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ADJUSTMENTS IN FEDERAL WHITE-COLLAR PAY
A TECHNICAL REVIEW OF PAST PROPOSALS
AND THE OUTLOOK FOR OCTOBER 1983

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

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ADJUSTMENTS IN FEDERAL WHITE-COLLAR PAY: A TECHNICAL REVIEW OF PAST PROPOSALS AND THE OUTLOOK FOR OCTOBER 1983

Staff Working Paper

Congress of the United States
Congressional Budget Office
Office of Intergovernmental Relations

March 1983

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Except as noted, the comparison of federal and private-sector retirement costs does not reflect potential effects of changes recently recommended by the National Commission on Social Security Reform.

PREFACE

This working paper, prepared at the request of the House Committee on Post Office and Civil Service, reviews the analytical basis for estimating pay increases for federal white-collar employees under proposals that consider the value of fringe benefits as well as salary. It also identifies several strategies for adjusting pay in future years. The report builds on information and analysis contained in various earlier Congressional Budget Office studies on pay and fringe benefits received by federal employees.

The study was undertaken by David M. DelQuadro of CBO's Office of Intergovermental Relations, under the supervision of Earl A. Armbrust and Stanley L. Greigg. The author gratefully acknowledges the contributions of Carol Marquis, who assisted with research, and Mark R. Musell, who assisted in preparing the report. Johanna Zacharias edited the manuscript, and Denise L. Wright and Karella Ann Gumppert typed the various drafts and prepared the paper for publication.

Staff of the Office of Personnel Management have reviewed the quantitative data used by CBO to support the material findings in the paper, although each individual calculation was not verified. In keeping with CBO's mandate to provide objective analysis, the study offers no recommendations.

Alice M. Rivlin
Director

March 1983

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SUMMARY

For more than a decade, pay "comparability" has been the fundamental principle guiding each October's salary adjustments recommended for some 1.5 million federal white-collar employees. Under the comparability principle, workers covered by the General Schedule (GS) should receive pay adjustments designed to keep their salaries at levels equivalent to those paid in the private sector for similar work. In recent years, both the definition of what actually constitutes comparability and the method for arriving at a comparability adjustment have been challenged repeatedly. The results have been a combination of diminishing adjustments and mounting concern over the budgetary costs of the comparability principle and whether, in fact, it remains an appropriate standard.

In the past, active-service pay was the sole factor to which the comparability notion was applied in the compensation comparisons used in developing federal salary recommendations. Recently, however, proposals have surfaced that would expand the comparability principle to include the value of fringe benefits as well. "Total compensation comparability," as this latter approach is called, can be measured in a number of ways. Applying one interpretation, the Reagan Administration proposed a total compensation pay adjustment of 4.8 percent for October 1981 (fiscal year 1982). The 4.8 percent adjustment, based on both salary and fringe benefit differences, was more than 10 points below the Office of Personnel Management's recommended 15.1 percent pay comparability adjustment as determined under current law and procedures.

As a result, the House Post Office and Civil Service Committee and its Subcommittee on Compensation and Employee Benefits became concerned that federal pay adjustments were no longer produced by a rational and analytically supportable process. At the request of these committees, the Congressional Budget Office has reviewed the basis of the 4.8 percent estimate and identified the sensitivity of the Administration's fringe-benefit values to underlying analytical assumptions.

PAY-SETTING PROCEDURES

Pay adjustments for most white-collar employees are set according to policies and procedures established by the Federal Pay Comparability Act of 1970. The process for developing adjustments begins with three main steps: collection of private-sector salary data, comparison of federal to private-sector costs for comparable jobs, and a Presidential recommendation. The President has the option either to grant a comparability adjustment or, in response to economic and budgetary pressures, recommend a lower increase.

Since passage of the pay comparability act, ten alternate increases--that is, pay adjustments either below comparability or with a delayed effective date--have been proposed. Although a vote of either the U.S. Senate or the House of Representatives can overturn any alternative to comparability submitted by the President, the Congress has exercised that authority but twice and then, only to restore the original effective date.

THE ADMINISTRATION'S APPROACH TO COMPARABILITY

The 4.8 percent pay adjustment the Congress accepted for fiscal year 1982 was characterized by President Reagan as a total comparability adjustment. Consistent with past total compensation plans, the President's proposal was intended to reduce the size of pay adjustments in recognition of certain advantages of federal employment, including superior federal retirement benefits. The Administration's 1982 approach to total compensation, however, contains two innovations. In addition to considering traditional fringe benefits, such as retirement and health insurance, the scope of benefit comparisons was further expanded to include so-called "secondary benefits," such as profit sharing and workmen's compensation. Also, a declining comparability standard was applied to take account of special nonpecuniary assets of federal employment, including job security, within-government mobility, and portability of benefits. The discount began at 96.5 percent in 1982 and would level off at 94 percent two years later.

Comparability and Calculation

Neither of the two innovations included in President Reagan's approach to comparability was evaluated in a manner consistent with that used for the more traditional benefit provisions. Rather than attaching an estimated dollar value to the unmeasurable advantages of federal employment and adding it to the values of other federal employment benefits, the Administration proposed a six-point reduction in the comparability standard. Eventually, the new standard would result in pay adjustments designed to bring federal compensation to a level equivalent to 94 percent, rather than 100 percent, of pay and benefits received in the private sector for similar work. In a related manner, the value of federal and nonfederal secondary benefit components were weighed against each other before they were added to the estimated costs of other benefits. Reducing the comparability standard had a much more dramatic impact on pay and benefit comparisons, as discussed below, than did the evaluation of secondary benefit values.

Even at the 96.5 percent level, the new standard would substantially reduce federal pay adjustments. Without it, according to estimates by the Office of Management and Budget (OMB), the total comparability (salary and benefits) adjustment for 1982 would have been 8.6 percent rather than 4.8 percent. But analysis by the General Accounting Office (GAO) has found no basis for supporting the lower comparability level. The GAO has cited the following problems with the new standard:

- Absence of quantitative or analytical support for the specific standard proposed;
- Insufficient evidence that special advantages inherent in federal employment attract people to public service; and
- Failure to consider the discount implicit in federal pay adjustments resulting from the six-month time lag between the collection of private-sector data and the effective date of the October increase.

Secondary Benefits. In response to GAO recommendations, the Administration expanded the scope of fringe benefits used in cost comparisons. The timing of such action is called into question, however, by the lack of meaningful data concerning secondary benefits. Moreover, deficiencies appear in the particular estimating methods used by the Administration for evaluating these secondary benefits, including:

- Use of 1979 data that were not updated;
- Inconsistent calculation methods that mask the absolute value of secondary benefit practices; and
- Failure to evaluate private-sector data in a manner that recognized the characteristics of the federal work force.

COMPARING FRINGE BENEFITS

In addition to the problems specific to the Administration's particular approach to total compensation, other problems arise in calculating the change in the government's costs from adopting alternate fringe-benefit practices. Persistent difficulties occur in three areas: retirement, health insurance, and the analytic weighting of benefit costs.

Retirement

The method used by the Office of Personnel Management (OPM) for dividing total disability and retirement costs between employers and employees for the Social Security and the Civil Service Retirement (CSR) programs is arbitrary and inconsistent. As retirement benefit costs under the two systems are now calculated and compared, an incorrectly wide disparity emerges. In addition, recently enacted cuts in cost-of-living adjustments to benefits available under CSR are not reflected in OPM's estimates of federal costs.

Financing. In general, the combination of federal employee and employing-agency contributions for Civil Service Retirement equal 14 percent of payroll. If federal employees were currently participating in Social Security's retirement and disability programs, instead of CSR's, the analogous contribution rates would equal about 10 percent, according to OPM. Because the combination of employee and employer contributions do not cover future benefit payments, unfunded costs occur under CSR and would occur under Social Security equal to 21.2 percent and 6.4 percent of salary, respectively. OPM designates all of the CSR shortfall as an employment cost to the government but divides the Social Security's underfunding evenly between employers and employees. If the OPM methodology treated the CSR and Social Security funding shortfalls consistently--either assigning them entirely to the government or distributing both evenly between the government and its employees--estimates of differences between federal and private-sector retirement costs would narrow dramatically.

Economic Assumptions. Future rates of interest and changes in pay have a strong impact on estimates of retirement costs, and they are subject to great uncertainty. In light of the growing acceptance of assumptions prepared for the Social Security system, the actuarial assumptions used by OPM could require revision. If this were done, the estimated cost to the government of CSR would fall from 28 percent of payroll to about 23 percent.

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Health Coverage

The OPM methodology for evaluating health-insurance plans overstates the cost to the government as an employer. By implication, it appears to inflate the estimated cost of adopting private-sector practices, which would require the government to pay a greater share of health-insurance premiums. On the basis of a CBO review of federal health-insurance costs experienced in calendar year 1980, for example, the average yearly cost to the government was about $560 per employee. The analogous estimate used by OPM--$903 per year--exceeds the maximum annual contribution made by the government for any of its workers by about $100.

Weighting

In the private sector, the benefits provided to white-collar employees and those available to blue-collar workers vary. Not only did OPM ignore such differences; it also combined benefit values based on the occupational distribution of the private, rather than federal, work force. According to CBO, these two deficiencies changed the estimated cost to the government of adopting typical private-sector benefit practices--slightly increasing the estimated cost of health insurance and noticeably reducing other traditional benefit estimates.

FUTURE PAY-INCREASE ESTIMATES

The gap between federal and private-sector compensation is a growing problem. But according to CBO estimates, comparability, whether measured on the basis of pay alone or on the basis of pay plus benefits, would require large federal expenditures. Therefore, it may have questionable appeal to the Congress, in light of continuing calls for budgetary restraint.

Pay comparability, as currently measured, would require an October 1983 adjustment in excess of 20 percent. Including consideration of traditional and secondary fringe benefits, as developed by OPM, would reduce the pay adjustment from 21.3 percent to about 19.5 percent. CBO analysis, on the other hand, indicates that federal employees' benefits are now behind those of white-collar employees in the private sector. Consequently, the pay increase necessary to achieve total compensation comparability would be slightly higher than the adjustment necessary to achieve pay-only comparability as it is currently defined. The CBO estimate excludes the 94 percent comparability standard--as does the OPM result--and secondary benefits. In addition, the CBO estimate incorporates revisions suggested earlier, including consistent treatment of retirement benefit costs, use of federal employment weights, and modification of health-insurance costs.

Pay Reform in Perspective

As an alternative to total compensation, and in light of continuing budgetary and economic concerns, the Congress could continue restraining pay either by limiting adjustments or, as President Reagan has proposed for fiscal year 1984, by denying them altogether. Such actions, however, could cause experienced federal employees to accelerate their retirement plans, and make it more difficult for the government to retain or hire the highly qualified personnel it needs.

Other approaches have been put forth by parties interested in federal compensation. These include adopting individual reforms, such as locally based pay and reductions in CSR costs-of-living provisions to bring federal practices into closer alignment with those in the private sector; incorporating collective bargaining in the pay-setting system; or indexing federal pay to an economic indicator of wages or prices, presumably whichever would yield the smaller adjustment in any given year. A short-term indexation approach would allow Congress time to evaluate longer-term options for determining appropriate federal pay and benefit levels and devising proper computation methods.

SECTION I. INTRODUCTION AND BACKGROUND

Each October, the white-collar federal civilian work force--mainly the government's General Schedule (GS) employees--receives an adjustment in pay. Increases in GS salaries directly affect some 1.4 million employees and influence several other white-collar pay systems, which cover some 72,000 workers (see Table 1). In fiscal year 1983, each 1 percent increase in civilian white-collar pay represents some $360 million in annual payroll costs. For fiscal year 1984, the President has proposed to save some $6 billion by granting no pay increase to all federal military or civilian employees, including those under the General Schedule. Even if the President's proposed freeze is approved in the Congress, however, concern over the size of federal pay adjustments and the long-debated matter of how they are calculated will arise again in the course of future budgetary deliberations.

TABLE 1. THE ESTIMATED NUMBER AND ANNUAL PAYROLL COSTS OF FEDERAL EMPLOYEES IN FISCAL YEAR 1983

Pay System	Average Monthly Employment (In thousands)	Annual Cost (In millions of dollars)	Percent of of Total Payroll Cost
General Schedule	1,400	33.47	63.1
Related White-Collar Schedules			
Medicine and Surgery Schedules	34	1.05	2.0
Foreign Service	13	0.48	0.9
Senior Executive Service	6	0.39	0.7
Other	19	0.53	1.0
Subtotal, White-Collar a/	1,472	35.92	67.7
Wage Systems	494	10.41	19.6
Undistributed b/	240	6.74	12.7
Total	2,206	53.07	100.0

SOURCE: Data provided by the Office of Personnel Management.

a. Based on OPM data for numbers and associated cost of employees in full-time permanent positions as of March 1982.

b. Numbers largely represent white-collar employees in other than full-time permanent positions.

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THE FEDERAL PAY ADJUSTMENT PROCESS

For more than a decade, determination of GS pay adjustments and those received by most other federal white-collar employees has been guided by the concept of comparability, designed to recompense federal workers at rates that are on a par with the pay rates of employee counterparts in comparable private-sector jobs. Mandatory consideration of the comparability principle originated with the Federal Pay Comparability Act of 1970, which requires that a proposed adjustment go through several steps before it is put into effect. 1/ First, information concerning private-sector salary levels is collected each March by the Bureau of Labor Statistics (BLS). Next, staff of the Office of Personnel Management (OPM) formulate a proposed comparability adjustment by comparing GS pay rates against the BLS data. This result is then transmitted to the President by the Pay Agent--comprising the Director of the OPM, the Director of the Office of Management and Budget (OMB), and the Secretary of the Department of Labor (DOL). The President is not bound by the comparability comparison, though, and may propose an alternate pay adjustment plan to achieve budgetary and economic objectives and to set an example of wage restraint for the nonfederal sector. Finally, under current law, the Congress may overturn an alternate plan by a simple majority vote of either House. 2/ Since 1970, however, that authority has been exercised only twice (see Table 2). In both instances (October 1973 and 1974), the Senate overrode a proposed delay in the effective dates of increases based on comparability; in addition, passage of the Economic Stabilization Act of 1971 and a judicial ruling (affecting the October 1972 increase) also overturned Presidential recommendations concerning pay delays. Six other times--including the last five years--the Congress accepted the pay increase proposed by the President even though each was below full comparability as it was determined by the Pay Agent at that time.

Contrary to a widespread misconception, the calculation of a possible comparability pay increase does not solely reflect increases in the cost of living, or for that matter, the rates of increase in private-sector pay. Rather, the comparability adjustment recommended to the President results from a comparison of federal and private-sector salary levels of equivalent jobs in 25 selected occupations (enumerated in Appendix Table A). Thus, the recommended increases incorporate all the factors that can affect private pay--labor market conditions, collective bargaining agreements, adjustments for length of employment, work-incentive bonuses, productivity gains, and cost-of-living increases; to these are added any catch-up for prior-year limits on federal pay adjustments.

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1. For a detailed discussion, see House Post Office and Civil Service Committee Print No. 98-1, Current Salary Schedules of Federal Officers and Employees Together with a History of Salary and Retirement Annuity Adjustments (January 31, 1983), pp. 30-34.

2. Federal wage adjustments for blue-collar employees also rely on the pay comparability principle, but reflect private-sector rates based on local rather than national wage surveys. Under the decentralized mechanism for making blue-collar wage comparisons, the President does not review or recommend alternate wage adjustments. For the past three years, however, the Congress has enacted legislation that effectively extended the annual limitations on GS pay increases to nearly all federal civilian employees, including blue-collar workers.

TABLE 2. PROFILE OF GENERAL SCHEDULE PAY RAISES, 1971-1982 (Percentage increase)

Schedule Date	Recommended by Pay Agent	President's Plan	Percentage Granted
January 1971	5.96	5.96	5.96
January 1972	6.50	5.50 a/	5.50 b/
October 1972	5.14	5.14 a/	5.14 c/
October 1973	4.77 (4.55-5.25)	4.77 a/ (4.55-5.25)	4.77 d/ (4.55-5.13)
October 1974	5.52 (5.46-6.69)	5.52 a/	5.52 d/
October 1975	8.66	5.00	5.00
October 1976	5.17 (4.24-11.86)	5.17 (4.24-11.86)	5.17 (4.24-7.92)
October 1977	7.05	7.05	7.05
October 1978	8.40 (6.14-19.4)	5.50	5.50
October 1979	10.41 (8.80-23.6)	7.00	7.00 e/
October 1980	13.46 (10.1-20.9)	9.10	9.10 e/
October 1981	15.10 (12.1-23.3)	4.80	4.80
October 1982	18.47 (15.0-31.1)	4.00	4.00
October 1983	21.3 f/	0.00	g/

SOURCE: Compiled by CBO from OPM and BLS data.

NOTE: The numbers in parentheses represent ranges in cases in which increases were not a flat rate for all GS grades.

a. In each case, the President proposed to delay the effective date.

b. The Economic Stablization Act of 1971, as amended, legislated a January 1972 pay increase of 5.5 percent.

c. Judicial ruling eventually overturned the delay of the October 1972 pay raise by making the increase retroactive.

d. The Senate overrode the President's proposed delay of the effective date.

e. Some employees in the first two GS grades received larger increases.

f. Based on the Administration's projected change in private-sector pay of 6.5 percent--1 point higher than CBO's estimate.

g. Not established.

PROPOSED REFORMS AND RECENT PRACTICE

The current process for computing comparability considers pay only and does not take account of fringe benefits in either the public or the private sector. Traditional federal employment benefits--such as health insurance, life insurance, paid time off, and retirement pensions--are set independent both of federal pay and of private-sector fringe-benefit practices.

The Total Compensation Approach

Expanding the federal pay comparability process to include the value of fringe benefits in compensation calculations is generally referred to as a "total compensation" approach. Under the specific legislative changes proposed in the last few years, a total compensation approach would reduce the size of future federal pay increases mainly to offset what many analysts believe have been overly generous federal retirement benefits relative to private-sector practices. 3/

Applying the principle of total compensation comparability to federal pay and benefits was considered as early as 1962. Not until the early 1970s, however, was a significant difference between federal and nonfederal benefit practices apparent. Since that time, outlays for federal benefits--especially retirement annuities and health insurance--have increased dramatically, and several studies have recommended broadening the comparability principle to include fringe benefits in computation. 4/

In 1979, the Carter Administration proposed to the Congress the Federal Compensation Reform Act, which provided a total compensation framework for determining pay and benefit comparability. 5/ That proposal was the culmination of nearly five years of research and evaluation by OPM and its predecessor, the Civil Service Commission. It would have authorized the President to determine which benefits should be considered, how they should be valued and compared, and what adjustments in the federal compensation package should be made to assure parity with private-sector practices. The plan would have prevented any reduction in federal benefits for at least five years after implementation. Consequently, federal pay adjustments during that time would have been smaller or greater, to the extent that federal fringe benefits were above or below those typically available from other employers. Although the plan generated little Con-

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3. For a discussion of civil service and private-sector retirement practices, see Congressional Budget Office, Reducing the Federal Deficit: Strategies and Options (February 1982), pp. 177-184, and Civil Service Retirement: Financing and Costs (May 1981), pp. 14-26.

4. See Report to the President of the President's Panel on Federal Compensation (December 1975); the President's Reorganization Project, Personnel Management Project, Final Staff Report, Volume I (December 1977); General Accounting Office, Need for a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees (July 1, 1975); Civil Service Commission, Bureau of Policies and Standards, Total Compensation Comparability (October 1975); and the Advisory Committee on Federal Pay, A Decade of Federal White-Collar Pay Comparability 1970-1980 (January 15, 1981).

5. See Congressional Budget Office, Compensation Reform for Federal White-Collar Employees: The Administration Proposal and Budgetary Options for 1981 (May 1980).

gressional enthusiasm, the Carter Administration's budget proposals for 1981 and 1982 both recommended enactment of a total compensation approach for determining the size of federal pay adjustments.

Responses to Fiscal Constraints

On 15 January 1981, when President Carter transmitted his proposed budget for fiscal year 1982 to the Congress, OMB assumed that an October 1981 pay comparability increase, as defined under current law, would require a 13.5 percent federal pay raise. Recognizing the value of employer-provided fringe benefits, according to OMB, would have justified holding the projected pay increase to about 8.6 percent. But the Carter budget, as finally prepared, capped the October pay adjustment at 5.5 percent. The budget documents characterized this limitation as a necessary government response to inflationary trends. Thus, the Reagan Administration inherited a budgetary outline proposing a civilian pay increase more than 3 percentage points below the OMB's estimate of total compensation comparability.

Current Concerns and the Administration's Proposed Approach

Subsequent budget revisions transmitted by President Reagan in March 1981 proposed reducing the October 1981 pay increase from the capped 5.5 percent rate set forth in the Carter budget to a further capped rate of 4.8 percent. The justification for this series of events, which reduced the proposed level of federal civilian pay adjustments, caused some Congressional concern. To the House Committee on Post Office and Civil Service, it appeared that federal pay adjustments were no longer produced by a rational and analytically supportable process.

According to the Reagan Administration, the 4.8 percent estimate was derived from information that accurately reflected employment advantages available to federal workers. Because some of these advantages were difficult to quantify, OMB proposed to recognize their value by reducing the comparability standard from full parity to 94 percent. In most other respects, the Reagan proposal followed the total compensation approach to comparability developed under the Carter Administration by OPM. Two major administrative changes were adopted by OPM, however, for implementing the total compensation proposal: the recognition of the tax-free status of Social Security income compared with federal pensions, and the incorporation of certain miscellaneous or secondary fringe benefits. (The latter are described in Section III.)

On 8 February 1982, President Reagan transmitted his fiscal year 1983 budget proposal to the Congress. It assumed an upcoming October pay adjustment of 5 percent and, partly in response to Congressional concerns, a withdrawal of the total compensation proposal developed by OPM. The budget documentation reiterated, however, that the annual federal pay increase enacted by Congress for fiscal year 1982, which was capped at 4.8 percent, was consistent with total compensation comparability as measured under the President's proposed 94 percent standard. Subsequently, Congressional budget actions limited the 1983 pay increase to 4 percent--1 percentage point below the level assumed in the President's budget, some 4 points below the estimated rate of change in private-sector pay, and 14.47 points below pay comparability--as determined by the President's Pay Agent (see Table 2).

PLAN AND PURPOSE OF PAPER

At the request of the House Post Office and Civil Service Committee and its Subcommittee on Compensation and Employee Benefits, this paper reviews the analytical basis for the Administration's 4.8 percent estimate, its approach to total compensation comparisons, and the sensitivity of benefit valuations to underlying assumptions. Section II of the paper examines the techniques used by OPM to evaluate relatively minor fringe benefits and the reduction of the comparability standard proposed by President Reagan. Section III describes problems associated with comparing fringe benefits, and Section IV provides CBO estimates of total compensation adjustments as well as possible strategies for setting federal white-collar pay in the future.

SECTION II. THE REAGAN PROPOSAL

A key part of President Reagan's total compensation reform proposal was a 6 percent reduction in the comparability standard from 100 percent to 94 percent over a three-year period. The Administration defended the proposed reduction as appropriate recognition of certain advantages of federal employment, including federal job security and within-government mobility, as well as the "portability" of federal retirement benefits for federal workers transferring among agencies. But the six-point discount factor appears arbitrary, especially in light of recent reductions in federal employment levels. Since President Reagan's inauguration, the number of permanent federal jobs in nondefense agencies has declined by about 41,000. 1/

Questions have also arisen about the feasibility of broadening the selection of fringe benefits in total compensation comparisons to include numerous lesser items (see Appendix Table B). The General Accounting Office recommended gauging the availability of these subsidiary (or secondary) benefit provisions and developing, if possible, appropriate measurements. 2/ This section examines the basis for reducing the comparability standard and the secondary benefit evaluations used by OPM as part of the pay reform plan proposed by the Administration. (Some of the technical implementation problems in comparing fringe benefits, which are addressed in Section III, also apply to the discussion in this section.)

THE NEW COMPARABILITY STANDARD

As mentioned above, the Reagan Administration felt that certain nonpecuniary--hence unmeasurable--but advantageous features of federal employment could be reflected in the federal pay-setting process by lowering the comparability standard from full parity with private-sector compensation to 94 percent. Presumably, it would not be possible, from the Administration's standpoint, to develop reasonable estimates of the nonpecuniary advantages enjoyed by federal workers. Otherwise, valuation of federal job security, employment mobility, and benefit portability could follow the methods used to assess traditional or primary benefits such as pensions, health-insurance coverage, and life insurance plans. (The estimated values of traditional benefits were expressed by OPM as a percentage of payroll or in absolute dollars and then added to payroll costs rather than used to justify a lower federal comparability standard.)

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1. According to OPM, between January 1981 and October 1982, the number of non-postal civilian workers employed by federal agencies other than the Defense Department declined by 98,842 of which 40,850 were employees with full-time permanent appointments. A significant portion of the reduction in other-than-permanent positions probably resulted from seasonal changes in the government's employment needs. See Office of Personnel Management, NEWS (December 6, 1982).

2. See General Accounting Office, Proposal to Lower the Federal Compensation Comparibility Standard Has Not Been Substantiated (January 26, 1982).

According to OMB, information necessary to evaluate the nonpecuniary features of federal employment is either not available or cannot be processed--on a permanent and routine basis--in time for consideration in the annual federal pay adjustment cycle. The Administration views the large number of people seeking federal jobs as an accurate indicator of the relative attractiveness of federal employment. On the other hand, the GAO opposed lowering the federal-compensation standard to 94 percent, even though the office supports most of the other pay-reform measures included in the Administration's legislative proposal.

As proposed by President Reagan, the 94 percent standard would not simply discount the size of recommended federal pay adjustments; instead, it would reduce the level of nonfederal compensation (pay and benefits together) used as a comparability benchmark. Rather than cutting a 10 percent adjustment back to 9.4 percent, for example, the revised standard would restrict the new compensation level to 94 percent of the salary level calculated to represent comparability. Thus, instead of raising a $10,000 federal salary to the $11,000 level of a private-sector counterpart job, the new comparability standard would lower the federal benchmark salary to $10,340 ($11,000 x 0.94). In this case, the revised comparability standard would have the effect of limiting a 10 percent pay increase to 3.4 percent. 3/ Once total compensation was in place, subsequent federal adjustments would equal the rate of change in nonfederal salary levels.

In retrospect, reducing the comparability standard allowed the Reagan Administration to support the principle of pay-plus-benefits comparability, and at the same time to limit federal expenditures below the level already recommended in the previous Administration's proposed budget for fiscal year 1982. (As explained in Section I, the Carter budget proposed limiting the October 1981 annual pay adjustment for federal civilian employees to 5.5 percent instead of OMB's 8.6 percent total compensation comparability estimate.) Under a 94 percent comparability standard, President Reagan could have limited the fiscal year 1982 pay increase to 2.1 percent rather than 4.8 percent (94 percent x 1.086). Instead, the Administration proposed to phase in the lower comparability standard, beginning with a 96.5 percent discount in 1982 and leveling off at 94 percent two years later. This approach allowed President Reagan to characterize the 4.8 percent pay cap as a "total comparability adjustment" and project lower pay increases for 1983 and 1984 at the same time.

In September 1981, working papers were prepared by OPM staff that supported a government-wide civilian pay raise of 4.8 percent for fiscal year 1982, but only by applying the full effect of a 94 percent comparability standard. The OPM also made use of more recent information and a more sophisticated methodology than had been used by OMB, which, taken together, resulted in higher estimates of federal pay increases regardless of the comparability standard used. Under the OPM methodology, the estimated size of the federal pay increase necessary to achieve 100 percent total compensation comparability was about 11.4 percent, in contrast to 4.8 percent at the reduced comparability standard. The analogous OMB estimates were 8.6 percent and 2.1 percent, respectively.

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3. For illustrative purposes, this example assumes the level of pay is the only difference between federal and private-sector compensation practices. It should also be noted that applying the 94 percent standard to any pay increase less than 6.3 percent would, in fact, support a reduction in federal salary levels.

GAO Critique

A report released by GAO last year observed that the Administration had neither collected data nor prepared any analytical support for the proposed 94 percent standard. Furthermore, on the basis of discussions with OMB and OPM officials and on analysis of national unemployment rates and federal agency recruitment statistics, the GAO was unable to substantiate the assertion that people were attracted to federal employment by some inherent nonpecuniary advantage.

According to OMB, one indicator of the advantageous nature of federal work is the large number of applicants for federal jobs. The GAO, however, has challenged the Administration's use of job queues as an indicator, on grounds that such factors as the state of the economy, skills of the job seekers, and selection standards are not reflected. In addition, the GAO noted that the discretion applied in reducing the comparability standard was not even-handed, since it did not recognize aspects of federal personnel administration that already reduced compensation levels. Specifically, OMB did not mention that the annual October comparability pay adjustment for civil service employees reflects March salary differentials between federal and private-sector occupations--a six-month time lag. This delay, GAO estimates, effectively reduces the pay comparability standard to a 95 percent level. Thus, adoption of a lower total compensation comparability standard--regardless of the justifications used--would compound the problem that already exists, unless the six-month lag were eliminated. 4/

SECONDARY BENEFITS

In response to recommendations from the GAO, the Administration expanded the scope of the benefits used in determining comparability. 5/ As a result, federal and private-sector comparisons of secondary benefits--such as profit sharing and workers' compensation--were added to the cost estimates already developed for the traditional benefit provisions (retirement, paid leave, health coverage, and life insurance plans). Because definitive data concerning secondary benefits are not readily available, the validity of the OPM comparision is moot. In addition, several deficiencies appear in the particular estimating methods OPM uses to determine the impact of secondary benefit practices on pay adjustments.

Ideally, data on the secondary benefit provisions available to white-collar workers in the private sector should have been collected and then evaluated on the basis of characteristics of the federal white-collar work force. Instead of evaluating private-sector secondary benefit practices, however, OPM generally relied on estimates of employer expenditures and included data for all occupations--including blue-collar jobs. Furthermore, the original secondary benefit estimates were developed by OPM from data covering 1979, or earlier time periods, and have not been updated.

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4. Some analysts have argued that the true time lag averages 12 rather than six months. As of October, federal workers' pay is six months behind the private sector, but this lag grows until, by the following October, it is 18 months long, averaging about 12 months during the October-to-October period.

5. See General Accounting Office, Problems in Developing and Implementing a Total Compensation Plan for Federal Employees (December 5, 1980).

The OPM method for calculating the value of secondary benefits is not straightforward. Rather than applying the methods used for comparing other elements of compensation, OPM did not use the absolute value of secondary benefits for the federal and nonfederal sectors. Instead, it calculated the net difference between federal and private-sector practices for each secondary benefit component. 6/ As a result, OPM excluded 0.9 percent of pay from its estimated values of secondary benefits for private-sector workers as well as for federal employees. Because private-sector salaries ranged between 12 percent to 23 percent ahead of federal pay levels, the OPM approach was equivalent to excluding between \$120 to \$460 from annual federal compensation costs per employee and \$134 to \$566 from analogous private-sector costs.

In addition, OPM's consideration of secondary benefits also appears to understate costs for three particular components. First, OPM assumed that, with the exception of the 45-day pay continuation for government employees who suffer a disabling injury, federal workers' compensation benefits approximately equal average benefits in the private sector. Thus, the OPM calculation assigns a zero value to private-sector workers' compensation benefits and limits the government's cost to the extended pay provision. But the Reagan Administration has proposed legislative changes to tighten administration of the government's system and to discourage abuse. 7/ In any event, federal workers' compensation expenditures for 1980 were about 1 percent of pay, or seven times larger than OPM's estimate. Second, no value was assigned for free or subsidized parking provided to federal workers. This omission may have reflected the short-lived experiment (November 1979-March 1981) of charging fees for federal parking. Finally, recent information, incorporating the effect of ongoing federal employment cutbacks, suggests that federal expenditures for severance pay are greater than the 0.12 percent estimate used by OPM. 8/ On the other hand, it does appear reasonable to assume that private-sector employees enjoy certain secondary benefit practices that are not generally available to government workers, including profit sharing, thrift and stock plans, and product discounts.

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6. OPM first determined the difference in costs between federal and nonfederal practices for each secondary benefit. Then it developed two totals for each sector. The two resulting totals, each reflecting a sum of cost "advantages" for selected benefits, were then factored into OPM's compensation comparisons (see Appendix Table B).

7. According to OMB, these changes would remove: incentives to file questionable claims, disincentives for injured workers to return to work as soon as they are able, and inequities that provide higher-paid workers with tax-free payments greater than their take-home pay. See Office of Management and Budget, Major Themes and Additional Budget Details, Fiscal Year 1983 (February 8, 1982), pp. 71-73.

8. Department of Defense data for 1980 and 1981 suggest an annual severance-pay cost equivalent to about 2 percent of payroll; civilian agency costs would probably exceed the 2 percent estimate. See Congressional Budget Office, Contracting Out for Federal Support Services (October 1982), pp. 22-24.

SECTION III. COMPARING FRINGE BENEFIT COSTS

Retirement and long-term disability payments, life and health insurance, and paid time off for vacations, holidays, and sick leave account for the majority of benefits available to most employees, public or private. These traditional, or "primary," benefits have always been included in OPM's total compensation analyses. Earlier CBO studies have observed that estimating the costs of such benefits is subject to a wide degree of discretion. 1/ Different estimating approaches can have a pronounced impact on the outcome of compensation comparisons.

Without regard to secondary benefits, the primary benefits available to federal employees as of March 1980 were of greater value than those typically available in the private sector. Estimates developed by OPM suggest that the long-term cost to the government would fall by about 9 percent of payroll if federal retirement, life insurance, leave and health-care benefits were tailored to typical private-sector practices. But CBO analysis suggests a somewhat smaller potential for cost reduction--about 2.0 percentage points--under an alternate approach that values fringe benefits differently (see Table 3). This section examines OPM's methodology concerning the evaluation of retirement and private-sector health-insurance costs and the analytical weighting of benefit provisions.

RETIREMENT COSTS

Benefits available under the Civil Service Retirement (CSR) system account for up to one-fifth of the total compensation received by federal white-collar employees. Although the CSR program substitutes for the two-part retirement system in the private sector--Social Security plus an employer-provided pension and disability benefits--the benefit comparisons used by OPM do not produce a consistent cost treatment of the CSR and Social Security components. In addition, the OPM estimates would change considerably under alternative economic assumptions and to a lesser extent, if recent legislative actions that reduced CSR outlays were recognized. 2/

Financing Differences. Actuaries compare pension costs by measuring the present value of projected benefits. On this basis, the OPM estimates the normal retirement costs of the Old Age Survivors and Disability Insurance (OASDI) system--the Social Security retirement program, but not including Medicare--and the CSR system at an annual 18.4 percent and 35.2 percent of pay, respectively. 3/ The normal cost, an actuarial measure, represents the amount of annual payroll investment necessary to fund retirement benefits employees earn in the current year. Both the OASDI

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1. See CBO, Compensation Reform (May 1980), pp. 20-27.

2. In particular, cost reductions resulting from enactment of the Omnibus Reconciliation Acts of 1981 and 1982, which are discussed later in this section.

3. The normal cost estimates prepared by OPM are described in its July 1981 report, Total Compensation Comparability: Background, Method, Preliminary Results, pp. 14, 15, and 18.

TABLE 3. FEDERAL FRINGE BENEFIT COSTS AND THE IMPACT OF ADOPTING PRACTICES TYPICAL OF THE PRIVATE SECTOR, MARCH 1980: OPM AND CBO ESTIMATES (As percent of payroll)

Benefit	Current System	Adoption of Private Practices
	(OPM Estimates)	
Retirement and Long-Term Disability	28.2	17.1
Health-Insurance Coverage	4.5	6.2
Life Insurance	0.3	0.9
Time Off for Vacations, Holidays, and Sick Leave a/	17.3	16.8
Total	50.3	41.0
	(CBO Estimates)	
Retirement and Long-Term Disability	28.7 b/	22.8
Health-Insurance Coverage	2.8	5.2
Life Insurance	0.3	1.2
Time Off for Vacations, Holidays, and Sick Leave a/	17.3	17.9
Total	49.1	47.1

SOURCE: Derived from OPM data provided CBO on June 4, 1982.

NOTE: Estimates assume a standard work year of 2,080 hours and an annual salary of $20,000.

a. Estimates include paid time off and certain adjustments for time off taken at the employee's expense.

b. Includes estimated effects of legislation enacted prior to 1982.

and CSR systems require additional funds, because total payroll withholdings do not nearly approach these rates. As a percent of payroll, OPM estimates the current shortfall at some 21 points for CSR and some 6 points for OASDI (see Table 4).

The OPM methodology does not treat the cost consistently, assigning to the government as an employer all of the CSR shortfall but only half of the OASDI shortfall. Consistent treatment of the shortfall for CSR and OASDI would have a dramatic impact on the accounting of retirement costs incurred by the government as employer. If all of both CSR and OASDI shortfalls were assigned to the government, the potential cost savings between maintaining the current federal retirement system and adopting private-sector practices would be reduced by 3.2 percent of pay. Conversely, an equal division of the shortfall between the government and its employees would reduce the government's cost for CSR benefits from 28.2 percent of pay to 17.6 percent, leaving CSR cost at about OPM's estimated cost to the government of adopting OASDI and a typical pension plan.

TABLE 4. COMPARISON OF OPM'S ESTIMATED FUNDING REQUIREMENTS FOR FEDERAL EMPLOYEES' RETIREMENT BENEFITS UNDER CSR AND SOCIAL SECURITY (OASDI), JULY 1981

	Civil Service Retirement	Social Security
	(Costs as a Percent of Total Salary)	
Normal Cost	35.2 a/	18.4 a/
Tax-Free Income Advantage	--	2.0
Employee Contributions	7.0	5.0
Employing Agency Contributions	7.0	5.0
Remaining Costs	21.2	6.4
	(OPM's Distribution of Remaining Costs as a Percent of Total Salary)	
Government (As an Employer)	21.2	3.2
Federal Employees	--	3.2
Total	21.2	6.4

SOURCE: Congressional Budget Office.

a. Excludes estimated value of children's survivor benefits, which OPM assumed were approximately equal to 1.3 percent of pay.

b. If the tax advantage now available to Social Security annuitants were reduced--by the enacting of either the recent recommendations of the National Commission on Social Security Reform or a similar proposal--the relative advantages of CSR benefits would rise accordingly.

According to OPM, the government should not be assigned the entire OASDI shortfall because, historically, the system has not drawn on general revenues, and because OASDI payroll tax increases have applied equally to employees and employers. This position departs from the basic standard adopted by OPM for evaluating alternate benefit practices--namely, the cost incurred by the government as an employer if it provided benefits to its workers equivalent to those in the private sector. The conventional calculation of standard cost to the government (as an employer) subtracts employee contributions from the total cost of each traditional benefit, item by item. By distributing the OASDI shortfall evenly between the government and its employees, the OPM methodology suggests that, if federal workers were covered under Social Security in calendar year 1980, their OASDI contributions would exceed nonfederal employee contributions by about 3.2 percentage points of pay. 4/ Put another way, OPM suggests that replacing the CSR system with OASDI coverage would immediately drive retirement contributions for most federal workers from 7 percent to 8.6 percent of earnings--surpassing the current OASDI withholding rates of 5.4 percent. Unless the Congress amends Social Security financing or benefit provisions, assumptions concerning federal employee withholdings should not differ from those now in effect for OASDI participants.

Economic Assumptions. As noted in several CBO reports, the actuarial costs calculated for retirement programs are highly sensitive to longterm economic assumptions about annual rates of inflation, interest earned on investments, and pay adjustments (in addition to promotions and other increases associated with career patterns). For example, a one-point increase in interest rates relative to inflation could decrease total CSR costs by about 9 percent of pay. On the other hand, a comparable increase in the long-term annual pay rates could push total CSR costs up by about 4 percentage points of pay. 5/

The projected cost to the government for CSR benefits, as estimated by OPM, equals 28.2 percent of pay (a normal cost of 35.2 percent less employee contributions of 7.0 percent). It assumes that interest rates and annual salary adjustments will exceed inflation by 1 percentage point and 0.5 percentage point, respectively. 6/ Growth in the acceptance of alternate actuarial assumptions developed for the Social Security Administration (interest at 2.1 percent above inflation and annual salary adjustments at 1.5 percent above inflation) suggests that the OPM economic assumptions are too conservative. If the alternate assumptions were used, the government's costs for CSR would drop from 28.2 percent of payroll to 23.1 percent of payroll. 7/ No analogous estimate is available for the cost of providing the

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4. OPM could argue that its analysis projects an OASDI tax increase of 3.2 points for all employees. Regardless of how accurate OPM's forecast may or may not be, however, an increase of this magnitude would reduce after-tax income and change total compensation comparisons by generating upward pressure on private-sector salary levels. In any event, incorporating such projections into 1980 benefit comparisons appears questionable.

5. See memorandum to Gary R. Nelson, Associate Director for Compensation, OPM, from Edwin C. Hustead, Chief Actuary, OPM, April 30, 1980.

6. These assumptions are consistent with the most recent pension valuation conducted by the CSR Board of Actuaries, which was published in November, 1979 and included a study of economic trends and projections.

7. Derived from estimates prepared by Hay Associates, an independent consulting firm, that adopted the so-called II-B economic assumptions developed by actuaries of the Social Security Administration. The resulting estimate also excludes the value of children's survivor benefits--about 1.1 percent of pay.

federal white-collar work force with benefits equivalent to Social Security. 8/ The sensitivity of actuarial estimates to economic assumptions suggests that caution should be exercised when interpreting results--especially because the economic assumptions must span 50 or more years (working career plus retirement).

Legislative Changes. The normal cost estimates of CSR that OPM uses to compare federal and private-sector retirement costs do not reflect recent changes in legislation. The Omnibus Reconciliation Acts of 1981 and 1982 both achieved budgetary savings by modifying federal retirement cost-of-living adjustments (COLAs). The 1981 act substituted annual adjustments for the existing semi-annual cycle and prorated the initial adjustment received by new annuitants to reflect more accurately price increases since their individual retirement dates. According to the 1981 annual pension report recently released by OPM, these two permanent modifications lowered the federal cost of future benefits by 0.85 percent of pay. 9/

The COLA changes resulting from the 1982 Omnibus Reconciliation Act only apply through fiscal year 1985; obviously, they could be extended temporarily or permanently. As temporary measures, the 1982 amendments lower CSR outlays by increasing the period between COLAs from 12 to 13 months and by restricting the size of COLAs received by federal retirees younger than age 62. 10/ Because these changes are not permanent, OPM is not revising its normal costs estimates. The permanent loss of the government's guarantee to provide pension adjustments equal to the annual change in the Consumer Price Index (CPI) could reduce CSR outlays substantially. That guarantee, which is expensive even under stable economic conditions, protected CSR annuitants from the double-digit inflation rates recently experienced by the U.S. economy--rates more than two times higher than the long-term actuarial estimates used by OPM.

GROUP HEALTH INSURANCE

The cost estimates that OPM uses to compare employment-related, group health-insurance plans overstates the actual cost incurred by the government and, by implication, the cost of adopting private-sector practices. Review of the 1979 and 1980 federal health-benefit cost estimates used by OPM supports this conclusion.

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8. Such an estimate would differ from the cost of the OASDI system calculated for the entire population in several respects, including changes in economic assumptions, the percent of payroll subject to contributions and the integration and cost distribution of benefits earned while employed in the federal and nonfederal sectors.

9. See U.S. Civil Service Retirement System September 30, 1981 Annual Report (August 20, 1982), p. F-11.

10. The reconciliation act increases the interval between COLAs to 13 months for 1983, 1984, and 1985. During this time, civil service retirees younger than age 62 will also receive smaller increases than other CSR annuitants, unless the annual rate of inflation falls below 3.6 percent. The COLAs for younger CSR retirees are guaranteed at least to equal 3.3 percent, 3.6 percent and 3.3 percent, respectively, through 1985 but may not exceed the annual change in the Consumer Price Index less the rate guaranteed for each period.

From analysis of the March 1979 private-sector data collected by the Bureau of Labor Statistics, the OPM observed that the level of benefits available under the six largest federal group health plans was generally comparable to that provided by plans typical of the private sector. 11/ Adopting the cost distribution typically used in the private sector, however, would increase the government's contribution rate. By law, the maximum government contribution equals 60 percent of the average high-option cost for the six predominant federal health plans. Private employers, according to OPM, usually contribute 100 percent of the employee's premiums and 50 to 80 percent of the additional cost of family protection.

OPM Estimates. According to OPM, adopting health-insurance practices typical of private-sector employment would increase the estimated annual cost borne by the government in calendar year 1980 from $903 to $1,242 per employee. Apparently, these estimates were based on 1979 numbers that had not been adjusted to reflect the annual costs experienced by the government during that period. In 1979, the maximum federal contribution was $716 for high-option family protection, in contrast to OPM's average cost estimate of $760. To arrive at 1980 costs, the year-old 1979 estimates developed by OPM for federal and private-sector practices were increased by 18.8 percent, apparently to reflect price increases between 1979 and 1980. But actual cost increases incurred by the government, including those covered by use of reserve funds, seem to fall in the 12 percent to 14 percent range, according to an annual financial report. 12/

The discrepancies in the 1979 estimates and the overstatement of subsequent cost increases have undoubtedly contributed to problems with the 1980 estimates. The OPM estimate of average federal costs for health coverage in 1980, $903 per employee, can be analyzed by separating federal enrollment and costs into four categories--high and low option as well as self and family plans. The maximum federal contribution for high-option family protection, for example, falls more than $100 below OPM's average cost per employee. Furthermore, a number of workers choose low- rather than high-option protection and some, for obvious reasons, select individual coverage; more than one federal worker in ten do not participate at all. Thus, a more reasonable estimate of the average federal cost in calendar year 1980 seems to be about $620 per participating employee or about $560 per federal worker. These lower estimates reflect the distribution of employees among government-wide plan categories and adjustment for 1980 costs covered by funds held in reserve. Discrepancies in the OPM estimates become more important when coupled with recent benefit reductions and

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11. The six plans used for determining federal health-insurance contributions include government-wide Blue Cross/Blue Shield and Aetna Plans, plus the two largest employee organizations (currently, National Association of Letter Carriers and Mail Handlers Benefit Plans) and the two largest comprehensive medical plans (currently, the Kaiser Foundation Health Plans for northern and for southern California).

12. See OPM, Federal Fringe Benefit Facts--1980, pp. 29-42.

the dramatic rise in health-insurance premiums experienced by federal employees in calendar years 1982 and 1983. 13/

Alternate Estimates. Given the problems with OPM's estimates and the dynamic nature of premium rate increases, CBO would make several provisional adjustments in the 1980 health-insurance cost factor used by OPM. First, on the basis of costs actually experienced by the government in 1980, CBO estimates the federal cost per employee at $560--markedly different from OPM's $903. Next, based on the higher employer contribution rate identified by OPM and consequent increase in plan participation, CBO estimates a federal health-insurance cost of $1,030 per employee if, as of January 1980, the government had adopted cost-sharing practices typical of private-sector group plans.

WEIGHTING SURVEY RESULTS

The traditional private-sector benefit practices evaluated by OPM--with the exception of OASDI and apparently, health-benefit costs--were derived from a March 1980 BLS survey of establishments. The results of that survey, which have since been substantiated by related findings for 1981, indicate that significant benefit variation exists among three broad occupational groups--namely, professional/administrative, technical/clerical, and blue-collar or production positions. In the private sector, for example, employer pension costs for white-collar employees exceed the average cost for blue-collar workers by more than 40 percent (see Table 5). OPM constituted its fringe-benefit analysis by including values for blue-collar workers and compounded the resulting error by weighting the BLS survey results according to the occupational distribution of the private, rather than federal, work force. This method is contrary both to the weighting method used in OPM's annual comparison of federal and private-sector salaries and to the stated objective of a total compensation approach. That objective, as articulated by OPM since 1979, requires evaluating how the government's cost would change if federal employees' fringe benefits were comparable to those available in the nonfederal sector, without regard to potential changes in the number or mix of federal workers.

As indicated in Table 6, a significant change in the estimated benefit values does occur if the blue-collar results are excluded, and then the two remaining categories are combined based on the occupational distribution of General Schedule employees. Such an approach allows for recognition of benefit variations among employee groups and would be consistent with GAO recommendations.

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13. During calendar years 1982 and 1983, the two federal health plans available on a government-wide basis increased their premium costs by 47 percent to 58 percent and their low-option premiums by 90 to 125 percent. Furthermore, the reimbursement level available from these two plans in 1982 appears to have fallen below that available from private and public sector plans. See House Post Office and Civil Service Committee Print No. 97-8, Review of the Federal Employees Health Benefits Program (July 13, 1982), pp. 9-11.

TABLE 5. VARIATION OF TRADITIONAL FRINGE BENEFIT VALUES AMONG OCCUPATIONAL GROUPS IN THE PRIVATE SECTOR, MARCH 1980

Benefit Category	Value by Occupation: Professional/ Administrative	Clerical/ Technical	Blue-Collar	Value used by OPM a/
Pensions (as a percent of pay) b/	8.6	8.2	5.8	7.0
Life insurance benefits (as a percent of pay)	1.2	1.1	0.6	0.9
Health-care premiums (annual dollar cost per employee)	1,270	1,178	1,262	1,242
Scheduled work hours (annual number per employee)	2,049	2,029	2,068	2,054
Days of paid leave (annual number per employee)	44.0	44.5	44.7	44.5

SOURCE: Office of Personnel Management.

a. OPM estimates of the costs the government would incur if federal benefits were based on private-sector practices. The estimated cost--whether expressed as days, dollars, or payroll percentage--combined the occupational differences among benefit values based on private-sector employment data. By using this methodology, OPM gave blue-collar benefit values a weight of about 57 percent.

b. Includes the value of employer-provided long-term disability insurance and excludes retirement benefits provided under Social Security.

TABLE 6. IMPACT OF ALTERNATE WEIGHTING OF MARCH 1980 SURVEY RESULTS ON PRIVATE-SECTOR BENEFITS

Benefits	OPM Method	CBO Method
Retirement and Long-Term Disability (as a percent of payroll)	6.97 a/	8.37 a/
Health Coverage (annual dollar cost per employee)	1,242	1,222
Life Insurance (as a percent of payroll)	0.88	1.16
Scheduled Work Hours (annual number per employee)	2,054	2,038
Days of Paid Time Off (annual number per employee)	44.5	44.3

SOURCE: Congressional Budget Office.

a. Excludes Social Security.

SECTION IV. PAY INCREASE ESTIMATES AND OUTLOOK FOR FUTURE ADJUSTMENTS

In light of the tight constraints now influencing most budgetary decisions, the several recent diminutions of General Schedule pay adjustments, and now, President Reagan's proposed freeze on federal pay, controversy about the costs of federal civilian pay and benefits is likely to continue. In particular, definitions of comparability are likely to receive close scrutiny. This section therefore reviews possible October 1983 (that is, fiscal year 1984) pay adjustments for federal white-collar employees under different assumptions about achieving comparability with the private sector. It also describes some alternate pay-setting strategies. (Alternate strategies for reducing federal pay and benefits in the near and long term are also identified in a recently published CBO report on limiting budgetary costs. 1/)

ACHIEVING COMPARABILITY

Although comparability can be measured in many ways, federal pay adjustments necessary to achieve parity with the private sector in 1984--either on the basis of salaries alone or by factoring in fringe benefit values as well--would require large budgetary expenditures. Pay comparability, as it is currently determined for GS employees, would require an October 1983 adjustment in excess of 20 percent. Disregarding the 94 percent standard proposed by President Reagan, inclusion of employer-provided benefits as estimated by OPM could reduce its estimated pay comparability adjustment by about 2 percentage points. CBO analysis, on the other hand, suggests that federal workers' pay and benefits are now behind their white-collar counterparts in the private sector. In either case, a total compensation approach now has little appeal from a budgetary perspective, because full implementation in October 1983 would add at least $7 billion to the current payroll for federal white-collar employees. The Administration hardly could support such cost increases--even though it did advocate total compensation comparability when it reduced budgetary expenditures by justifying smaller pay increases. The following discussion describes differences between the OPM and CBO estimates.

Total Compensation Estimates. The pay gap between federal and private-sector salaries for white-collar employees is critical to any total compensation estimates. The OPM and CBO comparisons assume an average difference of 21 percent and 20 percent, respectively. 2/ Both represent the effect of a projected annual growth in nonfederal earnings combined with an existing private-sector pay advantage of about 14 percent. The 14 percent figure results from prior-year pay limitations on federal pay

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1. See Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options (February, 1983), pp. 185-202

2. OPM officials believe that the existing pay comparison process, which would produce the 21-percent pay gap, needs reform. Work is reported to be under way to develop new proposals, apparently within the context of maintaining the principle of pay comparability.

adjustments beginning with the October 1978 increase. The estimates differ because CBO anticipates a smaller rise in private-sector pay than the Administration projects (see Table 7).

The CBO estimate incorporates the changes examined in prior sections of this paper, including consistent treatment of retirement costs, use of federal employment weights, modifications affecting health-insurance costs, and exclusion of secondary benefit values. The net result, however, is a relatively small change in the federal and private-sector benefit values. This occurs because the elimination of secondary benefit values essentially offsets increases from other changes.

TABLE 7. ESTIMATES OF OCTOBER 1983 PAY ADJUSTMENTS NECESSARY TO ACHIEVE COMPARABILITY UNDER ALTERNATE APPROACHES (Percent increase)

Compensation Comparison	OPM Estimates	CBO Estimates	Difference
Pay Gap	13.9	13.9	--
Projected Nonfederal Salary Growth (March 1982 to March 1983)	6.5	5.5	1.0
Pay Comparability, Current System	21.3	20.2	0.9
Total Compensation Comparability[a]	19.5	20.8	1.3

SOURCE: Congressional Budget Office.

a. Estimates reflect increases in health insurance premiums through calendar year 1983.

PAY REFORM IN PERSPECTIVE

The major obstacle confronting federal pay administrators is the growing gap between federal and private-sector pay levels as currently measured. Resolving that dilemma could lead to a reconsideration of a total compensation approach for determining federal pay and benefit values. If so, the Congress might want to review some of that standard's drawbacks. First, total compensation calculations are subject to long-range economic uncertainties that significantly affect the calculation of comparable retirement benefits. Second, a total compensation approach would likely create inequities for certain groups of federal employees. Rationalizing reduced pay increases because of high-value average federal benefits would have a disproportionate effect on single persons, women, and other employees who work for the government on an intermittent or temporary basis. 3/

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3. See Congressional Budget Office, Compensation Reform, pp. 20-22.

Restraining Pay for Budgetary Savings

The Congress could continue to cap pay increases either as an alternative to pay reform legislation or because of overriding budgetary and economic considerations. Strict compliance with the three-year budgetary targets adopted by the Congress in 1982, for example, would cap federal pay increases at 4 percent a year through 1985. Budgetary considerations could also lead to more stringent measures, including a temporary moratorium on federal wage and salary adjustments or a change in the government-wide pay adjustment cycle to once every two years. During the 1950s and early 1960s, changes in GS pay rates occurred on average once every 24 months.

In the long run, continuing to hold down federal pay adjustments could prompt federal managers and experienced employees with valuable skills to accelerate their retirement plans. Recruitment and retention problems could also arise because younger qualified employees or job applicants might well prefer the greater take-home pay available in the private sector even though the federal government might offer more generous retirement benefits or other, intangible attractions. To whatever extent low salaries downgrade the quality of employees currently being recruited, additional problems can surface ten or more years later, when these recruits begin assuming positions with greater managerial responsibility. High unemployment and continued cutbacks in federal jobs, of course, postpone the time when such problems become critical for most civilian federal agencies, or at least temper such problems.

Other Pay-Setting Strategies

The Advisory Committee on Federal Pay has supported legislation "to test and develop a comparability system for employee benefits," but believes that "benefit comparability and pay comparability can best be achieved independently." 4/ The committee recommended against reductions in pay designed to offset differences between federal and nonfederal benefits. Under the committee's strategy, the Congress could adopt individual reform measures that would bring federal practices into closer alignment with those in the nonfederal sector. Possibilities include:

- Pay reforms proposed by the Administration for using local pay differentials for federal white-collar employees, and inclusion of salary data from state and local governments in making annual comparisons;

- Other pay reforms, such as splitting the General Schedule into two or more pay systems or establishing statistical criteria for the number and mix of white-collar jobs surveyed annually by the BLS; and

- Reforms that would make the federal retirement system more comparable with private practices with respect to the size of benefits received, such as limitations on post-retirement cost-of-living adjustments and the age at which employees may retire.

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4. See Advisory Committee on Federal Pay, Pay Comparability 1970-1980, pp. 27-28.

Another strategy could establish an entirely new system that would incorporate collective bargaining in pay-setting decisions. Unions and other employee organizations believe that federal compensation decisions should be reached through a collective bargaining process similar to those used by the U.S. Postal Service, the Tennessee Valley Authority, and many state and local government organizations. 5/

Finally, the Congress could consider indexing federal salaries during the next few years. In particular, with or without consideration of within-grade increases essentially based on length of service, pay adjustments could equal the lesser of annual wage and price changes as measured by certain economic indicators such as the Consumer Price Index and the Average Hourly Earnings Index. This approach would allow time for Congress to consider more fundamental changes in the present system and to evaluate possible impacts of pay limitations on workforce recruitment and retention.

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5. See Congressional Budget Office, Federal White-Collar Employees--Their Pay and Fringe Benefits (January 1979), p. 4.

APPENDIX: SUPPLEMENTAL TABLES

TABLE A. WHITE-COLLAR OCCUPATIONS COVERED BY THE NATIONAL SURVEY OF PROFESSIONAL, ADMINISTRATIVE, TECHNICAL, AND CLERICAL PAY IN MARCH 1982

Professional Occupations

1. Accountants
2. Attorneys
3. Auditors
4. Chemists
5. Chief Accountants
6. Engineers
7. Public Accountants

Administrative Occupations

1. Buyers a/
2. Computer Programmers/ Analysts
3. Job Analysts
4. Personnel Directors

Technical Occupations

1. Accounting Clerks
2. Buyers a/
3. Computer Operators
4. Drafters
5. Engineering Technicians
6. Personnel Clerks/ Assistants a/
7. Photographers
8. Purchasing Assistants a/

Clerical Occupations

1. Accounting Clerks
2. File Clerks
3. Key Entry Operators
4. Messengers
5. Personnel Clerks/ Assistants a/
6. Purchasing Assistants a/
7. Secretaries
8. Stenographers
9. Typists

Total Number of Occupations

Professional	7
Administrative	4
Technical	8
Clerical	9
	28 b/

SOURCE: Data provided by the 1982 Report of the President's Pay Agent.

a. Distributed between two occupational categories.

b. Because three occupations are shared by two survey categories, the total number of unique occupations is 25.

TABLE B. OFFICE OF PERSONNEL MANAGEMENT ESTIMATES OF SECONDARY-BENEFIT COSTS, FEDERAL COMPARED WITH PRIVATE, MARCH 1979 (As percent of payroll)

Benefit	Total Costs		Difference[a]	
	Federal	Private	Federal	Private
Profit Sharing	--	2.37	--	2.37
Savings/Thrift Plans	--	0.40	--	0.40
Employee Parking	--	0.53	--	0.53
Automobile (including personal use)	--	0.25	--	0.25
Workers' Compensation	0.13	--	0.13	--
Nonproduction Bonuses	--	0.92	--	0.92
Miscellaneous Benefits				
Educational assistance	0.15	0.10	0.05	--
Jury duty, military, and funeral leave	0.30	0.40	--	0.10
Stock plans	--	0.70	--	0.70
Severance pay	0.12	0.04	0.08	--
Employee discounts	--	0.10	--	0.10
Other benefits[b]	0.50	0.60	--	0.10
Total	1.20	6.41	0.26	5.47

SOURCE: Office of Personnel Management.

a. Differences represent the cost advantage for benefits that have a cost advantage in either the federal or private sector.

b. Other benefits--including supplemental unemployment insurance, subsidized child care, relocation allowances, recreational facilities, subsidized cafeterias, and gifts--were assumed to have little net effect on federal and private-sector benefit comparisons.