compensation than their U.S. counterparts. These officials generally received pay increases at the same time increases were given the lower paid civil servants.

Retirement is more financially attractive than continuing to work

The salary ceiling along with cost-of-living adjustments for Federal retirees has provided increased incentives for eligible executives to retire. Since the last salary increase for top officials, retirees have received increases of approximately 55 percent. Another increase of 5.1 percent will be granted to retirees on August 1, 1975. Employees who retire by this date will also have the 7.3 percent increase of January 1, 1975, considered in their annuity calculations. For example, if a GS-18 with 30 years of service had retired in December 1974, his annual annuity after the August adjustment would be $23,843. If he continues to work through July 1975, his annuity on August 1, 1975, would be $22,836. If he retires after July 1975, his annuity would be only $21,724--$2,119 less than if he had retired in December and $1,112 less than if he had retired in July.

Between November 1, 1974, and February 1, 1975, the retirement rate of eligible Government executives was almost 300 percent higher than the Government-wide average. The greatest number of retiring executives was in the 55 to 59 age group. The greatest number of total retirements among all employees was in age group 62 and over. The earlier retirements of Government executives result in added costs to the retirement fund in addition to the cost of their replacements. At least seven former Government officials now receive annuities greater than $36,000.

Recruitment and retention of Federal executives is becoming more difficult

The Government continues to experience difficulties recruiting and retaining top quality individuals in key positions. Some recent examples are:

--An individual declined appointment to a Department of Commerce's GS-16 Associate General Counsel position in order to accept a position paying $50,000 in private industry.

--Six individuals declined the Library of Congress's GS-17 position of Senior Specialist in Taxation and Fiscal Policy because they were all earning higher salaries in their present employment.

--Two candidates said they could not afford to accept HEW's GS-18 position of Director, National Institute On Aging at the National Institutes of Health because of the pay limitation. One individual, currently with NIH, refused promotion to this position because he would not have received any increase in pay.

--In June 1975, six of the Department of Treasury's 12 top officials announced their departures. The Under Secretary of the Treasury for Monetary Affairs resigned his $40,000 post because he said he was "broke". He said there were no reasons for leaving other than the need to replenish his "flat pocketbook."

--HEW's GS-17 Associate Administrator for Planning, Research, and Training resigned to accept a higher-paying job in private enterprise.

--The GS-18 Executive Director of the Federal Power Commission retired to seek employment in private enterprise because of the executive salary ceiling.

--NASA's Associate Administrator resigned to accept a position in the private sector and in leaving indicated a dissatisfaction with Federal salary levels.

--The Executive Director and the General Counsel of the Civil Service Commission retired because of the freeze on supergrade pay.

--Five top officials of the Social Security Administration announced their retirement because staying on in the frozen pay levels would deny them cost-of-living increases as retirees.

--Four GS-16 Administrative Law Judges in the Federal Trade Commission retired indicating their decisions were influenced by the effect of the salary ceiling on their annuities.

--During January to May 1975, the Department of Defense reported that the salary ceiling was an important part of the decisions of 17 executives to resign or retire, three employees to refuse promotions, reassignments, or transfers, and 22 individuals to decline Government job offers.