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REPORT TO THE CONGRESS

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Critical Need For A Better System For Adjusting Top Executive, Legislative, And Judicial Salaries

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

This report points out the critical need for a better system for adjusting salaries of top Federal officials. The present 4-year process for assessing and adjusting salaries has failed to achieve its objectives. Such salaries have not changed since March 1969, and since then the salaries' purchasing power has decreased considerably. In contrast, salaries of non-Federal executives have increased significantly.

Because the lowest rate of the Executive Schedule--$36,000--is the statutory pay ceiling for other Federal pay systems and because these systems have had pay increases amounting to about 50 percent since March 1969, five management levels now draw the same salary. This situation has created great inequities and is having serious adverse effects on the recruitment, retention, and incentives for advancement to senior positions throughout the Federal service.

It is crucial that legislative action be taken to maintain reasonable and equitable pay levels for officials running the Government's huge, complex operations.

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

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

AMA	American Management Association
GAO	General Accounting Office
GS	General Schedule
HEW	Department of Health, Education, and Welfare
NASA	National Aeronautics and Space Administration

CRITICAL NEED FOR A BETTER SYSTEM FOR ADJUSTING TOP EXECUTIVE, LEGISLATIVE, AND JUDICIAL SALARIES

In carrying out our responsibilities for advising the Congress on actions needed to improve the economy, efficiency, and effectiveness of Federal operations, we believe that there is an urgent need to provide a better system for adjusting salaries of top officials in the executive, legislative, and judicial branches--Presidential and other appointees, congressmen, and judges. This report updates a GAO report (Feb. 1974) prepared in response to requests from a number of Members of Congress and GAO testimony (June 20, 1974) before the Senate Post Office and Civil Service Committee.

The need for early legislation to improve the pay adjustment process arises from the fact that there has been no adjustment in such salaries since March 1969 and the failure to carry out the intent of the Federal Salary Act of 1967 (Public Law 90-206), which contemplated that salary adjustments would be made every 4 years. During the 6 years since the last adjustment, there have been significant increases in (1) the cost of living, (2) salaries in the private sector, State and local government, and nonprofit organizations, and (3) the size and complexity of Federal programs.

President Richard M. Nixon recommended a catchup adjustment in three annual increments, but the Senate rejected this in March 1974. President Gerald R. Ford's 1976 budget contains no provision for adjustments in top officials' pay. Under the quadrennial process provided for in the statute, the earliest possible adjustment would not occur until 1977. We believe that, if adjustments are not made before then, there will be further serious adverse effects on the recruitment, retention, and incentives for advancements to senior positions throughout the Federal service. This will make it increasingly difficult to manage Federal programs economically and effectively.

The cost to provide equitable salary adjustments--about $6.5 million for each 1-percent increase--would be small in relation to the potential benefits in carrying out programs in a Federal budget of nearly $350 billion proposed for fiscal year 1976.

It has been argued that any upward adjustment in top officials' salaries would be inappropriate now when unemployment is increasing and the budget is running a large deficit. But equal consideration needs to be given to the need to obtain and retain the highly trained and experienced executive, scientist, or medical doctor responsible for decisions involving vast sums and managing programs affecting the Nation's economy, welfare, and security. In report after report, we point out the need for effective management of the Government's programs.

WHO IS AFFECTED?

- --Members of Congress, judges, and Presidential and other appointees under the Executive Schedule Levels I to V (about 2,400 persons).

- --About 14,700 career civil service personnel. Executive Level V pay rate--$36,000--is the ceiling for career personnel. General Schedule (GS) grade 18 and some GS-17 and equivalent positions reached this ceiling in January 1971. Since then, all GS-17s, 89 percent of GS-16s, and 19 percent of GS-15s have reached the ceiling.

HOW ARE THEY AFFECTED?

Top officials' salaries have remained stagnated since March 1969.

- --But the cost of living had increased approximately 44 percent by December 1974, considerably eroding the salaries' purchasing power. If this trend continues to 1977, the earliest possible adjustment, a Level IV salary of $38,000 will be worth about $23,200 and the congressional and Level II salary of $42,500 will be worth $25,900.

- --Meanwhile, non-Federal executive salaries had increased approximately 37 percent by June 1974. The projected increase for 1975 is 10 percent.

- --During these years other Federal white-collar salaries increased by about 50 percent.

The Congress has recognized the impact of inflation by raising allowances for certain office expenses for Members of the House of Representatives and by increasing the ceiling for professional staff in the Senate from $36,000 to $38,470.

A GS-18 would be earning $10,300 more today if he had received comparability adjustments and the $36,000 ceiling had not been in effect. From January 1971 through December 1974, his cumulative salary loss has been about $20,000 and inflation has cut the $36,000 salary's purchasing power to about $27,600. At current inflation rates, by 1977, the salary will be worth only $24,200 compared to 1971.

Most incongruous of all is the fact that, without pay adjustments, employees with the same age and service can actually earn higher retirement annuities by retiring now than by continuing to work for the Government. Because retirement annuities are adjusted to the Consumer Price Index (CPI), a GS-18 who retired in December 1974 would get $1,824 less in annuity than if he retired in December 1973, even though he worked another year and paid $2,520 more into the retirement fund.

WHY ACTION IS NEEDED NOW

We believe that early action should be taken to enact legislation to modify the procedure for adjusting top executive, legislative, and judicial salaries to keep these adjustments more nearly in line with the comparability adjustments provided for career employees. Actions to carry out these recommendations are believed to be of high priority to:

--Relieve hardships which have arisen due to cost-of-living increases. (See app. I.)

--Reduce the widening gap since 1969 between pay for top positions in the Federal Government and pay adjustments which have occurred in the private sector, in State and local government, and in non-profit organizations. (See app. II.)

--Overcome the growing compression at the top levels which results in:

1. The same salary for five levels of responsibility (GS-15 through Executive Level V).

2. Inequities of annually adjusting pay for lower levels whereas individuals at the senior levels are blocked by the salary ceiling of $36,000. (See app. III.)

--Avoid the losses in salaries and fringe benefits and reduce turnover of key personnel. (See app. IV.)

--Help overcome (1) recruiting difficulties in filling senior level positions, particularly in scientific, medical, and educational fields, and (2) the disincentives to work for promotion and higher responsibility. (See app. V.)

CONCLUSIONS AND RECOMMENDATIONS

Effective Government does not just happen. It has to have good people to run it. The Government must obtain and retain the most capable professional and managerial people to effectively manage Federal programs. These programs affect the life, health, safety, and education of most Americans. It takes an organization, leadership, and all kinds of skills to make a Federal program effective. It is crucial that reasonable and equitable pay levels be achieved and maintained for top officials running the Government's huge, complex operations.

However, the present 4-year procedure for assessing and adjusting salaries of top officials in the executive, legislative, and judicial branches has failed to achieve its objective of regular review and adjustment of such salaries. This failure, along with the pay ceiling it imposes on senior employees of other pay systems, adversely affects both the senior Federal employees and the Government.

The stagnated executive salary rates and the resultant compression of salary rates in other pay systems have distorted pay relationships in Federal pay systems. They have vitiated legislated pay principles of external equity (comparability with private enterprise) and of internal equity (equal work for equal pay and maintaining pay distinctions in keeping with work distinctions). This situation obviously adversely affects retention, hiring, and motivation of the affected work force. Under current economic conditions, this situation is penetrating into increasingly more levels of work. The top pay rate of a GS-14 is only 8.25 percent from the ceiling.

Federal officials' salaries are significantly below their non-Federal counterparts' salaries. This disparity is rapidly increasing.

The situation is becoming untenable. The Nation has a tremendous stake in how well Federal programs are managed. If the loss of top managerial and professional people continues, the impact on the effectiveness of Government operations will have serious consequences.

Fundamental changes are needed in the pay setting process for officials in the executive, legislative, and judicial branches. The quadrennial review and adjustment is much too long a period in our dynamic economy; salaries should be adjusted more frequently. We are not suggesting that Federal executive salaries be as high as their private sector counterparts nor that the salaries be significantly increased immediately. However, equitable pay relationships which reflect responsibilities of positions should be maintained between and among the pay rates for such Federal offices and positions and between those and the pay rates of employees under the statutory systems.

A mechanism to adjust top officials' salaries more frequently and to maintain equitable pay relationships should provide for (1) an orderly, automatic annual adjustment, when warranted, and (2) appointment of an independent commission to periodically examine appropriate pay relationships in depth and report its findings and recommendations to the President and the Congress.

The annual adjustments should be indexed to changes in the cost of living or the average percentage increase in GS salaries each year. Indexing to the cost of living would provide economic increases to maintain the purchasing power of the salaries. Since the statutory systems' pay rates are annually assessed and adjusted on the basis of private sector rates, indexing to the percentage increase in GS rates would provide increases reasonably close to non-Federal-sector salary changes.

A related concern is the executive (supergrade) personnel system. In the last few years, improvements to the system have been proposed, including a salary system (1) with broad salary bands (from a specific point on the GS-15 band to the Level V rate), (2) within this broad band compensating on the basis of an individual's capability or contributions to the job, and (3) with mid-point congressional control. Changes are desirable to give management greater flexibility in assigning pay and establishing responsibility levels. The three supergrade responsibility levels are often too restrictive. The Congress may want to again consider establishing broad salary bands or establishing more grades. These considerations, however, should not hold back early consideration and resolution of the quadrennial process dilemma.

We strongly recommend that the Congress enact immediate legislation to reform the salary adjustment process for top officials. The new process should provide that:

--The salaries be adjusted annually, beginning this year, on the basis of either the annual change in the cost-of-living index or the average percentage increase in GS salaries.

--An independent commission periodically review and evaluate the relationships between top officials' pay levels and between such levels and GS pay levels based on the relative responsibilities between and among such positions. The commission should report its findings and recommendations to the President and the Congress.

WHAT HAS INFLATION DONE

TO PURCHASING POWER OF STAGNATED SALARIES?

Consumer prices have increased significantly since the March 1969 pay increase for top officials, eroding the purchasing power of executive salaries by about 30.5 percent. At the earliest adjustment under the quadrennial process (about Jan. 1977), assuming CPI increases at the same average rate and no legislation is enacted, the purchasing power of Federal executive salaries will decrease by about 39 percent. The following table shows the estimated purchasing power of Executive Level salaries.

Executive level	Salary established Mar. 1969	Purchasing power Dec. 1974	Purchasing power Jan. 1977
I	$60,000	$41,700	$36,570
II	42,500	29,538	25,904
III	40,000	27,800	24,380
IV	38,000	26,410	23,161
V	36,000	25,020	21,942

The GS-18s and equivalents' salary has been limited by the $36,000 ceiling since January 1971. Their purchasing power has decreased to about $27,600 in December 1974 and will decrease to about $24,200 by January 1977.

WHAT HAS BEEN THE TREND IN NON-FEDERAL EXECUTIVE PAY SINCE THE 1969 ADJUSTMENT IN FEDERAL PAY?

The Executive Schedule, with five levels, covers most officials in the executive branch above the GS-18 level. A 1967 law provides for (1) a quadrennial review of Executive Schedule salaries along with those of other officials linked to Executive Schedule rates (Members of Congress, Federal judges, and many of the employees in the legislative and judicial branches), (2) the President to submit to the Congress his pay recommendations, and (3) these rates to become effective unless the Congress enacts a separate pay law or either House of the Congress specifically disapproves of the President's recommendations.

The first quadrennial commission, in its December 1968 report, recommended salary increases in the Executive Schedule which were regarded as a catchup and were also expected to establish a more reasonable relationship with 1968 values. However, the President recommended substantially reduced salaries which became effective March 1969.

Level	1968 actual	1969 commission's recommendations	1969 rate established	Shortfall
I	$35,000	$60,000	$60,000	$ -
II	30,000	50,000	42,500	7,500
III	29,500	46,000	40,000	6,000
IV	28,750	43,000	38,000	5,000
V	28,000	40,000	36,000	4,000

The second quadrennial commission, in its June 1973 report, showed that compensation of executives in industry and State and local governments had increased approximately 30 percent since 1968.

The situation has further worsened. Various independent studies show that private sector executive salaries have continued to increase since the second quadrennial commission's study.

American Management Association (AMA) data, published in November 1974, clearly shows the trend in private sector top management salaries since the last adjustment of executive salaries in March 1969.

	Percent increase in salaries over previous year
1969	5.1
1970	6.5
1971	5.5
1972	5.1
1973	6.9
1974	8.4

This is a cumulative increase of 36.8 percent between June 1969 and June 1974. If legislation is not enacted before January 1977 (the earliest date of the next Presidential recommendation under the quadrennial process), the 36.8-percent lag would widen (assuming a straight-line projection) to about 60 percent.

Other studies substantiate the AMA findings. In November 1974 the President of Sibson and Company, Inc. (management compensation consultants), reported that:

> "For the past 10 years, managerial salaries have increased an average of 7 to 8 percent every year in good times and in bad. Next year will probably be the first in which increases will significantly exceed that rate.
>
> "It's likely that 1975 will show increases of about 10 percent.
>
> "Why? Mostly because so many companies now review managerial salaries every year. A decade ago, it was common practice to review management salaries every two years. Today, about 90 percent of the companies surveyed review salaries of key persons annually."

In a December 1974 salary survey, the American Compensation Association found that:

--Officer and executive salaries in the non-Federal organizations surveyed increased an average of 9 percent in 1974. This survey covered all sectors of non-Federal employment, including educational institutions and State and municipal governments where executive salaries increased 7.7 percent and 8.2 percent, respectively, during the year.

--Proposed increases for 1975 averaged 9.4 percent.

The responsibilities of officials in Executive Levels I to V equal or exceed those of their counterparts in the private sector, though their compensation is substantially less. For example, the Chief Forester of the United States, Level V, with a salary of $36,000, will be responsible for expenditures in fiscal year 1975 of almost three-fourths of a billion dollars. AMA data shows that top executives of private companies of similar size earn salaries of $160,000 or more, plus bonuses and other benefits. Similarly, a June 1974 Civil Service Commission study, conducted in cooperation with the American Compensation Association, showed the average private enterprise salary rates for positions equivalent to GS-16 to 18 to far exceed $36,000. Study data obtained from 128 companies revealed the following private salary rates:

Private enterprise GS equivalents	Average private salary
GS-16	$45,146
GS-17	56,011
GS-18	71,076

In testimony at hearings of the Senate Post Office and Civil Service Committee in June 1974, the Director of Compensation and Benefits of a large corporation, who had also served as Director of Executive Compensation on the Cost of Living Council, stated that

> "the budget and personal responsibilities of such jobs as the Director of the Bureau of Standards, the Director of the National Institutes of Health, the Commissioner of Patents, can only be found in multibillion dollar corporations."

* * * * *

> "The Director, National Bureau of Standards, administers a budget of about 70 million dollars per year. The organization is staffed with 1400 non-professional and 1600 professional employees, a total of 3000. Aside from the work in maintaining physical standards of measurement, a large part of the work in the Bureau is fundamental research. This position at Executive Level V is paid $36,000. A Research Director in private enterprise with similar budget and personnel responsibilities is paid from $100,000 to $150,000. For perspective, this same salary level could be thought of with

> respect to the Director of National Institutes of Health - this Government job is somewhat greater in scope than the Bureau of Standards position. At Executive Level IV it is paid $38,000.
>
> "The entire country depends upon protecting its technology through the U. S. Patent Office. The Commissioner of Patents has about 2100 employees, 1100 of whom are professionals and a high percentage of the professionals are attorneys. Paid in Executive Level V at $36,000, the Commissioner relates to the Heads of Patent Departments in large corporations having 40 to 100 attorneys and paid from $65,000 to $90,000."

These wide disparities between Federal and private sector pay of key executives have long existed.

Many State and local government positions command considerably more than most Federal positions. The second quadrennial commission reported in 1973 that 1,858 State and local government officials were paid over $36,000 annually, including 1,094 who were paid $40,000 or more. The average salary of chief administrators in cities and counties of over 1 million persons was $39,500 and $39,433, respectively, in 1973.

Salaries of State and local government officials increased significantly between 1969 and 1973. Data for selected positions is shown below.

Occupational grouping	Number of positions	Percentage increase 1969-73
State mental health administrator	48	23
State public school officer	50	28
State appellate court judge	50	26
City manager (cities having over 10,000 population)	620	38
City attorney (cities having over 10,000 population)	393	54
City superintendent of schools	135	40
City health officer	156	46
City planning director	310	42
City finance director	374	44
All city employees	-	33

The New York State education officer's yearly salary increased from $45,000 in 1969 to $53,325 in 1973. The salary of the public assistance director of Oklahoma increased from $34,740 in 1969 to $50,000 in 1973. In contrast, the $36,000 salary for the Executive Level V position of the Commissioner of Education, Department of Health, Education, and Welfare (HEW), has remained static.

Though Federal judicial salaries have remained unchanged since March 1969, salaries of State chief judges have increased 44.2 percent. In 1969 only New York State paid a chief judge more than a Federal district judge. In 1974, 20 States compensated judges at rates equal to or greater than the Federal salary.

HOW EXTENSIVE ARE THE INEQUITIES

OF THE GROWING COMPRESSION PROBLEM?

The pay of a significant growing number of career employees is being frozen at $36,000 a year. In general, pay rates of the other Federal pay systems are (1) governed by the legislated principle of comparability with pay in the private sector and (2) reviewed and adjusted annually by administrative action. Various laws provide, however, that Federal pay rates not exceed the rate for Executive Level V--$36,000 a year.

The pay rates for GS-18, the top step of GS-17, and equivalent positions in other pay systems reached the ceiling in January 1971. With each annual salary increase based on comparability with private sector pay, the ceiling's effect has progressively penetrated into lower grades and, as of October 1974, 14,700 employees' pay was limited to the $36,000 ceiling.

For example, the sharp increase in the percent of GS supergrade employees (GS-16, GS-17, and GS-18) paid less than the comparability rate follows.

Date of GS increase	Percentage of supergrade employees limited to $36,000
Jan. 1, 1971	18
Jan. 1, 1972	33
Jan. 1, 1973	64
Oct. 1, 1973	85
Oct. 1, 1974	92

As of October 1974, there were 4,269 employees in grades GS-16, GS-17, and GS-18 and 4,464 employees in the top three steps of GS-15 who should be paid more than the ceiling. The following table shows the GS-15 to GS-18 salary rates, as determined by the comparability process, and the asterisks show the rates limited to the $36,000 ceiling.

Steps	GS-15	GS-16	GS-17	GS-18
1	$29,818	$34,607	$40,062*	$46,336*
2	30,812	35,761	41,397*	
3	31,806	36,915*	42,732*	
4	32,800	38,069*	44,067*	
5	33,794	39,223*	45,402*	
6	34,788	40,377*		
7	35,782	41,531*		
8	36,776*	42,685*		
9	37,770*	43,839*		
10	38,764*			

The penetration into the lower grades will continue and may accelerate. The October 1974 pay increase for Federal white-collar employees was 5.52 percent and was based on March 1974 private sector pay data. Private pay has significantly increased since wage and price controls ended on April 30, 1974, which may be reflected in October 1975 Federal comparability pay increases. The salary rate for employees in the top step of GS-14 ($33,258) is only 8.25 percent from the ceiling.

Salary compression seriously weakens two statutory pay principles of internal equity--equal pay for equal work and maintaining pay distinctions in keeping with work and performance distinctions. All employees in grades GS-18 and GS-17, 89 percent of those in GS-16, and 19 percent of those in GS-15 now receive annual salaries of $36,000. The statutory pay principles dictate that those paid the same should have equal responsibilities, but obviously they do not. In fact, many levels of supervision in a typical major division or bureau earn the same salary, a condition which would be considered unacceptable in the private sector. A June 1974 study by the Civil Service Commission showed that the intergrade differentials between private sector equivalents to GS-15 to 18 were as follows:

Between grades	Percentage differential
GS-15 and GS-16	24.6
GS-16 and GS-17	26.3
GS-17 and GS-18	27.5

The most obvious adverse impact of compression is that Federal employees are denied comparability salary increases to which they would otherwise be entitled. Employees whose salary rates are below the ceiling have received an average increase of about 23 percent since GS-18s reached the ceiling in January 1971.

The difference between the pay of senior employees and the pay of lower level employees has narrowed sharply during the past several years. In December 1969, when Federal salaries were unaffected by the present ceiling, the differential between the pay of an employee in the first step of GS-12 and the pay of a GS-18 employee was 150 percent, or $21,313. After the October 1974 pay increase, the differential had narrowed to 95 percent or $17,537.

Continuation of this narrowing will not only further distort pay distinctions in keeping with work distinctions, but it will reduce morale within the work force and have a negative impact upon the career incentives of employees entering the career service.

WHAT LOSSES IN PAY AND BENEFITS

RESULT FROM SALARY COMPRESSION?

The most obvious loss is that employees are denied salary increases to which they would otherwise be entitled. For example, the following table shows the annual salary loss of employees at levels GS-18, GS-17 (step 4), GS-16 (step 5), and GS-15 (step 10) based on current comparability rates.

	Comparability rate	Ceiling	Annual salary loss
GS-18	$46,336	$36,000	$10,336
GS-17 (step 4)	44,067	36,000	8,067
GS-16 (step 5)	39,223	36,000	3,223
GS-15 (step 10)	38,764	36,000	2,764

When viewed on a cumulative basis, the inequity caused by the ceiling seems even greater. For example, a GS-18 employee's cumulative salary loss for the 4 years ended January 4, 1975, would be $20,039.

Comparability rate	Ceiling	Difference	Period	Salary loss
$37,624	$36,000	$1,624	Jan. 71-Jan. 72	$ 1,624
39,693	36,000	3,693	Jan. 72-Jan. 73	3,693
41,734	36,000	5,734	Jan. 73-Oct. 73	4,411
43,926	36,000	7,926	Oct. 73-Oct. 74	7,926
46,336	36,000	10,336	Oct. 74-Jan. 75	2,385
				$20,039

Moreover, as discussed on page 7, the affected employees are continually losing ground since the purchasing power of the $36,000 salary has decreased by 23 percent during this period.

The ceiling also affects future retirement earnings. An employee's annuity under the civil service retirement system is based on his average annual salary during his 3 highest paid years and his years of service. The higher the average, the greater his retirement income. By compressing salaries below rates determined by the comparability process, the ceiling is penalizing employees, since the retirement income they would otherwise be entitled to is being reduced. Similarly, any cost-of-living increases 1/ received after retirement would be based on the lower amount.

As an example, at December 31, 1974, the "high-3" pay average of a retiring GS-18 employee with 30 years' service was $36,000 because of the ceiling. His earned annuity was $21,143. On January 1, 1975, Federal retirees received a 7.3-percent cost-of-living adjustment increasing the annuity by $1,543 to $22,686. In contrast, the employee's pay average without the salary ceiling would have been $42,037 earning an annuity of $23,975. With the January 1975 adjustment, this amount would have increased by $1,750 to $25,725--$3,039 more than the annuity actually received.

In planning whether to continue a career or retire, an employee whose salary is at the ceiling must consider the relative financial benefits. Under current economic conditions, continuation of the $36,000 ceiling will allow many employees to earn more retirement income by retiring early rather than continuing to work for the Government.

For example, had a 55-year-old GS-18 employee with 30 years' service retired on December 31, 1973, his annual annuity as of January 1, 1975, would be $25,331 because of the cost-of-living increases granted to Federal retirees. Had he remained employed until December 31, 1974, his annuity on January 1, 1975, would be only $23,507--$1,824 less--and he would have paid $2,520 into the retirement fund during the additional year of employment.

This anomaly is caused primarily by the $36,000 ceiling. Since the "high-3" salary average of a Federal executive cannot increase above $36,000, only additional service can increase his accrued annuity before retirement. Each year of additional service increases a retirement annuity by 2 percent of the "high-3" average ($720) which is far less than the cost-of-living increases granted to annuitants in recent years. The annuity adjustments made in the past 3 years follow.

1/ Civil service retirement annuities are adjusted on the first day of the third month that begins after CPI has risen at least 3 percent from the last adjustment and remains at this higher level for 3 consecutive months. The annuity increase is equal to the highest percentage increase in CPI during the 3 consecutive months plus 1 percent.

Effective date	Percent
July 1, 1972	4.8
July 1, 1973	6.1
Jan. 1, 1974	5.5
July 1, 1974	6.3
Jan. 1, 1975	7.3

On a cumulative basis, the above annuity increases total about 34 percent. Current economic projections during the current double-digit inflationary period indicate that frequent annuity increases will continue.

The above is a major consideration in comparing the financial benefits of whether to continue a career or to retire. Other matters include the impact of other work-related expenses (e.g., transportation and wardrobe costs) and Federal and State income taxes (e.g., Federal annuities are nontaxable until the employee's contribution is recovered).

For example, six of the seven GS-18 Regional Commissioners of the Internal Revenue Service retired during 1974. All six of those key officials were young--average age 57.3--with many years of valuable service to offer. But the salary ceiling made the economic incentive to retire too great.

Other examples of the impact of the ceiling on key employees' decisions to seek other employment or to retire are:

--Six Federal judges have resigned since November 1973 to return to private or corporate law practice--more than at any time in the last 34 years. The average age of these former judges is about 55 years, and they are reportedly now earning annual salaries of $60,000 to $200,000.

--The Department of Agriculture's GS-17 Director of Automated Data Systems resigned to accept a $70,000 position in private industry.

--A GS-17 Regional Director in the Department of Transportation refused reassignment to the position of Associate Administrator for Airports because there was no monetary compensation for relocation and because of the higher cost of living in the Washington, D.C., area.

--HEW lost a number of essential health administrators, such as a director of health policy, a career pathologist, a researcher who pioneered the virus-cancer research program, an internationally recognized authority on nutrition research, and a clinical center director. All obtained jobs in private industry with salaries considerably above $36,000 a year.

--The Department of Defense reported 67 instances over the past 10 months when pay limitations were the principal reason cited by executives for leaving Federal employment.

--The Office of the Secretary of Defense recently lost six key officials ranging in age from 41 to 55 years due to the ceiling on salaries. Four executives left to accept better paying positions with private industry, and two executives retired because of the salary limitation.

--Three top positions in the Army Materiel Command were vacated in 1974. Two top officials left because retirement was comparatively more attractive due to the salary ceiling, and the third retired to accept a position with private industry.

--The Defense Supply Agency lost 7 of its 22 supergrade executives and 48 GS-15s whose salaries were frozen at $36,000.

--The Department of the Navy lost a GS-17 who was in charge of all naval aircraft production. With his retirement income and the salary of his new private industry job, he earns $58,000 a year.

Irreplaceable experience and competence are being drained off by the salary ceiling impact.

WHAT HAVE BEEN THE TURNOVER RATES OF AND

DIFFICULTIES IN RECRUITING KEY PERSONNEL?

Supergrade attrition substantially increased in 1973; in 1974 attrition decreased but was still high.

Reason for leaving	FY 1971	FY 1972	FY 1973	FY 1974
Resignation	113	126	170	183
Retirement	333	325	535	331
Death	22	25	18	17
Other separations	33	22	30	28
Total separations	501	498	753	559
Population (note a)	6,478	6,566	6,485	6,630
Rate of attrition (per 100 supergrades)	7.7	7.6	11.6	8.4

a/ All GS-16 to GS-18 employees and employees whose salaries are specified by law (mostly scientific and technical positions).

The above data shows that a significantly increasing number of executives are resigning--62 percent higher in 1974 than in 1971.

Some agencies report that they are experiencing increasing difficulty in hiring qualified personnel from outside the Government to fill senior level positions. This is particularly notable in the scientific, medical, and educational fields. Personnel directors said the individuals best qualified to fill supergrade positions often are refusing to accept Government employment because they would suffer a loss of income.

Specific examples of hiring problems follow.

--HEW reported considerable difficulty in attracting scientists who are recognized specialists in their fields. Even to obtain individuals of less professional experience and stature, HEW must compete with salaries of $45,000, which many associate professors now earn.

--A candidate refused to be considered for HEW's GS-18 position of Director, Office of Child Development, because she was making $50,000 in the private sector.

- --In April 1974, 21 physicians refused $36,000 offers for supervisory research positions in the National Institutes of Health.

- --Numerous private actuaries declined the GS-18 position of Chief Actuary of the Social Security Administration because of the $36,000 salary. As of November 1974, the position remained unfilled after being vacant for 18 months.

- --A scientist declined to accept a GS-16 position in the Congressional Research Service because his university offered him $42,000 to stay.

- --An exceptional candidate declined the Department of the Interior's $36,000 position of Deputy Assistant Secretary for Energy and Minerals to accept a position with a private consulting firm paying between $50,000 and $75,000.

- --Several supergrade positions in the Federal Trade Commission have frequently remained vacant for months, in part, because of the noncompetitive Federal salaries for the highly specialized positions.

- --The National Aeronautics and Space Administration (NASA) has had numerous highly qualified individuals interested in top management positions only to have them reject the job offers after considering the salaries. In almost every case when NASA did attract a top-level man, he had independent means.

- --When the Federal Energy Office began staffing top level jobs, there were numerous refusals--36 in one period of a few weeks--because of the disparity between Federal and private industry salaries.

- --Six HEW officials, including one who was on loan to the State of New York at a salary of $42,000, refused promotions to the GS-18 position of Deputy Assistant Secretary of Defense for Health Resources and Programs because of the $36,000 executive salary limitation.

- --A former Assistant Secretary of the Army declined reappointment after learning that the $38,000 Executive Level IV salary had not been increased since he left the position several years earlier.

Skill levels in some supergrade positions have fallen because, on occasion, vacancies caused by early retirements or resignations must be filled by employees who have less experience and lower skills. For instance, the head of a major Federal agency reported that turnover of the agency's executives was currently greater than at any time in over 20 years. In the first 6 months of 1974, the agency had to place 67 executives in new positions. The agency head said that such a great number of changes presented major managerial problems and created additional strain until the new incumbents could gain sufficient experience.

Moreover salary compression (see pp. 13 to 15) is making supergrade positions less attractive to career employees and may seriously affect executive morale as well as the willingness of employees to pursue an executive career. Some employees have made themselves totally unavailable for promotion since they reached $36,000 because they did not want the additional responsibilities with no additional income. Others have expressed unwillingness to make geographic moves to new work assignments even when promotions were involved.

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