CBO MEMORANDUM

COMPARING THE PAY AND BENEFITS
OF FEDERAL AND
NONFEDERAL EXECUTIVES

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NOTE

As this memorandum was being completed, the Congress was considering various cuts in discretionary spending for fiscal year 2000. How those cuts would affect planned increases in federal salaries is not yet clear.

This memorandum is the third in a series of Congressional Budget Office (CBO) reports comparing the federal government's compensation practices with those in the private sector. The analysis compares the pay and benefits that apply to most of the government's 18,700 executives and other top employees with those of executives in private industry and nonprofit organizations.

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Summary

In determining what salaries and benefits to offer their employees, private firms generally consider the practices of other companies. Similarly, the federal government sometimes uses comparisons of federal and private-sector practices as a guide in setting salaries for its workers. However, it has been many years since the government undertook a comparison that covers federal executives.

This report is intended to begin filling that gap. It compares the pay and benefits of federal executives with those of executives in selected occupations in private companies and nonprofit organizations. Such analyses provide a critical part—although only a part—of the information needed to fully evaluate current compensation for federal executives. They may also help in the development of major personnel reforms under way at the Office of Personnel Management.

The comparisons in this report yield two main findings:

- Pay and benefits for federal executives generally fall well below those for executives in the private firms examined (see Summary Table 1). Some exceptions occur, particularly in the comparison that covers medium-size firms, the smallest companies included in this analysis.

- Federal pay and benefits are equal to or higher than those for all but the top positions at the large nonprofit organizations examined.

Those comparisons complement ones in earlier Congressional Budget Office (CBO) analyses that examined the pay and benefits of rank-and-file white-collar federal employees.[1]

1. Congressional Budget Office, *Comparing Federal Salaries with Those in the Private Sector*, CBO Memorandum (July 1997), and *Comparing Federal Employee Benefits with Those in the Private Sector*, CBO Memorandum (August 1998).

Method of Analysis

This report compares the dollar value of the pay and benefits that federal executives earn in a year with the pay and benefits earned by nonfederal executives in different occupations, such as chief executive officer, head of personnel, and controller. In addition to salary, the comparisons cover most major benefits, such as retirement and health insurance (focusing on the portion that employers pay, not the amounts that employees contribute). The comparisons with private firms also include bonuses.

Data about salaries at private companies come from the Hay Group, a consulting firm that researches pay and benefits. The Hay Group also computed the dollar values for private-sector and federal benefits, in consultation with CBO. Data about salaries at nonprofit organizations were provided by Abbott, Langer & Associates, a consulting firm specializing in nonprofits. Salary data for federal executives was computed by CBO on the basis of information from the Office of Personnel Management.

Limitations of the Analysis

Readers should be cautious about drawing broad conclusions from this report about the adequacy of federal pay and benefits or the effectiveness of the compensation system for federal executives. Caution is merited for several reasons. First, relative pay is only one factor that determines the effectiveness of a compensation system. Other factors not covered here include the existence and management of award systems and rates of promotion. Second, some people question the importance of relative levels of pay and benefits since the federal government recruits for some top jobs from within its own ranks.

Third, even if relative differences in pay are important, the comparisons in this report have some limitations. The results for private companies reflect the predominance of large firms in the Hay Group's database. Large firms generally offer more generous benefits than smaller ones. (Unfortunately, detailed data on smaller firms were not readily available.) Also, the results for federal executives may not apply to all such executives. The comparisons cover practices for two major groups of federal executives: the Cabinet secretaries, agency heads, and other top employees covered by the Executive Schedule; and the executives and managers who rank just below those top officials and who are members of the Senior Executive Service (SES). The pay and benefits of those groups are typical of most federal executives, but not all. In addition, although CBO examined the private and nonprofit positions most likely to have federal counterparts, those positions may not provide an appropriate basis of comparison for all federal executive positions. Duties and responsibilities may vary between sectors despite similar job titles. Also, many of the nonfederal positions in the comparisons have higher ranks than many positions in the SES. Taken together, those limitations suggest caution in generalizing the results of the comparisons to all federal executives, especially ones in lower-ranking positions.

Summary Table 1.
Comparison of Average Federal and Nonfederal Compensation for Executives (In thousands of dollars)

	Private Sector									Federal	
	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Administrative Officer	Head of Law	Head of Personnel	Head of Public Affairs	Controller	Deputy Head of Law	Senior Executive Service	Executive Schedule
Large Private Firms Versus Federal Government											
Basic Salary	1,024	695	459	n.a.	367	315	225	230	193	120	123
Total Compensation[a]	5,864	2,657	1,789	n.a.	1,206	1,048	784	642	516	169	172
Medium-Large Private Firms Versus Federal Government											
Basic Salary	597	376	253	261	206	182	137	145	137	120	123
Total Compensation[a]	1,844	1,266	692	727	462	406	273	305	258	169	172
Medium-Size Private Firms Versus Federal Government											
Basic Salary	302	183	155	115	143	89	112	96	89	120	123
Total Compensation[a]	735	357	317	198	254	182	188	176	135	169	172
Large Nonprofit Organizations Versus Federal Government											
Basic Salary	160	122	102	90	n.a.	65	n.a.	74	n.a.	120	123
Total Compensation[b]	212	163	138	123	n.a.	91	n.a.	103	n.a.	168	172

SOURCE: Congressional Budget Office based on data from the Hay Group.

NOTES: Large private firms are those with annual gross revenues of more than $10 billion; medium-large firms are those with revenues of $1 billion to $2.5 billion; and medium-size firms are those with revenues of less than $300 million. Large nonprofit organizations are those with annual budgets of $50 million or more.

n.a. = not available.

a. Includes pay, bonuses, and benefits.

b. Includes pay and benefits but not bonuses.

Comparing the Pay and Benefits of Federal and Nonfederal Executives

Executives in Government

Federal executives are a diverse group. Agencies throughout the government employ them; dozens of different systems govern their pay and benefits; and their duties and responsibilities vary widely, from presiding in courts of law to representing the United States in foreign countries.

As defined in this analysis, "executive" refers not only to top-level managers and policymakers but also to lower-ranking managers, senior professionals, and experts. Members of this group all earn salaries above the top amount in the government's General Schedule, the pay schedule that covers most rank-and-file white-collar employees. Moreover, although the salaries of those executives are based on many different pay plans, most of the salaries are linked in various ways to one another.

By that definition, federal executives numbered about 18,700 in 1998, the Congressional Budget Office estimates (see Table 1). Those executives represent about 1 percent of the federal civilian workforce.

Over 80 percent of federal executives work in the executive branch. Many head agencies or departments, although a significant number are ambassadors and other senior members of the foreign service, high-level attorneys at the Department of Justice, and judges throughout government who hear cases about administrative matters.

The remaining 20 percent of executives are split about equally between the judicial and legislative branches. In the legislative branch, this group consists almost entirely of Members of Congress and their senior personnel, including chiefs of Members' staffs and directors of Congressional committee staffs. In the judicial branch, the group consists mainly of judges in bankruptcy, district, and other federal courts.

Table 1.
Number of Federal Executives, 1998

Branch of Government	Number of Executives
Executive	
President and Vice President	2
Agency and department heads, senior managers and supervisors	7,317
U.S. attorneys	2,481
Administrative law judges	1,470
Ambassadors and senior foreign service officers	1,097
Other[a]	3,269
Subtotal	15,636
Legislative	
Members of Congress	534
Congressional staff and committee directors	607
Other	322
Subtotal	1,463
Judicial	
Justices of the Supreme Court	9
Judges	1,587
Other	40
Subtotal	1,636
Total	18,735

SOURCE: Congressional Budget Office.

a. Includes many smaller groups of executives such as those at the Federal Deposit Insurance Corporation, the Social Security Administration, and the Tennessee Valley Authority.

Pay for Federal Executives

The federal government's payroll for executives totaled $2.2 billion in 1998. Many of those executives are covered by one of two pay schedules: the Executive Schedule or the pay system of the Senior Executive Service (SES). Most other federal executives have their pay linked in some way to one of those schedules. Thus, the comparisons later in this analysis use those two pay schedules as the simplest way to cover a large number of federal executives. The two schedules are subject to different procedures for adjusting salaries; as a result, employees covered by or linked to them have experienced different levels of pay raises in recent decades.

The Executive Schedule and the Senior Executive Service

Employees at the very highest levels of government, such as the secretaries and deputy secretaries of Cabinet departments, administrators of smaller agencies (such as the Small Business Administration), and members and chairs of boards and commissions, are paid according to the Executive Schedule. That schedule consists of five pay levels, which in 1999 range from $110,700 at level V (administrators, deputy directors, and others) to $151,800 at level I (Cabinet-level posts).[1] The number of employees covered by that schedule totaled 400 in 1998—most of them appointed by the President.

Just below the agency heads and other top executives covered by the Executive Schedule are members of the Senior Executive Service. The SES was established in 1979 largely from positions once graded at the top of the General Schedule. Thus, it covers managers and supervisors at the top of the civil service. Members of the SES hold a wide range of high-level positions throughout the government in budgeting, policymaking, science, engineering, program administration, and other areas. In many cases, SES members are assistants or deputies who report to executives covered by the Executive Schedule. In other cases, they lead major organizations, such as the Bureau of Alcohol, Tobacco, and Firearms, a part of the Treasury Department that employs 4,000 people. Other SES members head much smaller offices with more narrow responsibilities, such as the 50-person Office of International Aviation at the Transportation Department. About 90 percent of SES members are career employees who competed for civil service jobs on the basis of merit; the rest are political appointees. SES employees numbered about 6,980 as of March 1998.

Pay for members of the Senior Executive Service is set at one of six basic rates, which range from $102,300 at level 1 to $118,400 at level 6.[2] (Note that for SES members, pay rises as the level number does, whereas in the Executive Schedule, higher level numbers have lower salaries.) The government adjusts those basic rates to reflect local labor-market conditions, as it does for other federal employees. Accordingly, the actual salary that SES members receive varies from area to area because of locality adjustments. In Washington, D.C., for example, it ranges from $110,351 at level 1 to $125,900 at level 6.

The government assigns SES employees to pay levels on the basis of their individual qualifications. That approach contrasts with the practice for most other federal civilian workers, whose pay primarily reflects the duties and responsibilities of their assigned job. Systems, such as the SES, that instead weight personal qualifications more heavily are often called rank-in-person systems. The primary advantage of such systems is the flexibility they afford in assigning work. Managers can assign employees at a given rank and pay level to a variety of tasks as the need arises—although, in the SES, members tend to serve in the same agency and functional area for a long period.

1. The salary at level II is $136,700, which applies to deputy secretaries of Cabinet departments, heads of large agencies, and similarly ranked executives. Level III has a salary of $125,900, which applies to under secretaries of departments and heads of middle-level agencies. Level IV has a salary of $118,400, which applies to assistant secretaries of departments, heads of minor agencies, and similarly ranked executives. In 2000, salaries will range from $114,500 at level V to $157,000 at level I.

2. The other basic rates in 1999 are $107,100 at level 2, $112,000 at level 3, and $118,000 at level 4. The basic rate is capped at $118,400 at levels 5 and 6. Those salaries could rise in 2000.

In addition to salary, career members of the SES may receive awards and bonuses based on performance. Such bonuses are a lump sum of 5 percent to 20 percent of base pay. Executives with consistently high performance may also receive one of two awards conferred by the President: the Distinguished Executive award (35 percent of base pay) and the Meritorious Executive award (20 percent of base pay). Before recent legislation raised them starting in 1999, those awards were lump-sum payments of $20,000 and $10,000, respectively. Like other federal employees, members of the SES may also receive payments for recruitment, retention, or relocation; those payments can total as much as 25 percent of base pay. In 1998, about 10 percent of SES members received some type of award, ranging from $2,000 to $29,000. (The vast majority of the awards totaled $10,000 or less.)

The Connections Between Executive Pay Plans

The Executive Schedule and the pay schedule for the Senior Executive Service are linked to each other in a variety of ways and are constrained by Congressional salaries. Directly or indirectly, they also govern pay for most other federal executives. For example, the highest base pay under the SES may not exceed level IV of the Executive Schedule ($118,400 in 1999); pay with locality adjustments may not exceed level III of the Executive Schedule ($125,900); and total annual compensation for SES members, including bonuses, may not exceed level I ($151,800). In addition, Members of Congress and many judges have traditionally been paid the same amount as level II of the Executive Schedule, and pay for administrative law judges and members of boards that handle contract disputes is fixed at percentages of various pay levels of the Executive Schedule. (Pending legislation may change procedures for administrative law judges.) Similarly, pay rates for the Senior Foreign Service, which covers management-level experts and others in foreign relations, are tied to rates for the Senior Executive Service.

The links between the Executive Schedule and the SES pay system have had two significant consequences. First, SES employees whose salaries are at the limits imposed by the Executive Schedule do not get pay raises they might otherwise receive. Second, the links have compressed the SES pay scale by leaving it with little difference between pay levels. That compression occurs because, for political reasons, the Congress has often been reluctant to raise its pay and that of top managers covered by the Executive Schedule but has permitted raises for the SES. Thus, over time, an increasing share of SES employees find their pay determined by limits in the Executive Schedule rather than by the SES pay level to which they are assigned. As of January 1999, about half of the members of the SES had their pay limited by caps in the Executive Schedule to $125,900.

Changes in Executive Salaries

Salaries in the Executive Schedule as well as pay for Members of Congress, judges, and other top government officials can be adjusted by the Congress in three ways. First, the Congress can pass special legislation authorizing pay raises. Second, it can allow automatic annual raises based on changes in the employment cost index (ECI).[3] Third, the Congress can adopt raises on the basis of recommendations from select commissions appointed to study top-level salaries in government. Those commissions are authorized by the Ethics Reform Act of 1989 and must consist of six members appointed by the President, the Congress, and the judiciary and five members selected at random from registered voters. Such a commission was supposed to have been convened in 1993 but was not, and none have been convened since then.

Despite those various procedures, the Congress has been reluctant in recent years to grant pay raises to employees covered by the Executive Schedule. Such employees have received only two raises since January 1995. One increase, 2.3 percent in 1998, was an automatic annual raise tied to changes in the ECI.

3. Those annual pay raises are based on the change in the part of the employment cost index that covers wages and salaries for private industry minus 0.5 percentage points. Those raises go into effect at the same time as, and may not exceed, similar adjustments for rank-and-file white-collar employees covered by the General Schedule. (The Congress must enact separate legislation to extend those raises to judges.) For more information, see Paul E. Dwyer, *Salaries of Members of Congress: Current Procedures and Recent Adjustments*, CRS Report for Congress RL30014 (Congressional Research Service, January 7, 1999).

Another increase, 3.4 percent, will occur in January 2000.

Pay raises for the Senior Executive Service, by contrast, are largely at the discretion of the President (subject to the limits imposed by the Executive Schedule and statutory minimums). SES members have received pay raises in each of the past five years, averaging between 1 percent and 3.6 percent. All of those raises, except the one in 1995, were tied to increases in basic salaries granted to General Schedule employees.

Reviews of executive compensation often compare pay raises over time with raises granted to other groups and increases in the cost of living.[4] Such analyses tell little about how salary levels compare between groups or whether salaries are adequate to meet an organization's needs for staff. For example, a group could receive pay increases that were small relative to those of some comparable group or the cost of living but still have relatively generous salaries. In that case, small pay raises would serve only to narrow the advantage in salary. Comparisons of changes in pay are also problematic because the results often depend on the period examined. Nevertheless, they can still show how standards of living and purchasing power for a group have changed over time and how those changes compare with the changes experienced by others.

An examination of pay raises from January 1980—shortly after the SES began—through January 1999 shows that federal executives and other top officials initially did poorly (see Table 2). Through 1990, for example, cumulative raises for employees at level IV of the Executive Schedule (the most populous level) and for Members of Congress totaled 53 percent and 48 percent, respectively, compared with a 64 percent increase in the cost of living as measured by the consumer price index. Raises for executives and other officials during the 1980s also fell behind increases for private-sector workers as measured by the employment cost index.

4. See, for example, Commission on Executive, Legislative and Judicial Salaries, *Fairness for Our Public Servants* (Washington, D.C.: Commission on Executive, Legislative and Judicial Salaries, 1989).

Table 2.
Pay Raises for Federal Employees Since 1980 Compared with Changes in the Cost of Living

	Percentage Change	
	1980-1990	1980-1999
Pay Raises		
Members of Congress	48	125
Level IV of the Executive Schedule	53	124
Level 4 of the Senior Executive Service[a]	50	139
General Schedule[b]	45	97
Changes in the Cost of Living[c]	64	111
Changes in the Cost of Labor[d]	64	118

SOURCE: Congressional Budget Office.

NOTE: Pay raises for federal employees include all those occurring between January 1, 1980, and January 31, 1990 or 1999.

a. Includes locality adjustments granted in Washington, D.C.

b. Includes raises tied to the employment cost index and locality adjustments.

c. As measured by the consumer price index for all urban consumers. That index does not have a consistent method of treating many components. The recently published research index, which corrects problems in the official series, would show a lower cumulative increase in prices.

d. As measured by the employment cost index covering wages and salaries for workers in private industry.

For the entire 1980-1999 period, however, pay raises for federal executives and other officials exceeded increases in the cost of living and raises for both federal civilian employees and private-sector workers. The difference was the Ethics Reform Act of 1989. That act restricted outside income and honoraria for top executives and officials and reformed various ethics rules. It also provided for pay raises that, over 1990 and 1991, increased salaries for the SES, the Executive Schedule, Members of Congress, and other officials by as much as 40 percent.

That comparison, with its two distinct outcomes, illustrates how sensitive results are to the period being considered. Further evidence comes from a recent analysis by the Congressional Research

Service. It examined changes in pay from 1969 to the present and found that during that period as a whole, pay increases for Members of Congress were well below increases in the cost of living.[5]

Benefits for Federal Executives

Many federal executives receive retirement, health insurance, life insurance, and vacation benefits similar to those of other white- and blue-collar workers. Where differences exist, they are generally variations on the standard benefit package and apply to small groups of executives. In some cases, those variations recognize unique circumstances of employment. For example, executives and other employees in the foreign service stationed in areas with limited medical facilities may travel at government expense to find suitable health care.

In earlier analyses, the Congressional Budget Office (CBO) found that the standard federal benefit package is slightly more generous than those available in the private sector.[6] Specifically, the value of federal vacations, holidays, disability benefits, retirement benefits, and health insurance for retirees exceeds the value of similar benefits offered by private firms. Because retirement and health insurance are among the largest federal benefits, they are reviewed below. (Appendix A provides information about other federal benefits.)

Retirement Benefits

The federal government has two retirement systems to which executives and other civilian employees belong: the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). CSRS is the older of the two; it generally covers employees hired before 1984 and is closed to new members. Benefits under that plan depend on years of service and earnings. The pension that retirees receive equals a percentage of their average salary for the highest three years of earnings as a federal employee. Most employees covered by CSRS can earn up to 2 percent of their high-three salary per year of service, and they must meet age and years-of-service requirements to retire with an immediate pension and full benefits. They receive that pension in lieu of Social Security benefits.

FERS covers civilian employees who were hired on or after January 1, 1984, and others who elected to join. Retirees covered by that system receive income from each of its three components. The first consists of a Thrift Savings Plan similar to a 401(k), which allows employees to contribute up to 10 percent of their annual salary toward retirement. The federal government matches a maximum of 5 percent of annual salary. The second component offers a pension based on years of service and income. Generally, employees who meet age and service requirements when they retire earn 1 percent of their high-three salary for each year of service. Third, employees covered by FERS earn benefits under Social Security.

Most federal executives participate in CSRS or FERS and have benefits identical to those of other government employees, but several noteworthy exceptions exist. Members of Congress, for example, accrue benefits at a higher rate than other federal workers and have different age and service rules for retirement. They also make higher contributions toward future benefits (see Box 1). Most federal judges may retire at their final salary. However, they receive no benefits for their years of service if they leave before meeting the age and service requirements unique to the judiciary; other judicial employees can defer benefits until they reach the required age. Judges also have the option to retire to senior status with full pay and pay raises in return for continuing to perform some duties. Executives in the foreign service have a completely separate and more generous retirement plan than other federal workers. And the President retires at the salary of a Cabinet member (see Box 2).

5. Patrick Purcell, *Pay and Retirement Benefits for Federal Civil Service and Military Personnel: Increases from 1969 to 1999*, CRS Report for Congress 94-971 EPW (Congressional Research Service, February 17, 1999). The analysis used the consumer price index for all urban consumers.

6. See, for example, Congressional Budget Office, *Comparing Federal Employee Benefits with Those in the Private Sector*, CBO Memorandum (August 1998).

Health Insurance Benefits

Federal civilian employees, including most executives, may elect to have health insurance coverage under the Federal Employees Health Benefits (FEHB) program. That program offers most participants a wide choice of plans and allows them to change plans during annual "open seasons." Both the government and the employee contribute to the cost of health insurance coverage according to a complex formula. Currently, the government pays about 70 percent of the premiums for active employees and annuitants, and enrollees pay the balance.

Most federal executives and top officials may participate in FEHB under the same terms as other government employees. However, executives in the foreign service have coverage under a State Department plan that supplements FEHB coverage for overseas assignments.

Box 1.
Pay and Benefits for Members of Congress

In addition to an annual salary of $136,700 in 1999, Members of Congress receive many of the same benefits as other federal civilian employees, including health insurance, life insurance, and retirement benefits.[1] However, the rules that govern some of those benefits are very different. For example, Members' retirement coverage is more generous (though more costly) than that of other federal employees. In addition, Members receive a unique set of allowances to support them in their official duties.

Like other federal workers, Members of Congress may participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on their date of employment.[2] But whereas employees under CSRS may generally retire with a full pension at age 55 after 30 years of federal service, at age 60 after 20 years of service, and at age 62 after five years of service, Members of Congress may retire at age 60 with only 10 years of service. At age 55, they must take a reduced pension to retire with 30 years of service.

In addition, the rate at which Members earn benefits under both retirement plans is different than for other federal workers. Generally, employees earn up to 2 percent of their high-three average salary for each year of service under CSRS or 1 percent under FERS. For Members, by contrast, those figures are 2.5 percent under CSRS and 1.7 percent under FERS.

In exchange for those larger benefits, however, Members of Congress must contribute toward their future benefits at a higher rate than other employees. In CSRS, most employees contribute 7.25 percent of pay toward future benefits, but Members pay 8.25 percent. And in FERS, although most employees contribute 1.05 percent of pay for part of their future benefits, Members of Congress pay 1.55 percent.

Like other top officials in government and the private sector, Members of Congress can hire staff and obtain supplies, office space, and other necessities at no cost to themselves. In the Congress, Members receive allowances to cover such expenses.[3] In the House of Representatives, the three principal allowances (one for staff, one for official mailings, and one for travel, office equipment, and other office expenses) average $952,777 per year per Member. In the Senate, allowances for similar expenses range from $1.7 million to $3.0 million per year per Member depending on the population of the Member's state. Members may not use those allowances for personal, political, or campaign expenses.

1. Members' salaries will rise to $141,300 in January 2000. Congressional leaders, such as the Speaker of the House, receive higher salaries. All Members of Congress are forbidden to accept honoraria and are restricted in their outside earnings.

2. For more information, see Patrick J. Purcell, *Retirement for Members of Congress*, CRS Report for Congress 94-969 EPW (Congressional Research Service, March 19, 1999).

3. For more information, see Paul E. Dwyer, *Salaries and Allowances: The Congress*, CRS Report for Congress RL30064 (Congressional Research Service, February 16, 1999).

Box 2.
Pay and Benefits for the President

The salary of the President of the United States was set at $200,000 a year in 1969.[1] Under provisions of Article II of the Constitution, any change in salary adopted during a President's term of office does not take effect until the January after a subsequent election. Other high officials, by contrast, may receive annual salary increases under provisions of the Ethics Reform Act of 1989. As a result, the difference between the salaries of the President and other officials has narrowed over time. The President's salary will increase to $400,000 in January 2001.

Besides salary, the President receives use of the White House, an official travel allowance of $100,000 per year, use of limousines and aircraft for travel, and an official expense allowance of $50,000 per year. (That expense allowance has not changed since 1949.) The President receives special health care through the military and may, like other federal employees, elect health insurance coverage for his family through the Federal Employees Health Benefits program. The President may also purchase the same life insurance available to other federal workers. The President retires at the salary of a Cabinet member, currently $151,800 a year. He takes time off from work at his own discretion.

1. For more information, see Sharon S. Gressle, *Salary of the President Compared with That of Other Federal Officials*, CRS Report for Congress RS20114 (Congressional Research Service, March 11, 1999).

Comparing Pay and Benefits for Federal and Private-Sector Executives

The federal government has long used compensation levels in the private sector as a guide in setting its own pay and benefits. That practice is based on the view that market forces help determine efficient levels of compensation for private companies. Comparisons made by CBO show that pay and benefits for federal executives fall below those for executives of private firms—with notable exceptions, particularly in the comparison that covers medium-size firms.

How CBO Made the Comparisons

CBO compared the pay and benefits for two groups of federal executives—members of the Senior Executive Service and employees covered by the Executive Schedule—with those for private-sector executives in nine positions. The positions selected were the ones most likely to have federal counterparts among SES and Executive Schedule employees (see Box 3 for a description of the positions). Limitations on data prevented CBO from including other positions in its analysis.

Analysts and policymakers disagree about which types of private-sector executives are most appropriate to compare with federal executives. Thus, CBO prepared several comparisons covering the alternatives most often mentioned. Each covered a different category of private firm as defined by size: large firms (those with annual gross revenues of $10 billion or more), medium-large firms (gross revenues of $1 billion to $2.5 billion), and medium-size firms (gross revenues of less than $300 million).[7] Those three categories are the top, middle, and bottom of the various classifications used by the company that supplied the data. CBO selected them to be representative of a wide variety of private firms rather than to be exhaustive. In addition, CBO compared compensation for federal executives with compensation for heads of large nonprofit organizations (discussed in the next section) and compensation for similar executives in state governments (shown in Appendix B).

The comparisons with private companies examined salaries alone, salaries plus bonuses, and total compensation, which includes benefits (life insurance, sick leave, disability, health insurance for employees and retirees, retirement, holidays, vacations, and executive perquisites). For a given size of com-

7. Although medium-size firms are defined here as having gross revenues under $300 million, most of the companies in that category included in CBO's comparison are much smaller. Three-quarters have annual gross revenues under $150 million, and half have revenues of less than $75 million.

Box 3.
Private-Sector Executive Occupations Included in CBO's Comparisons

Chief Executive Officer: Often the highest-ranking executive in a firm after the chairman of the board; has primary responsibility for the profitable operation, growth, and general direction of all company affairs.

Chief Operating Officer: Often second to the chief executive officer; plays a major role in directing company operations.

Chief Financial Officer: Accountable for the current and long-term effectiveness of all financial functions of the company, including accounting, cash receipts and disbursements, payroll, investments, and taxes.

Chief Administrative Officer: Responsible for major corporate administrative activities that support functions such as production, operations, and marketing.

Head of Law: Accountable for all internal and external legal affairs of a firm; protects the company's legal rights.

Head of Personnel: Responsible for developing, implementing, and administering the company's policies on employment, employee relations, compensation, professional development, and health and safety.

Head of Public Affairs: Handles company communications to ensure public understanding of the firm's objectives and positions.

Controller: Develops and maintains company-wide budgeting, financial planning, control, accounting, and reporting policies and practices; analyzes financial results and helps managers understand the company's financial performance and the financial effect of business plans and strategies. (Sometimes known as comptroller.)

Deputy Head of Law: Reports to the head of law and is responsible for one or more major segments of a large legal department.

pany, each comparison shows the dollar values for those elements at the high end (defined as the 75th percentile), the average (the arithmetic mean), and the low end (the 25th percentile).

Those dollar values represent the amounts earned for a year of work based on pay and benefits for 1998. For benefits, such as retirement, that will be paid in future years, the amounts have been translated into present-value equivalents. All dollar values for benefits cover only the portion of such benefits that employers provide; they exclude the part that employees pay for directly. The specific method for calculating dollar values varies from benefit to benefit; for details, see Appendix A.

CBO designed its analysis so that differences in the value of benefits reflect only differences in the generosity of the benefits provided. Thus, the amounts compared are not average costs, which can vary among firms for many reasons other than the level of benefits provided, such as the characteristics of a firm's workers. Instead, in this analysis, two firms that provide identical benefit packages have equal benefit values.

Those dollar values were computed by the Hay Group of Arlington, Virginia—a company that specializes in analyzing employee pay and benefits—in consultation with CBO. The Hay Group also provided most of the information about private-sector salaries used in this analysis from its extensive databases. Dollar values of pay and benefits for federal executives were based on data from the Office of Personnel Management. (The values for federal retirement benefits reflect the practices of the Federal Employees Retirement System rather than the Civil Service Retirement System.)

Results of the Comparisons

The large firms in CBO's comparisons—including companies such as AT&T, Federal Express, and Dow Chemical—have the large, diverse operations and nationwide workforces typical of many federal agencies. Comparisons with those companies show that the compensation of private-sector executives is well above that of federal executives. That difference holds true for pay alone, pay and bonuses together, and total compensation (including benefits). For example, total compensation at the low end for one of the lowest-ranking private-sector positions in the comparisons, deputy head of law, is more than 50 percent higher than the highest amount for federal executives—$275,600 versus $176,000 (see Table 3). Readers should note, however, that companies in this category make up only a small fraction of all firms in the United States.

Compensation for federal executives also compares poorly with that of firms defined in this analysis as "medium-large," such as MasterCard International, Uniroyal Chemicals, and Bell Atlantic Mobile. Although not among the largest U.S. firms, many of those companies have complex operations and national reach similar to those of many federal agencies. Comparisons with that group show that only the compensation offered by lower-paying firms for some lower-ranking executive positions—such as head of public affairs, controller, and deputy head of law—dips to within the range of compensation for federal executives (see Table 4).

The medium-size private firms in CBO's comparison are generally regional and smaller than many federal agencies. They may be most comparable with some regional federal operations. They are also probably more typical of U.S. firms than the other companies considered, since most firms in the United States have annual revenues below $300 million. Like the other companies compared, medium-size firms also

Table 3.
Pay and Benefits for Federal Executives Compared with Those for Executives of Large Private Firms
(In thousands of dollars)

	Private Sector									Federal	
	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Administrative Officer	Head of Law	Head of Personnel	Head of Public Affairs	Controller	Deputy Head of Law	Senior Executive Service	Executive Schedule
	Basic Salary										
High	1,300.0	1,000.0	610.0	n.a.	460.0	459.5	342.7	301.0	230.0	125.7	125.9
Average	1,023.5	694.9	459.2	n.a.	366.8	315.2	225.2	229.7	193.4	119.5	122.6
Low	737.5	460.0	334.3	n.a.	262.8	182.0	123.9	165.0	140.0	116.4	118.4
	Basic Salary and Bonuses										
High	9,863.8	4,144.9	2,986.8	n.a.	1,772.4	1,770.4	1,681.0	849.4	670.2	125.9	125.9
Average	5,447.7	2,367.7	1,590.4	n.a.	1,043.1	905.3	681.2	536.1	430.7	120.3	122.6
Low	1,141.8	460.0	581.0	n.a.	390.7	215.0	175.4	271.3	231.7	116.5	118.4
	Basic Salary, Bonuses, and Benefits										
High	10,735.7	4,817.6	3,402.0	n.a.	2,089.9	2,087.5	1,922.2	1,063.5	823.2	176.0	176.0
Average	5,863.9	2,657.2	1,788.8	n.a.	1,205.6	1,047.7	784.2	641.7	516.3	168.7	171.6
Low	1,283.3	559.5	660.1	n.a.	458.3	269.6	215.1	322.0	275.6	163.6	166.1

SOURCE: Congressional Budget Office based on data from the Hay Group.

NOTES: Large firms are those with gross revenues of more than $10 billion a year. "High" reflects the level at the 75th percentile, "average" at the mean, and "low" at the 25th percentile.

n.a. = not available.

Table 4.
Pay and Benefits for Federal Executives Compared with Those for Executives of Medium-Large Private Firms (In thousands of dollars)

	Private Sector									Federal	
	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Administrative Officer	Head of Law	Head of Personnel	Head of Public Affairs	Controller	Deputy Head of Law	Senior Executive Service	Executive Schedule
Basic Salary											
High	825.0	556.0	350.0	330.0	277.4	235.0	190.0	196.7	183.6	125.7	125.9
Average	597.0	376.4	253.2	260.9	206.4	181.8	137.1	145.2	137.1	119.5	122.6
Low	350.0	217.0	169.6	160.0	142.8	126.5	80.4	99.2	100.0	116.4	118.4
Basic Salary and Bonuses											
High	3,241.6	1,834.7	1,053.5	915.8	621.2	551.9	361.9	391.2	268.5	125.9	125.9
Average	1,592.5	1,099.4	573.9	605.9	369.8	325.9	215.9	243.3	200.5	120.3	122.6
Low	435.0	258.8	212.4	287.2	180.0	155.0	90.0	109.8	119.0	116.5	118.4
Basic Salary, Bonuses, and Benefits											
High	3,798.0	2,214.7	1,299.5	1,148.8	820.0	720.9	498.2	530.7	401.8	176.0	176.0
Average	1,844.2	1,265.7	692.3	727.3	462.1	406.3	273.4	304.6	258.0	168.7	171.6
Low	516.7	318.9	264.4	336.5	224.6	199.6	118.0	142.9	152.3	163.6	166.1

SOURCE: Congressional Budget Office based on data from the Hay Group.

NOTE: Medium-large firms are those with gross revenues of $1 billion to $2.5 billion a year. "High" reflects the level at the 75th percentile, "average" at the mean, and "low" at the 25th percentile.

offer their executives much higher pay and benefits than the federal government does (see Table 5). Generally, only the pay and benefits for some lower-ranking positions or at the low end for firms of this size fall within the range of federal compensation.

Besides the basic discrepancy with federal levels, CBO's comparisons reveal wide variations in levels of private-sector compensation. For example, the average salary of chief executive officers (CEOs) in the large firms examined is more than three times that of CEOs in the medium-size firms. Even among companies of a similar size, practices vary widely. The high salary for CEOs in large firms is nearly twice the low salary in that comparison. The high value for total compensation (including salary, bonuses, and benefits) is about eight times the low level. The fact that practices vary so widely even among similar-size companies underscores the difficulty of determining a standard of comparison for federal pay and benefits.

Comparing Pay and Benefits for Federal Executives and Executives in Nonprofit Organizations

Nonprofit charitable, educational, and professional organizations often deal with some of the same social concerns as the federal government. They also share a similar public-service orientation. However, many of those organizations, even large ones, have much smaller operations than many federal agencies.

Table 5.
Pay and Benefits for Federal Executives Compared with Those for Executives of Medium-Size Private Firms (In thousands of dollars)

	Private Sector									Federal	
	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Administrative Officer	Head of Law	Head of Personnel	Head of Public Affairs	Controller	Deputy Head of Law	Senior Executive Service	Executive Schedule
					Basic Salary						
High	475.0	300.0	225.0	n.a.	218.0	139.1	147.8	129.2	n.a.	125.7	125.9
Average	301.9	182.7	155.3	114.5	143.0	89.1	112.0	96.2	89.0	119.5	122.6
Low	185.0	116.6	101.7	n.a.	104.5	46.0	75.7	70.5	n.a.	116.4	118.4
					Basic Salary and Bonuses						
High	1,100.0	515.4	373.9	n.a.	259.0	247.1	243.2	223.6	n.a.	125.9	125.9
Average	598.0	276.2	250.4	150.5	193.9	145.1	141.7	136.9	98.1	120.3	122.6
Low	187.5	136.0	117.0	n.a.	105.0	77.5	78.7	74.1	n.a.	116.5	118.4
					Basic Salary, Bonuses, and Benefits						
High	1,427.2	728.9	534.9	n.a.	414.4	322.8	324.1	293.3	n.a.	176.0	176.0
Average	735.2	357.0	316.8	197.6	254.1	181.7	187.7	176.1	134.6	168.7	171.6
Low	242.5	173.7	150.8	n.a.	139.5	98.2	105.6	99.9	n.a.	163.6	166.1

SOURCE: Congressional Budget Office based on data from the Hay Group.

NOTES: Medium-size firms are those with gross revenues of less than $300 million a year. "High" reflects the level at the 75th percentile, "average" at the mean, and "low" at the 25th percentile.

n.a. = not available.

Comparisons show that compensation for executives of such organizations is much closer to that for federal executives than for executives in private firms. In fact, pay and benefits for federal executives match or exceed those for all but the very top positions in the nonprofit organizations examined (see Table 6). As with private firms, the comparisons also show that compensation practices vary more widely among nonprofit firms than within the federal government.

This comparison focuses on nonprofit organizations with annual budgets of $50 million or more and covers six executive positions common in such organizations (CEO, chief operating officer, chief financial officer, chief administrative officer, head of personnel, and controller). Data on pay for those six positions come from Abbott, Langer & Associates of Crete, Illinois, an employee-compensation consulting firm that specializes in nonprofit organizations. Only limited data on the bonuses granted by nonprofit firms were available, so the analysis does not consider that aspect of compensation. However, the available data suggest that bonuses and awards are rare among nonprofit organizations and would not significantly affect the results. As with the private-sector comparisons, data on pay and benefits reflect practices in 1998. Dollar values for benefits reflect the practices of the nonprofit firms in the Hay Group's databases and cover the same basic benefits listed earlier. (The method for computing values for those benefits is described in Appendix A.)

Table 6.
Pay and Benefits for Federal Executives Compared with Those for Executives of Large Nonprofit Organizations (In thousands of dollars)

	Nonprofit						Federal	
	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Administrative Officer	Head of Personnel	Controller	Senior Executive Service	Executive Schedule
				Basic Salary				
High	212.0	143.2	110.5	107.4	83.1	82.2	125.7	125.9
Average	160.4	121.5	102.2	89.7	64.5	74.0	119.5	122.6
Low	97.1	79.5	75.0	56.0	46.2	60.8	116.4	118.4
				Basic Salary and Benefits				
High	282.9	195.6	152.4	149.3	117.2	115.9	175.8	176.0
Average	211.8	162.5	138.4	122.6	90.6	102.7	167.5	171.6
Low	128.9	107.4	101.7	78.0	65.7	84.0	163.5	166.1

SOURCE: Congressional Budget Office based on data from Abbott, Langer & Associates and the Hay Group.

NOTE: Large nonprofit organizations are those with annual budgets of $50 million or more. "High" reflects the level at the 75th percentile, "average" at the mean, and "low" at the 25th percentile.

Limitations of the Analysis

The basic objectives of any personnel management system include recruiting, retaining, and motivating employees. Levels of pay and benefits—the subject of this analysis—are only one factor to consider in gauging how effective an organization's compensation system is in meeting such objectives. A more complete analysis would also examine the mix of current and deferred compensation, the availability and management of incentives, rates of promotion, and the size of the salary increments between positions at successive levels of responsibility.

For the federal government, compensation levels may be even less important in recruiting, retaining, and motivating employees. Since the government recruits outside its own ranks for only some executive positions, relative levels of pay may not always exert a strong influence on applicants' career decisions. Moreover, government service offers intrinsic rewards that may help the government hire and keep employees. For example, many executives in government, especially at the highest levels, have the opportunity to shape the course of national events. And in many cases, federal service is thought to offer more stability and security than the private sector, in part because it lacks the ready measure that private companies use to determine success—the ability to make a profit.

Nevertheless, most people would agree that levels of compensation play some role in the government's success in finding and keeping high-caliber workers for its top-paying jobs. About one-quarter of appointments to the SES in 1998 were made from outside the government, and federal compensation levels would influence the pool of applicants in those cases. Many appointments to Executive Schedule positions and to jobs in scientific and technical fields also come from outside the government. And even when top jobs are filled from among rank-and-file civil servants, levels of pay and benefits may affect the government's ability to find high-quality candidates. The average age of new entrants to federal service is 35. Many people at or near that age who are planning job changes are likely to be influenced by the potential for salary growth over the long term when making career choices. In a recent survey, members of the SES labeled inadequate federal pay as a major obstacle to finding and keeping highly qualified people for top federal jobs.[8]

Apart from the question of how important levels of pay and benefits are, the comparisons in this analysis have two main limitations. First, the private-sector firms in the Hay Group's databases are generally larger than the typical U.S. company. Such firms usually offer higher pay and benefits than smaller firms, so these comparisons reflect greater compensation levels than are typical in the private sector. However, detailed data on smaller firms were not readily available.

Second, the results of the comparisons may not apply to all federal executives. Although compensation for most top federal positions closely resembles that of the two groups examined (members of the SES and officials covered by the Executive Schedule), variations in practices do exist. In some cases, those variations are great. Also, though CBO selected private-sector positions most likely to have federal counterparts, those positions may not be appropriate comparisons for many federal executives because duties and responsibilities can vary between sectors despite similar job titles. Data did not permit CBO to match jobs for pay-related characteristics such as span of control and degree of accountability. Nor did the analysis consider individual pay-related characteristics, such as education. Finally, the private-sector positions included in this analysis are higher ranking than many positions in the SES. Thus, the comparisons may overstate differences in compensation for lower-ranking federal executives. For all of those reasons, readers should exercise caution in extrapolating the results of the comparisons to all federal executives.

Taken together, the various limitations of this analysis suggest caution in drawing broad conclusions about the adequacy of federal compensation levels and the effectiveness of the compensation system for federal executives.

8. Mark A. Abramson, Steven A. Clyburn, and Elizabeth Mercier, *Results of the Government Leadership Survey: A 1999 Survey of Federal Executives* (Washington, D.C.: Pricewaterhouse Coopers Endowment for the Business of Government, June 1999).

Appendix A

Method of Analysis

This appendix provides more details about the comparisons of pay and benefits presented in this report. It focuses on comparisons with the private sector, but the general methods and the description of how benefits were calculated also apply to the comparison with nonprofit organizations.

The Congressional Budget Office's (CBO's) analysis compares pay and benefits for private-sector executive positions with those for federal executives who are members of the Senior Executive Service (SES) or are paid according to the Executive Schedule. CBO selected positions most likely to have federal counterparts (see Box 3 on page 8). The comparisons show the range of pay and benefit amounts for each private-sector occupation in each of three categories of company size. Generally, the dollar amounts compared represent the present-dollar value of compensation earned for a year of work. All amounts reflect practices in 1998.

For benefits, the dollar values cover only the amounts that employers provide; they exclude the portion that employees pay for directly. CBO structured the analysis so that differences in benefit values reflect only differences in the level of benefits provided. That was accomplished in two ways.

First, the benefit values assume that federal and private-sector employees share a standard set of characteristics. Thus, the results are free of the variations that would occur if federal and private-sector workers had different characteristics, such as average age or rates of separation. The characteristics that CBO used are those of a hypothetical group of employees typical of a large industrial operation, based on standards developed by the American Society of Actuaries (see Table A-1).

Second, the analysis used a common set of assumptions about interest rates, inflation, and other factors to compute dollar values for federal and private-sector benefits. Such factors affect an employer's compensation costs and thus the value of benefits to employees. With standard assumptions, the values in CBO's analysis better isolate differences that result solely from the design of benefit plans.

The Hay Group, Inc., of Arlington, Virginia, computed those dollar values in consultation with CBO. It also provided data on private-sector salaries. CBO computed data on federal salaries on the basis of information provided by the Office of Personnel Management.

Table A-1.
Characteristics of the Hypothetical Workforce Used to Estimate the Dollar Value of Benefits

Characteristics	Percentage of Total
Years of Service	
0 to 3	20
4 to 8	20
9 to 12	20
13 to 17	15
18 to 22	15
23 and over	10
Total	100
Age	
22 to 29	25
30 to 39	25
40 to 49	20
50 to 59	20
60 and over	10
Total	100

SOURCE: Congressional Budget Office based on data from the Hay Group.

The Hay Group's Databases

The information used to calculate the dollar values of private-sector benefits comes from a database owned by the Hay Group that covers 1,017 firms and about 11 million employees (see Table A-2). The information about pay and bonuses for each executive position comes from a separate database on executive compensation that covers 514 firms and about 12,000 executives. Roughly 1,100 of those executives hold one of the nine positions included in this analysis (see Table A-3).

Companies in the Hay Group's databases are relatively large compared with all companies. For example, data from the Internal Revenue Service show that less than 0.1 percent of U.S. firms have gross annual revenues of $10 billion or more, whereas 3 percent of the firms in the benefit database and 9 percent of the firms in the pay database have revenues that large. The pay database is also heavily populated with industrial companies.

In general, large firms are more likely to offer benefit packages than smaller firms. For example, all of the firms in the benefit database offer some retirement program, but according to the Employee Benefits Research Institute, 40 percent of workers in the United States have no employer-sponsored retirement plan. Thus, the dollar values for benefits should not be interpreted as representative of the private sector as a whole.

Besides salary, the elements included in CBO's analysis are short- and long-term bonuses, retirement benefits, health insurance for employees and retirees, sick leave and disability, life insurance, holidays and vacation time, and various executive perquisites, such as health club memberships. The comparisons cover the standard provisions of all benefit plans and any supplemental benefits exclusively for executives.

Table A-2.
Characteristics of Firms in the Hay Group's Databases

	Benefit Database		Pay Database	
	Number of Firms	Percentage of Total	Number of Firms	Percentage of Total
Annual Gross Revenues (Dollars)				
More than 10 billion	29	3	47	9
2.5 billion to 10 billion	70	7	102	20
1 billion to 2.5 billion	110	11	127	25
300 million to 1 billion	185	18	132	26
Less than 300 million	478	47	106	21
Not specified	145	14	0	0
Total	1,017	100	514	100
Type of Firm				
Industrial	392	39	369	72
Financial	137	13	93	18
Services	404	40	52	10
Not specified	84	8	0	0
Total	1,017	100	514	100

SOURCE: Congressional Budget Office based on data from the Hay Group.

Table A-3.
Number of Executives in Private-Sector Positions Used in CBO's Analysis, by Size of Firm

Position	Large Firms	Medium-Large Firms	Medium-Size Firms	All Firms
Chief Executive Officer	33	76	56	165
Chief Operating Officer	16	41	25	82
Chief Financial Officer	33	79	49	161
Chief Administrative Officer	0	15	4	19
Head of Law	33	80	37	150
Head of Personnel	31	78	99	208
Head of Public Affairs	30	52	14	96
Controller	33	76	49	158
Deputy Head of Law	41	36	6	83
Total	250	533	339	1,122

SOURCE: Congressional Budget Office based on data from the Hay Group.

NOTE: Large firms are those with annual gross revenues of more than $10 billion; medium-large firms are those with revenues of $1 billion to $2.5 billion; and medium-size firms are those with revenues of less than $300 million.

Short and Long-Term Bonuses

Organizations often try to motivate executives by offering them bonuses and other incentive awards. Generally, those are one-time payments that do not change base salary rates. In the private sector, such awards increasingly take the form of grants of stock or stock options. In the federal government, career executives in the SES are eligible for a variety of cash payments to encourage performance, continue in federal service, or for other purposes. Officials covered by the Executive Schedule, in contrast, do not get awards.

Short-Term Awards

For the purposes of this analysis, short-term awards are defined as cash payments made in a year. The dollar value for such awards used in the analysis is simply the dollar amount awarded in 1998. For private-sector executives, dollar values reflect practices for each position.

For executives in the SES, short-term awards include rank and performance awards, relocation and recruitment bonuses, and retention allowances. Under the policies in effect for 1998, awards based on performance could add as much as $20,000 to a federal executive's pay.

Long-Term Awards

Long-term awards include all cash payments promised for some future period and all awards of stock, such as promises of cash or stock based on performance over several years. For federal executives, the analysis does not include any amounts for long-term awards because the government offers none. For private-sector executives, it includes amounts earned for each of the executive positions examined.

The dollar value assigned to long-term cash awards by the Hay Group represents the present value of the expected future payments. The Hay Group discounts those payments to their present value by 10 percent annually, based on a common measure of the long-term return on stocks. The analysis assumes that executives earn the full amount available under the incentive plans of companies represented in the database.

To estimate the present value of stock awards, the analysis assumes that executives exercise stock options five years after the options are granted. During those five years, stocks are assumed to grow at an annual rate of 10 percent. Those amounts are discounted using different rates that reflect the relative levels of risk for various types of stock plans.

In the case of both stock and long-term cash awards, the amounts are also discounted to reflect the probability that executives will leave a company and forfeit the awards. That discounting assumes that executives leave firms at an annual rate of 5 percent.

Retirement Benefits

The retirement values used in CBO's comparisons are the present values of benefits earned for the current year of employment. As described below, the method of calculating those values varies by the type of retirement plan.

For each of the nine private-sector positions, the comparisons include an amount for retirement that reflects the average value of benefits available from firms in the database. For federal executives, the comparisons include an amount that reflects retirement benefits under the three-part Federal Employees Retirement System (FERS).

Defined-Benefit Pensions

Defined-benefit plans guarantee a future level of benefits based on a specific formula often tied to years of service and income. FERS has a defined-benefit component.

The values used for federal and private-sector defined-benefit retirement plans are normal costs: the present value of future benefits divided by the present value of salary. Generally, those values can be thought of as the percentage of a worker's salary that the employer would have to put aside in a year to have enough on hand at that worker's retirement to pay the benefits earned in that year.

For the private sector, the Hay Group computed an average normal cost, expressed as a percentage of pay, for all retirement plans in the database as if each plan were provided to the hypothetical standard workforce described above. The dollar amount for private-sector retirement included in the comparisons for each of the nine positions is that percentage times the salary for each position.

For federal executives, the Hay Group calculated normal costs for the defined-benefit portion of FERS as applied to the standard workforce. Multiplying that normal-cost percentage by the salaries of federal executives yielded the dollar amounts for federal retirement used in the comparisons.

Computing such values requires making assumptions about age at retirement, separation rates, interest rates, expected salary growth, inflation (if the benefit is indexed), and mortality. The Hay Group used the same set of assumptions in calculating values for all pension plans: an annual interest rate of 7 percent, annual increases in salary of 4.25 percent, and annual changes in the cost of living of 4 percent. Those assumptions generally reflect federal practices, according to data from actuaries at the Office of Personnel Management. For mortality, the analysis assumed that the number of pension recipients would decline because of death at a fixed rate through age 110.

Social Security

The value of Social Security benefits varies among individuals. However, this analysis adopted the simple approach of valuing those benefits in the private sector and FERS as the amount of the employer's contribution—currently 6.2 percent of pay up to the cap on taxable wages.

Defined-Contribution Pensions

In defined-contribution plans, employers guarantee to make a specific contribution rather than to pay a specific benefit level, as in defined-benefit plans. Benefits are determined by the amounts contributed and the returns that those amounts earn when invested.

The dollar value for defined-contribution plans in the analysis is simply the employer contribution available to the employee during the year. That contribution is calculated as the amount the employer would match (assuming the worker contributed enough to qualify for the maximum matching contribution) plus any automatic contributions. Thus, differences in values among plans reflect differences in the generosity of employers' contributions, not differences in workers' level of participation.

For the private sector, the Hay Group estimated the average amount of employer contributions given the characteristics of the hypothetical workforce and considering the provisions of all defined-contribution plans offered by firms in the database. That amount, expressed as a percentage of payroll, was applied to the income of each private-sector executive to derive a dollar value for benefits. For federal executives, a similar method was applied to the Thrift Savings Plan under FERS.

Employee Health Insurance

The benefit value for a particular health care plan is the employer's expected annual cost of paying claims, minus any amounts that the employee pays for premiums, annual deductibles, or services. For the private sector, the Hay Group calculated the average value of benefits under the insurance plans of all firms in the database. (When firms offered more than one health plan, the Hay Group used the plan with the largest enrollment.) It then added an amount to the dollar value for basic insurance to reflect any supplemental benefits, such as physical exams, for executives. That addition was made when an executive's salary was at a level that, according to the Hay Group's analysis, was high enough to qualify for such benefits.

For federal executives, benefit values reflect the weighted average benefits of the six largest federal plans that participate in the Federal Employees Health Benefits (FEHB) program—the Government Employees Hospital Association, Inc., standard benefit plan; Mail Handlers high-option benefit plan; Blue Cross and Blue Shield standard benefit plan; the National Association of Letter Carriers Plan; the American Postal Workers Plan; and the Kaiser Foundation standard health plan for the mid-Atlantic region. Together, those six plans cover more than half of the federal civilian workforce.

The employer's expected cost of paying claims is calculated by applying the benefits of each health plan—federal and private—to a standard set of claims to determine the costs that each plan covers. Thus, the results focus on differences that stem from benefit levels, not from how employees may differ in their use of health services.

The standard set of claims is based on a Hay Group database derived from data that the Society of Actuaries collected from eight major national insurers on behalf of the Congressional Research Service. Those claims are grouped into 12 categories of costs, such as inpatient hospital stays, surgery, prescription drugs, and inpatient psychiatric care. The data on claims cover about 3.8 million people. The Hay Group compresses the claims into 380 separate profiles representing the range of possible claim amounts that typically occur during a year. Those profiles range from one with no medical claims to ones involving catastrophic care, such as an organ transplant.

In applying each health plan's provisions to the standard set of claims, the Hay Group makes adjustments for managed care plans to reflect the effects of managed care practices, cost-sharing formulas, and negotiated fee arrangements for the use and cost of health care. For example, health maintenance organizations have negotiated fee arrangements with providers. Point-of-service plans and preferred provider organizations have separate cost-sharing arrangements for services provided inside and outside their networks. For those plans, values are determined separately for care provided inside and outside the network, and the results are weighted to determine an average value for the plans. The weighting assumes that 70 percent of care is provided in the network.

The calculations assume that 84 percent of health insurance claims reflect family coverage and that families have, on average, 1.22 children covered by insurance (a figure derived from the Census Bureau's Current Population Survey).

The resulting dollar amounts may somewhat understate the value of federal health insurance. With a wide variety of plans to choose from, federal employees often have more opportunity than most private-sector workers to select insurance that offers the most generous coverage for their particular needs. Thus, federal benefits may be more valuable to federal employees than the results of these comparisons indicate.

Retiree Health Insurance

Many executives in the private sector can continue participating in their company's health insurance program after retirement. In the federal service, executives who retire with an immediate annuity may continue to participate in the FEHB and pay the same premiums they did before retirement.

The dollar values for retiree health insurance included in this analysis are the amounts needed over each employee's career to fund his or her expected future medical benefits as a retiree. Those benefits are the amount of future medical costs covered by insurance. As with employee health insurance, the dollar values are averages for all plans used by private-sector companies in the database and averages for the six largest insurers in the FEHB. Estimated future medical costs for private-sector firms are based on the experience of selected clients of the Hay Group. In applying each plan’s provisions to those costs to calculate the value of benefits, the Hay Group takes into consideration the plan's eligibility requirements, caps on coverage, and other factors. The dollar values that result are the present value of the expected future medical costs that are covered by insurance divided by the employee's years of service.

Estimating those values requires making two key assumptions: about expected inflation in the medical sector and about the method that insurance plans use to coordinate benefits with Medicare after age 65. For medical inflation, the calculations assume an annual rate of 7 percent. For coordination of benefits, the calculations are weighted to reflect the prevalence of four different methods of coordination used by private firms in the Hay Group's database. Those methods are:

- *Carve-out*, the most common form of coordination used in the private sector, in which plans determine what they would have paid in the absence of Medicare and then deduct from that any amount paid by Medicare. The employee pays any expenses not covered by the employer's insurance plan.

- *Coordination of benefits*, the method used by the federal government, which offers the most generous benefit. Under that approach, the plan rather than the employee pays amounts not covered by Medicare (up to the amount that the plan would have paid in the absence of Medicare). In many cases, retirees enjoy a higher level of benefits than they did while employed.

- *Exclusion*, a method that often provides a level of benefits between carve-out and coordination. Under that approach, the plan applies copayments and deductibles to any amount not covered by Medicare.

- *Wraparound*, a method in which plans cover any deductibles and copayments required by Medicare. It sometimes offers employees coverage for services that Medicare does not, such as prescription drugs.

Sick Leave and Disability Benefits

Sick leave and disability programs replace all or part of an employee’s salary when illness or injury makes the employee unable to work. The federal government provides benefits for both long- and short-term inability to work. Full-time federal workers and members of the Senior Executive Service earn 13 sick days a year at full pay, which they can use for temporary problems. Executives on the Executive

Schedule and other top officials have no formal sick-leave benefits. Under informal arrangements, however, they can take time away from work with pay. The comparisons in this analysis assume that Executive Schedule employees use the same amount of sick leave as members of the SES.

For long-term inability to work, federal employees may receive annuities under FERS or CSRS. Employees under FERS may receive benefits from Social Security as well as from the defined-benefit portion of FERS (subject to rules governing the coordination of benefits). Executives in the private sector also earn long- and short-term sick and disability leave, including benefits from Social Security.

In computing a dollar value for standard sick leave, the Hay Group applied each firm's policy to the hypothetical standard workforce to determine the number of leave days used. Those computations considered the characteristics of the standard workforce, the design of sick-leave plans, and utilization rates developed by the Hay Group on the basis of its clients' experience. Sick days used are valued at the daily rate of pay. The dollar amount for sick leave assigned to each private-sector executive position is the average value of sick leave used under private-sector plans, expressed as a percentage of pay, multiplied by the executive's salary. The amount for federal executives was derived similarly.

For long-term disability, the Hay Group computed the present value of the average annual payout under each plan in its database. The computations assume that each plan applies to the standard workforce. The average for all plans, expressed as a percentage of pay, multiplied by salary gives the amount associated with each executive position.

Life Insurance

The federal government offers its executives and other employees the opportunity to participate in a group life insurance program. Employees and the government share costs, with employees paying about two-thirds of the premiums for basic coverage and the government paying one-third. Employees may buy additional coverage at their own expense. All of the private firms in the database also offer their employees and executives some form of life insurance. Private firms usually pay the entire premium.

The dollar value for life insurance benefits in the comparisons is the portion of premiums paid by the employers. Those premiums vary depending on the provisions of a plan and the characteristics of the employees it covers. The Hay Group computed the average premium, as a percentage of salary, for providing the life insurance plans in its database to the standard workforce. That percentage times salary is the value of life insurance assigned to each private-sector position. (Dollar values also include amounts for any special plans for executives.) The value for federal life insurance is the premium for the basic plan, adjusted to exclude employee contributions.

Holidays and Vacations

The amounts included in the comparisons for vacations and holidays are the executive's daily rate of pay times the number of days off that he or she receives. Those calculations assume that employees will take all leave available to them or receive cash for the current year's time off.

The amount of leave that each private-sector executive is assumed to be eligible for is based on salary: the higher the salary, the greater the leave. That assumption reflects the practice of firms surveyed by the Hay Group. The calculations incorporate any supplemental vacation programs for executives, which are valued beginning at the minimum salary level required to participate.

The federal government also provides its employees with leave. Members of the SES and other employees generally receive 10 paid holidays from work each year. In addition, SES members and most other workers begin federal service earning 13 days of vacation per year. Employees with longer service can earn up to 26 days of vacation. Many executives, particularly in the SES, have long service and earn leave at the higher rate. SES members may carry over as many as 90 days of unused leave to the next year—much higher than the 30-day carryover that other federal employees are allowed. Federal executives on the Executive Schedule and other high-level officials do not have formal vacation benefits. But they may occasionally take time off from work with pay under informal arrangements. This analysis assumes that employees on the Executive Schedule use the same amount of leave as members of the SES.

Executive Perquisites

Executives are often entitled to extra benefits that are generally not available to rank-and-file employees, such as club memberships, company cars, and executive dining rooms. This analysis includes values for only the most commonly available perquisites—generally those offered by one-third or more of the private companies in the database. Those perquisites include company cars, allowances for chauffeurs, cellular phones, memberships in athletic and other clubs, use of executive dining rooms, personal financial counseling, apartments, houses, and hotel suites. Analysis by the Hay Group shows that in the private sector, such perquisites become available to employees at certain pay levels. Thus, the Hay Group included values for perquisites—reflecting their cost to employers—based on the income of the employees covered by this analysis.

Perquisites are relatively uncommon in the federal government, so the comparisons do not include any values for them. For example, some federal executives have access to official cars, but probably many fewer than in the private sector, where 64 percent of executives have such access, according to the Hay Group. Moreover, the cars provided to federal employees are generally not available for private use. In addition, few if any federal executives have country club memberships provided by the government—something that 3 percent of private-sector executives receive from their companies. However, federal executives do get some unique benefits. For example, career members of the SES may take a paid sabbatical lasting between three months and 11 months once in a 10-year period. However, few make use of that option.

Appendix B

Comparing Pay for Federal and State Executives

This appendix compares the salaries of selected federal executives with those of similar executives in the 10 largest states. The data show state salaries lagging behind federal ones (see Table B-1). They also show wide variations in state practices for similar positions. For example, state legislators in Texas earn annual salaries of $7,200, whereas those in California make $75,600.

Table B-1.
Salaries for Selected Officials of the Federal Government and Large States

	Population	President or Governor	Vice President or Lt. Governor	Member of Congress or State Legislature[a]	Cabinet Secretary or State Attorney General	Justice of the Supreme Court or Judge of Highest State Court	Judge of Federal District Court or Intermediate State Court
Federal Government	N.A.	200,000	175,400	136,700	151,800	167,900	136,700
California	29,760,021	114,286	94,500	75,600	107,100	131,085	122,893 to 135,000
New York	17,990,455	130,000	110,000	57,500	110,000	125,000	N.A.
Texas	16,986,510	99,122	99,122	7,200	79,247	113,000	107,350 to 112,000
Florida	12,937,926	107,961	103,415	24,912	106,461	137,314	123,583
Pennsylvania	11,881,643	105,035	83,027	57,367	107,016	122,864	119,016
Illinois	11,430,602	126,590	89,357	47,039	111,697	126,579	119,133
Ohio	10,847,115	111,467	57,637	42,427	85,509	107,350	99,950
Michigan	9,295,297	124,195	91,686	51,895	112,439	124,770	114,788
New Jersey	7,730,188	85,000	N.A.	35,000	100,225	132,250	124,200
North Carolina	6,628,637	107,132	94,552	13,951	94,552	100,320	96,140

SOURCE: Congressional Budget Office based on Council of State Governments, *The Book of the States*, vol. 32 (Lexington, Ky.: CSG, 1998).

NOTES: Federal data are for 1998; state data are for 1997 or 1998, whichever were available.

N.A. = not applicable.

a. The position of legislator is part time in many states. Salaries may be supplemented with payments for living expenses. Thus, comparisons of state legislators and Members of Congress must be viewed cautiously.