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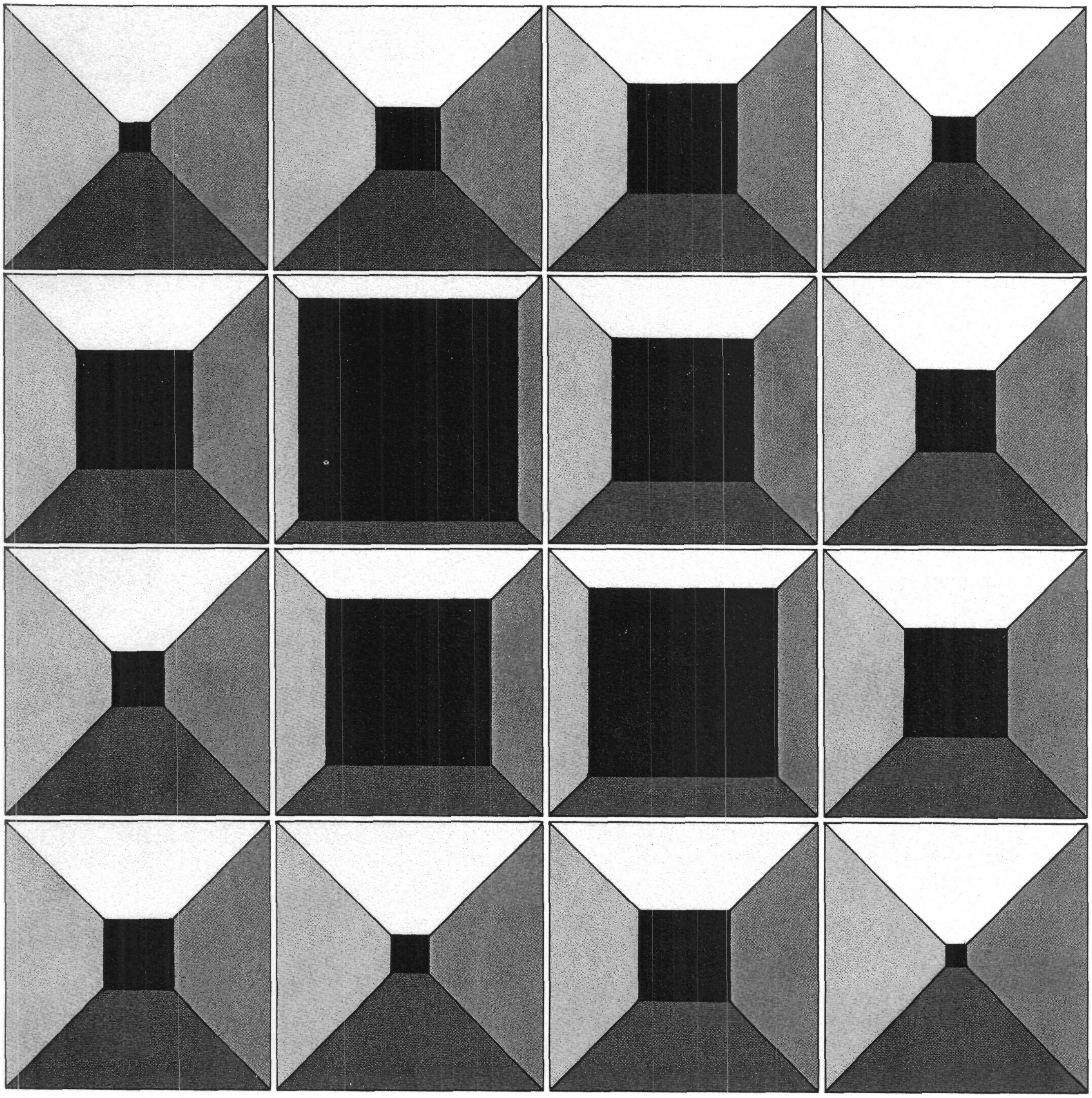
Alternative Approaches to Adjusting Compensation for Federal Blue-Collar Employees

Congress of the United States
Congressional Budget Office



ALTERNATIVE APPROACHES TO ADJUSTING COMPENSATION FOR FEDERAL BLUE-COLLAR EMPLOYEES

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PREFACE

This paper, prepared at the request of the Senate Committee on Governmental Affairs, provides a discussion of various proposals to change pay and benefit provisions for the federal government's blue-collar work force. Particular attention is given to specific legislative proposals introduced in 1979 by the Carter Administration to amend or repeal those provisions of the Federal Wage System that govern blue-collar pay practices and to include fringe benefits in the compensation adjustment process. A CBO companion paper, Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981, addresses similar issues for the General Schedule work force. In keeping with the Congressional Budget Office's mandate to provide objective and nonpartisan analysis, the report makes no recommendations.

The report was prepared by Daniel F. Huck of the National Security and International Affairs Division of the Congressional Budget Office under the general supervision of David S.C. Chu and Robert F. Hale. The author wishes to acknowledge the research assistance support of David Seide, formerly of CBO; the helpful review guidance offered by Alfred Fitt, General Counsel to CBO; and the able administrative assistance provided by Nancy Swope of CBO. Raymond C. Weissenborn commented on an early draft of this paper, and the final version has benefited greatly from his suggestions as well as from the comments of others within the Department of Defense and the Office of Personnel Management. Responsibility for any errors of course remains the author's. Francis Pierce edited the manuscript, which was typed for publication by Janet Stafford.

Alice Rivlin
Director

November 1980

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SUMMARY

Provisions of the Federal Wage System (FWS) establish the pay of over 400,000 blue-collar employees of the federal government. Recent administrations have contended, however, that FWS pay levels are substantially and unjustifiably higher than those prevailing outside the system. A similar criticism is made of nonwage fringe benefits, which are determined separately from pay. 1/ The Carter Administration has prepared legislation that would change the way blue-collar pay is determined and count benefits as part of total compensation.

This report examines the factors governing FWS pay and benefits and compares several alternative approaches, including the Carter Administration's proposal. Depending upon the particular option chosen, CBO estimates that between \$2.5 billion and \$6.3 billion in FWS payroll costs could be avoided over the next five years. As the dominant FWS employer, the Department of Defense would realize about 80 percent of these savings. To generate payroll savings of this size, however, would require that average annual pay raises over the next five years range from one to three percentage points below the normal comparability raise.

CURRENT STATUTES PROVIDE A PAY AND BENEFIT PREMIUM

CBO's analyses found FWS employees earning an average of 6 percent more in hourly pay (after adjusting for two successive pay caps) than their nonfederal counterparts in jobs judged comparable by federal surveys. Most of this hourly rate premium can be attributed to the five-step within-grade advancement system, which does not conform to the common private-sector practice of three or four steps.

1/ The same general criticism has been leveled at federal white-collar (General Schedule) employees, an issue treated in a companion study. See Congressional Budget Office, Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981, Background Paper (May 1980).

Available data also suggest that FWS employees receive a package of major fringe benefits costing the federal government about 15 percent more than private-sector employers pay for fringe benefits (including Social Security). The greater expense can be attributed almost entirely to the much more liberal retirement program available to FWS employees. In fact, of the seven benefits analyzed, FWS employees have an advantage over their private-sector counterparts in only two instances: retirement and paid sick leave. They have similar vacation plans, but receive fewer holidays. In addition, FWS employees pay a larger share of their health and life insurance costs than do private-sector employees.

When the premiums in both pay and benefits are taken together, an FWS employee costs the federal government about 9 percent more in total compensation than would be the case if nonfederal-sector pay and benefit practices were adopted.

OPTIONS TO ALTER FEDERAL WAGE SYSTEM COMPENSATION

Payroll costs avoided by the five options analyzed in this report are compared in Table S-1. Pay raises resulting from the adoption of these options are shown in Table S-2. The first three options address only the issue of pay comparability, while the remaining two take both pay and benefits into account. The options reflect varying judgments about comparability standards and the scope of the comparability process.

Option I: Amend or Repeal All Disputed Pay-Setting Provisions of the Federal Wage System

This option would implement the portion of the Carter Administration's proposal relating to pay, but not that covering fringe benefits. It would:

- Repeal the five-step within-grade advancement system and grant the President discretionary authority to establish whatever advancement scheme he finds desirable.

- Repeal the so-called Monroney amendment, which requires the inclusion of out-of-area wage data when survey samples for certain specialized occupations (such as aircraft technicians) prove insufficient. The Monroney amendment often results in higher hourly rates than the average for private-sector employees in a given area.

SUMMARY TABLE 1. SUMMARY OF PAYROLL COSTS AVOIDED UNDER VARIOUS FWS EMPLOYEE COMPENSATION OPTIONS (In millions of dollars, by fiscal year)

	1981	1982	1983	1984	1985	1981-1985
Total Payroll Budget Under Current FWS Statutes a/	9,850	11,000	12,100	13,260	14,470	60,680
Options to Address Pay Comparability						
I. Amend/repeal disputed FWS pay-setting provisions b/	-335	-800	-990	-1,090	-1,195	-4,410
II. Amend/repeal FWS step provision only c/	-240	-480	-550	-600	-660	-2,530
III. Cap pay at 9.1 percent in fiscal year 1981 only d/	-290	-550	-600	-660	-720	-2,820
Options to Address Both Pay and Benefits						
IV. Adopt Carter Administration's total compensation proposal	-370	-970	-1,450	-1,700	-1,780	-6,270
V. Cap pay at 7.8 percent through fiscal year 1985 to offset total compensation premium	-350	-790	-1,080	-1,260	-1,660	-5,140

a/ Payroll levels absent any pay caps and assuming a constant size work force with no further shifts in employee distribution among the grades and steps.

b/ Adopts that portion of the Carter Administration's total compensation proposal amending or repealing the pay-setting provisions of the Federal Wage System statutes. Assumes a three-step "average-to-average" within-grade advancement system.

c/ Savings reflect a return to a three-step system with the comparability norm retained at step two as an alternative.

d/ The pay raise adopted for fiscal year 1981; excludes 5.7 percentage points in raises due to prior pay caps.

SUMMARY TABLE 2. COMPARISON OF CBO-PROJECTED FWS EMPLOYEE PAY RAISES UNDER VARIOUS OPTIONS (In percent, by fiscal year) a/

	1981	1982	1983	1984	1985	1981-1985
Under Current FWS Statutes, With No Pay Caps	14.8 b/	9.9	9.9	9.3	9.0	10.6
Option I	7.7	6.7	8.9	9.3	9.0	8.3
Option II	9.8	9.2	9.9	9.3	9.0	9.4
Option III	9.1	9.9	9.9	9.3	9.0	9.4
Option IV	7.4	5.0	7.0	9.6	9.9	7.8
Option V c/	7.8	7.8	7.8	7.8	7.8	7.8

a/ Data show only the projected annual comparability raise and exclude consideration of possible pay increases through within-grade step advancement or promotion to a higher grade.

b/ Includes 5.4 percentage points as a catch-up for prior pay caps in fiscal years 1979 and 1980. CBO projects the normal comparability pay raise in fiscal year 1981 to be 9.4 percent.

c/ Equivalent to the average annual pay raise over five years under Option IV.

- Repeal the provision in current law prohibiting inclusion of wage data for state and local government employees in the areas surveyed. Hourly rates for comparable occupations in state and local government are usually below those for both private-sector and FWS employees. Thus, their inclusion would tend to reduce the average hourly pay rate computed in the survey.

- Amend the provision requiring a fixed percentage differential for evening or night shifts. This would give the President the authority to set hourly rate differentials based on prevailing practices in the nonfederal sector for each local wage area.

Since the enactment of the Federal Wage System in 1972, successive administrations have asserted that the above pay-setting provisions undermine the pay comparability process. CBO's review tends to confirm that these provisions differ from typical private-sector practices. After allowing for the effects of two successive pay caps, these four provisions now provide FWS hourly rates that average 5.8 percent above the prevailing rates computed from the area wage surveys.

If the Congress chose to phase in these proposed changes using the half-raise provision included in the Carter Administration's legislative proposal, the hourly rate premium would be eliminated by fiscal year 1984. During the period 1981-1983, those FWS employees earning such a premium would receive wage increases no less than one-half the normal comparability raise for that fiscal year. Under this option, CBO estimates that raises would average 8.3 percent over the next five fiscal years (see Table S-2). In contrast, should the pay caps be lifted without any change in FWS pay-setting practices, the raises would average 10.6 percent over the same five-year period. Thus, enactment of this option would avoid about $4.4 billion in FWS payroll costs over the five-year period.

Over 90 percent of the payroll costs avoided would result from repeal of the five-step within-grade advancement system and its replacement with an "average-to-average" three-step system--the most likely of the substitute step arrangements being considered by the Carter Administration. Under this system, those now in steps four and five would revert to step three. Pay rates would be set so that the average step for FWS employees would provide pay equal to the average rate computed from the area wage surveys of the nonfederal sector.

This three-step "average-to-average" advancement system would initially introduce entry-level (step one) wage rates about 7 percent below those in the private sector for comparable jobs. In contrast, the five-step system authorized under current FWS statutes provides entry rates 4 percent below the comparability norm in the absence of pay caps. While CBO could find no substantive evidence of widespread recruiting problems, a step system that reduces entry-level wage rates further below the average in the nonfederal sector raises the risk that such problems could arise in the future.

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Option II: Amend or Repeal the FWS Step Provision Only

The bulk of the payroll savings avoided in Option I result from a change in the step advancement system. A less complicated, but still substantive, legislative action would amend only Title 5 U.S.C. 5343(e), which prescribes the step advancement system for FWS employees. By such an amendment, the Congress could direct a return to the arrangement in effect prior to enactment of the FWS statutes in 1972--the three-step system, with step two retained as the comparability norm. This alternative would limit entry wages to 4 percent below the comparability norm and provide a premium at step three of no more than 4 percent above the norm. When compared to the current, uncapped five-step system, this would narrow the range of within-grade advancement and thus more closely conform to private-sector practices.

Yet cumulative five-year savings under this option would be $1.9 billion less than under Option I (see Table S-1). It would produce lower savings because over 85 percent of the FWS work force now at or above step three could still earn a 4 percent premium. It would also offer a more favorable entry wage than the "average-to-average" system under Option I.

Unfortunately, as the above discussion suggests, neither of the step advancement systems proposed under Options I and II produces an entirely satisfactory solution to the dual problem of how to offer a competitive entry wage and at the same time offer more selective wage premiums to reward tenure and experience. Should the Congress decide to adopt this option, it may wish to explore with the Administration a broader range of pay advancement alternatives covering not only the number of steps, but also the pay differential between steps and the time in service required to progress from one step to the next.

Option III: Cap Pay Raise in Fiscal Year 1981 at 9.1 Percent

In fiscal year 1981, the Congress has again chosen to cap FWS pay raises, this time at the 9.1 percent level recommended by the Carter Administration. 2/ A continuation of pay

2/ The joint resolution providing continuing appropriations for fiscal year 1981 (P.L. 96-369) contained language prohibiting annual increases in FWS hourly rates from exceeding the increase authorized for General Schedule employees.

caps offers a legislatively expedient way to reduce further or eliminate entirely any compensation premium now accorded FWS employees. A 9.1 percent pay cap in fiscal year 1981 would reduce but not eliminate the average hourly rate premium accorded FWS employees over their nonfederal counterparts. CBO estimates that FWS employees would still average about 4.8 percent above the pay comparability norm. Obviously, a lower raise or a continuation of pay caps would eventually eliminate this premium.

Five-year cumulative payroll costs avoided under this option would amount to $2.8 billion. This option also assumes a return to normal comparability pay raises beginning in fiscal year 1982. Thus, the five-year average raise under this option would amount to 9.4 percent.

While pay caps offer a legislatively expedient way to reduce or eliminate a compensation premium and save large sums of money, they create a number of difficulties:

- Across-the-board pay caps can distort the principle of locality pay by conferring different shares of full comparability raises in different wage areas. 3/

- Unlike selective use of the half-raise provision under Options I and II, pay caps depress wages at all steps. This can adversely affect recruiting when entry wages in the lower steps drop well below the comparability norm.

- While pay caps made through the appropriations process would offer a legislatively expedient device to limit this compensation premium and save money, they would have to be legislated each year; the budgetary consequences of failing to approve a pay cap would grow year by year. 4/

3/ Using a 9.1 percent cap as an example, a wage area entitled to a normal comparability raise of 9.5 percent would lose only 0.4 percentage points, while an area entitled to a 10.0 percent raise would lose 0.9 percentage points.

4/ An alternative legislative method for capping pay, enactment of permanent authorizing legislation that in effect would lower the comparability payline to reflect prior pay caps, would avoid the need for pay-cap language in annual appropriation bills.

By fiscal year 1985, the Congress would find the cost of failing to cap pay beyond the normal comparability raise surpassing $650 million.

- Probably the most telling criticism of the use of pay caps lies in their rigidity. The mechanism of pay caps fails to provide managers with the flexibility necessary to adjust compensation so as to reflect local labor market conditions.

Option IV: Adopt the Carter Administration's Total Compensation Proposal

This option addresses both pay and benefit issues simultaneously. In addition to the changes in pay-setting practices in Option I, it would further adjust pay to reflect differences in fringe benefit practices between the federal and nonfederal sectors. Because the proposed legislation would prohibit downward adjustment in benefit provisions during the first five fiscal years, the changes in total compensation would be reflected only in hourly pay.

If the President was permitted to bring total compensation into alignment using the half-raise provision, almost $6.3 billion in FWS payroll costs could be avoided in fiscal years 1981-1985. To produce these savings, pay raises would be held to an average of 7.8 percent over the five fiscal years, or about 2.8 percentage points below the average full comparability raises projected under current law.

While this option offers the prospect of saving over 10 percent in FWS payroll costs in the next five fiscal years, it might produce certain undesirable effects:

- In order to bring total compensation into rough agreement with the nonfederal sector, FWS employee pay raises would have to lag behind prevailing increases in the nonfederal sector during the first four years (see Table S-2). Whereas in 1980 FWS employees would earn a 5.8 percent hourly rate premium, by 1985 they would average 5 percent below comparable nonfederal hourly rates. Moreover, entry wage rates at step one would fall 14 percent below prevailing nonfederal hourly rates--a factor that might lead to recruiting and retention problems, especially among younger workers for whom benefits such as pensions are less important.

- While FWS employees would continue to maintain an advantage in retirement benefits for five years, this would be at the expense of the rest of the compensation system. In order to offset the retirement advantage and achieve overall equivalence in total compensation, hourly pay rates and six of the seven major benefits would have to lag behind the private sector by fiscal year 1985.

If the Congress chose to adjust benefits along with pay at the outset, instead of prohibiting downward benefit adjustments for five years, 5/ it would effectively eliminate the incremental five-year savings of over $2 billion attributed to the inclusion of benefits in determining compensation. This is because benefit savings could not be generated in the next five years unless the Congress decided to reduce retirement payments to current annuitants. Absent this action, there could be no savings in outlays until those now employed reached retirement. Moreover, almost all private-sector retirement programs require no contribution from the employee; if the federal program were also made noncontributory, it would raise agency retirement costs in the short run.

Option V: Cap Annual Pay Increases at 7.8 Percent Through Fiscal Year 1985 to Offset Total Compensation Premium

Under this option there would be no reform of pay-setting practices. But it implicitly recognizes the premiums in both pay and benefits and seeks to offset them through pay caps. A capped raise of 7.8 percent annually was chosen because this equals the average raise granted over the five-year period under Option IV, the Carter Administration's total compensation proposal.

The cumulative five-year savings amount to about $5.1 billion, $1.2 billion less than in Option IV (see Table S-2). The larger savings under Option IV can be attributed to the sharp decline in pay raises at the outset of the five-year transition.

The criticisms leveled at the use of pay caps under Option III carry even greater weight under this option because it would

5/ The Administration would retain the authority to improve benefit provisions during the first five years, although such an action would further depress pay levels in an effort to bring total compensation in line with the nonfederal sector.

establish a long-term policy of across-the-board limits on pay. As under Option IV, average pay would fall 5 percent below prevailing nonfederal rates by fiscal year 1985, and entry-level step one rates would slide to 15 percent below the comparability norm. Unless authorizing legislation permanently froze pay levels at the new capped rate each year, there would be a risk that the Congress might fail to impose a pay cap annually through the appropriations process. Such a failure could jeopardize the entire $5.1 billion in savings generated over the first five years.

DEVISING AN EFFECTIVE COMPENSATION SYSTEM FOR THE FWS WORK FORCE

The decade of the 1970s witnessed a substantial decline in the size of the FWS work force; hence, personnel policies placed less emphasis on recruiting and assured an aging (although more experienced) work force with a high proportion of employees now eligible to retire. The challenge of the 1980s will be to devise a compensation system that maintains comparability, supports the growing recruiting and retention needs of the FWS work force, and avoids adverse competitive effects on employment in the nonfederal sector. None of the alternatives in this study meets all these criteria, but each has some merits. Each also results in cost savings, though savings need not be the primary goal.

CHAPTER I. INTRODUCTION

The Federal Wage System provides the statutory authority (5 U.S.C. 53) under which federal agencies set hourly wage rates and classify positions for over 400,000 trade, craft, and labor employees. These federal blue-collar workers (generically identified here as FWS employees) earn hourly rates based on surveys of wages for similar occupations in local private industry. 1/

Statutory authority mandating a system of local pay scales for federal blue-collar workers can be traced back to 1862, when the Congress passed a law requiring the Secretary of the Navy to set wages in conformance ". . . with those of private establishments in the immediate vicinity." 2/ Over time, other federal agencies adopted locality-based hourly wage systems for their blue-collar employees. In doing so, however, each federal agency developed its own procedures; a morass of rate differentials evolved, creating a controversy as to the equity and validity of the comparability process. 3/

1/ Since private industry wages for similar work vary from one geographic labor market to the next, the federal government attempts to emulate this pattern of prevailing rates by establishing separate pay schedules for 135 wage areas across the nation. For instance, in 1977 FWS employees in the Boston wage area earned about 15 percent less than those in the San Francisco region for similar occupations. M.A. Coursen and K.R. Powell, Wage Grade Civilians in DoD: Manpower Profiles and Compensation, Technical Report No. 396 (Presearch, Inc., January 1979), p. 58.

2/ U.S. Civil Service Commission, Challenge and Change: Annual Report 1968, p. 27.

3/ In 1967, Senator Monroney, then chairman of the Senate Committee on Post Office and Civil Service, noted: "There are now about 60 different agency systems in the Executive Branch for determining Wage Board pay rates." Wage Board Employees, S. Rept. 592, 90:1 (October 1967), p. 1.

OBJECTIVES AND ORGANIZATION OF THE FEDERAL WAGE SYSTEM

To simplify and standardize federal blue-collar pay practices, the government in 1968 adopted the Coordinated Federal Wage System. The major features of this system were enacted by the Congress in 1972, giving explicit statutory status to the following four principles:

- All agencies will provide equal pay for substantially equal work in a given wage area.
- Pay differentials within a given wage area will be based upon substantial or recognizable differences in duties, responsibilities, and qualification requirements.
- Pay rates will be in line with prevailing levels for comparable work within a wage area.
- Pay rates will be sufficient to attract and retain qualified employees.

In an effort to comply with these objectives, the current Federal Wage System utilizes three regular pay plans and about 20 special plans. The three regular plans--nonsupervisory, leader, and supervisory--cover over 90 percent of the FWS work force, 15 percent of whom are in supervisory status. The few covered by the special pay plans consist of apprentices in training or workers with unique specialties such as lock and dam operators.

All FWS jobs are "graded"--that is, relevant private-sector wage data determine the grade of each occupation. The nonsupervisory and leader pay plans each contain 15 pay grades; the supervisory plan, 19 grades. In each plan, rates differ from one grade to the next by approximately 40 cents per hour. An employee in Grade 12, for example, would earn about $1.60 more per hour than an employee in Grade 8. The multiplicity of grades reflects the diversity in hourly rates among the many comparable occupations in the private sector. Unlike the grades of the General Schedule, the FWS grades were not designed as a plan for individual career progression. A Grade 7 truck driver, for example, cannot expect to progress to a higher grade unless he qualifies for and becomes employed in a higher-grade occupation, such as Grade 10 electrician.

Aside from the normal annual comparability raise, employees can receive up to five within-grade step increases equivalent to a 4 percent raise for each step. For the vast majority of FWS employees who reach journeyman status, step progression represents the only means of pay advancement.

CRITICISMS OF THE FEDERAL WAGE SYSTEM

While the present Federal Wage System provides a marked improvement over past practices, there remain two general criticisms of it:

- o Local wage surveys show that pay-setting and within-grade advancement practices give FWS employees higher average hourly rates than those prevailing in the nonfederal sector.

- o Wages alone are not a valid standard of comparison. Fringe benefits must also be taken into account, since they constitute a sizable share of compensation for both public and private employees.

Since the enactment of the Federal Wage System in 1972, successive administrations have proposed amending the statute to deal with the first criticism. The Carter Administration has proposed legislation directed at the second criticism as well, through adoption of a total compensation comparability process. 4/

FRAMEWORK OF THIS REPORT

This report evaluates the Carter Administration's legislative proposal and examines other options the Congress may wish to consider. Chapter II summarizes the criticisms leveled at the pay-setting practices of the present Federal Wage System, and presents CBO's findings in this area. Chapter III describes the Carter Administration's approach to including fringe benefits in the comparability process and summarizes fringe benefit practices

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4/ On June 6, 1979, the President forwarded to the Congress a bill entitled "Federal Employees Compensation Reform Act of 1979." This legislation would apply to both General Schedule (white-collar) and FWS employees.

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in the private sector, especially retirement benefits. Chapter IV explores the disparities in total compensation by comparing the pay and benefits provided to FWS employees with those of their counterparts in private industry. The last chapter analyzes options ranging from complete adoption of the Carter Administration's proposal to continuation of the current policy.

CHAPTER II. CRITICISMS OF THE PAY-SETTING PRACTICES OF THE FEDERAL WAGE SYSTEM

Since the enactment of the Federal Wage System in 1972, several studies have presented evidence that FWS employees receive higher hourly wages than nonfederal employees earn for comparable jobs. 1/ They attribute this to four statutory provisions of the Federal Wage System:

- The five-step within-grade advancement system that provides hourly pay rates ranging from 4 percent below to 12 percent above the survey average for comparable private-sector employment;

- The requirement to import out-of-area wage data when an insufficient sample exists for a surveyed occupation;

- The application of a uniform night-shift pay-rate differential, regardless of local private industry practices;

- The exclusion of certain workers, such as state and local government employees, from the wage surveys.

THE WITHIN-GRADE STEP SYSTEM

The administrative arrangements under the Coordinated Federal Wage System in force during the period 1968 to 1972 specified three pay steps for each FWS grade, with advancement based on longevity. Each step provided a 4 percent pay differential, with step two pegged as the "reference step," or the step that received the average wage in private industry according

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1/ General Accounting Office, Improving the Pay Determination Process for Federal Blue-Collar Employees, FPCD-75-122 (June 1975), p. 6, and Staff Report of the President's Panel on Federal Compensation (January 1976), pp. 107-21.

to the local wage surveys. 2/ Thus, an employee may enter a grade at step one, earning 96 percent of the private industry average, and eventually progress to step three, earning 104 percent of the comparable private-sector rate.

Hourly Rate Premium Attributed to the Change from a Three- to a Five-Step System

When the Congress enacted the Federal Wage System in 1972, it included a provision expanding the number of within-grade steps from three to five. This provision represented, in part, a compromise between union representatives, striving for a 10-step system patterned on the General Schedule, and the Administration, preferring no statutory specification of within-grade steps.

Step two remained the reference step, and a 4 percent differential was retained for each successive step. In contrast to the maximum 4 percent premium available under the former three-step system, the five-step system allows FWS employees an opportunity to earn up to a 12 percent hourly wage premium (step five). With relatively low turnover, and step progression occurring at designated tenure points prescribed by statute, more than half the FWS work force had moved into step five by 1977 (see Table 1). In fiscal year 1978, for example, FWS wages would have exceeded the average private-sector wage computed from the local surveys by 7.8 percent, costing $650 million, had not two successive pay caps in fiscal years 1979 and 1980 cut this premium by more than half. 3/

2/ The Federal Wage System includes three regular pay plans plus a number of special plans. Over 80 percent of FWS employees are in the nonsupervisory regular pay plan. Each pay plan contains up to 19 grades with five (originally three) steps for each grade.

3/ The 7.8 percent premium is the weighted average of the last two columns in Table 1. The $650 million cost estimate represents 7.8 percent of the estimated $8.3 billion FWS pay costs for fiscal year 1978. Note that these figures do not represent the savings that might be achieved by a return to a three-step pay system.

TABLE 1. AUTOMATIC STEP PROGRESSION PATTERN FOR FWS EMPLOYEES

Step	Number of Years in Grade to Next Step	Percent of Comparable Private-Sector Pay Rate	Percent of FWS Employees in Each Step a/
One	0.5	96	4
Two	1.5	100	10
Three	2.0	104	17
Four	2.0	108	13
Five	---	112	56

SOURCE: M.A. Coursen and K.R. Powell, Wage Grade Civilians in DoD: Manpower Profiles and Compensation (Presearch Inc., January 1979), p. 17.

a/ Based upon data covering all FWS employees in the Department of Defense; these employees constitute about 80 percent of all FWS employees.

Five Steps Not Comparable with Private Industry Practices

Current and past Administrations have contended that the five-step system, besides producing an excessive and costly wage premium, does not reflect private industry rate structures. Although there appear to be no comprehensive surveys of private industry step rate structures, the available evidence suggests that less than half of private industry firms maintain a multiple-step rate structure. For example, a Bureau of Labor Statistics analysis of 750 collective bargaining agreements covering manufacturing industries in July 1976 revealed that fewer than 45 percent had a multiple-step rate structure. 4/ A 1971 Civil Service Commission survey of 35 federal wage areas (a 25 percent

4/ U.S. Department of Labor, Bureau of Labor Statistics, Characteristics of Major Collective Bargaining Agreements, July 1, 1976, Bulletin 2013 (February 1979), p. 31.

sample) found that about one-third of the establishments surveyed maintained a multiple-step rate structure. 5/

FWS Range in Pay per Grade Broader than Private Industry's

Limited evidence from surveys reporting on multiple-step rate structures in private industry suggests fewer steps than in the Federal Wage System, with a smaller range in pay from the lowest to highest step. The Civil Service Commission study referred to earlier found the most common multiple-step rate structure to be a three- or four-step system, with a 12 percent range in pay from the lowest to highest step. 6/ Other, more recent reviews of individual wage areas suggest similar or somewhat less generous step rate structures. 7/

Even though the 16 percent hourly rate range for each grade under the Federal Wage System appears to exceed the typical bounds for private industry, the FWS wage premium could be reduced by slowing advancement rates through the various steps. The degree to which this approach would succeed, however, would depend on its effect on retention patterns. At best, low turnover only delays, but does not eliminate, a return to a high concentration of employees in the upper pay steps.

5/ Unpublished study, "U.S. Civil Service Commission Study of Use of Step Rates and Rate Ranges in Private Industry," cited in Federal Blue-Collar Wage Determinations, Hearings before the Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, 95:1 (April-December 1977), p. 249.

6/ Ibid. The Bureau of Labor Statistics study cited in footnote 4 provided no data on rate or step ranges, but did indicate that over 85 percent of employers surveyed used an automatic step progression scheme or some combination of merit and automatic progression.

7/ For example, in 1973 the General Accounting Office discussed pay practices with officials of 172 private establishments in 11 federal wage areas and found that 60 percent of their employees were paid from schedules with three or fewer steps. General Accounting Office, Improving the Pay Determination Process for Federal Blue-Collar Employees, p. 6.

OUT-OF-AREA WAGE SURVEY DATA

The second criticism leveled at the pay-setting practices under the Federal Wage System concerns the requirement to import pay rate data from another wage area when the survey sample for certain specialized occupations (such as aircraft technician) proves insufficient. This provision, commonly referred to as the Monroney amendment, requires that data be imported from the ". . . nearest wage area that . . . is most similar in the nature of its population, employment, manpower, and industry. . . ." 8/

This requirement occasionally results in FWS wages in small cities and rural areas being based, in part, on private-sector wages in more costly big-city areas. (For example, Macon, Georgia, wages are based in part on data from Atlanta.) Under Office of Personnel Management regulations, these imported data cannot be used to lower any wage. The imported data raise wages for all employees of a given grade in the wage area, not just for those in the specialized occupation. 9/ In 1979, the Monroney amendment raised wages in 20 of the 135 wage areas, benefiting about 25 percent of the FWS work force. 10/ DoD

8/ Title 5 U.S.C. 5343(d). Former Senator Monroney, Chairman of the Senate Committee on Post Office and Civil Service, originally introduced the amendment in 1968. It became law under P.L. 90-560. The amendment was rewritten and incorporated into the 1972 Federal Wage System legislation.

9/ This phenomenon results from Federal Wage System regulations that require incorporation of the imported data into the survey data base prior to construction of the local area FWS payline. Thus, including in Grade 10 the pay of aircraft technicians whose pay rate is determined in part by out-of-area data results in a revised (and often higher) pay rate for all employees in Grade 10. Moreover, all grades (through 15) can be affected by the increase because of the desire to maintain a uniform differential in pay rates among all grades.

10/ Of the 20 wage areas benefiting, Macon, Georgia, accounts for over one-third of the cost of the Monroney provision, although employing less than 10 percent of FWS employees benefiting from the provision.

has estimated the cost of this provision at $59 million in fiscal year 1979. 11/

UNIFORM NIGHT-SHIFT DIFFERENTIAL

A statutory provision of the Federal Wage System [5 U.S.C. 5343(f)] mandates a uniform night-shift differential over prevailing hourly rates equivalent to 7.5 percent when the majority of the hours fall between 3:00 p.m. and midnight. When the majority of the hours occur between 11:00 p.m. and 8:00 a.m., the hourly wage rate differential increases to 10 percent. Before enactment of the 1972 FWS legislation, night-shift differentials were determined in accordance with prevailing practices in the local wage area. The Carter Administration has recommended a return to the pre-1972 practice.

Surveys of Private-Sector Practices

Federally sponsored surveys of private industry indicate that most companies pay a cents-per-hour shift differential rather than a percentage of base pay as in FWS employment. Where a private firm uses a percent-of-base-pay differential, however, the percentage (7 percent evening, 10 percent night work) approximates the statutory provision of the FWS (Table 2).

The few private industry employees receiving a uniform percent-of-pay differential earn a substantial premium over those on a uniform cents-per-hour standard. For example, the average 7 percent evening-shift differential equates to 45 cents per hour under current hourly wage rates--two and one-half times the average amount paid those receiving a cents-per-hour differential.

In spite of the differential, the average private-sector hourly wage earned by male employees working on evening or night shifts actually falls below the average wage earned by day-shift

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11/ While this estimate represents less than one percent of the total FWS budget, it affords some workers a significant wage premium. FWS employees in the Macon, Georgia, area, for instance, receive an approximate 15 percent premium because of the Monroney amendment.

TABLE 2. SUMMARY OF SHIFT DIFFERENTIAL PROVISIONS FOR PLANT WORKERS IN MANUFACTURING INDUSTRIES

	Evening Shift	Night Shift
Percent of All Plant Workers on Shifts a/	19	8
Percent of Shift Workers Earning:		
Uniform cents-per-hour differential	64	74
Uniform percent-of-pay differential	33	20
Other	3	6
Value of Differential		
Average cents per hour b/	18	23
Average percent of pay	7	10

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Area Wage Surveys: Metropolitan Areas, United States and Regional Summaries, 1976, Bulletin 1900-82 (August 1979), pp. 90-91, 98.

a/ The May 1978 Current Population Survey shows that about 20 percent of employees in blue-collar occupations work on evening or night shifts. Craftsmen experience the lowest percentage of shift work (16 percent), while laborers in manufacturing industries experience the highest (27 percent). J.P. Hedges and E.S. Sekscenski, "Workers on Late Shifts in a Changing Economy," Monthly Labor Review (September 1979), p. 18.

b/ Adjusted to reflect 1979 wage rates and cents-per-hour provision. Assuming that the 5 percent historical growth rate for the period 1968 to 1976 continues through 1979, this amounts to 3 and 4 percent of pay for evening and night shifts, respectively--much less than the differential received by workers earning a uniform percent-of-pay differential.

workers (Table 3). The reasons appear to lie in differences in the occupation and experience mix of the work forces on the various shifts. For example, evening-shift workers are typically younger, have less experience, and are more predominant in semiskilled and unskilled jobs than day workers. 12/

TABLE 3. MEDIAN HOURLY EARNINGS OF MALE FULL-TIME NON-FARM WAGE AND SALARY WORKERS BY SHIFT, MAY 1978 a/

Union Status	Day Workers	Shift Workers	
		Evening	Night
Covered by Union Contract	7.05	7.00	7.05
Not Covered by Union Contract	4.56	4.28	4.27

SOURCE: May 1978 Current Population Survey as reported in J.P. Hedges and E.S. Sekscenski, "Workers on Late Shifts in a Changing Economy," Monthly Labor Review (September 1979), p. 20.

a/ Earnings of males paid at hourly rates. Not all workers reported their union status.

Amount of FWS Shift Premium

About 4 percent of FWS employees work on evening or night shifts, a considerably smaller proportion than their private-

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12/ J.P. Hedges and E.S. Sekscenski, "Workers on Late Shifts in a Changing Economy," Monthly Labor Review (September 1979), p. 18.

sector counterparts in similar occupations. 13/ CBO estimates that shift differential pay for FWS employees will cost $30 million in fiscal year 1980. 14/ If the shift differential reflected private industry practices as given in Table 2, with respect to the proportion of workers earning cents-per-hour differentials, the night-shift premium would be reduced by one-half, or $15 million in fiscal year 1980 dollars.

EXCLUSION OF STATE AND LOCAL GOVERNMENT EMPLOYEES FROM THE SURVEY

The Federal Wage System provides that "wages surveyed be those paid by private employers in the wage area for similar work" [5 U.S.C. 5343(c)]. Critics of this statutory provision contend that the exclusion of state and local government employees from the area wage surveys results in an overstatement of actual wages in the nonfederal employment sector. 15/

This assumes that the relevant nonfederal work force contains appreciable numbers of state and local government employees

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13/ This 4 percent estimate was calculated on the basis of night-shift differential costs amounting to about 0.3 percent of total FWS pay costs for fiscal year 1980 and a weighted average differential pay of 8.25 percent for those on night work. Dividing the total night-shift pay differential cost by the estimated annual amount per employee yields the number of employees engaged in night work (that is, 4 percent of all FWS workers). While no public records are available on the prevalence of FWS night-shift work, the May 1978 Current Population Survey indicates that 8 percent of all federal (non-postal) civilian employees work on evening or night shifts.

14/ Computed from U.S. Civil Service Commission, Work-Years and Personnel Costs: Executive Branch of the United States Government, Fiscal Year 1977 (August 1978), pp. 6, 10, 42.

15/ Before enactment of the Federal Wage System in 1972, state and local government employees were included in the wage survey. These workers tended to be included in surveys of those areas dominated by local government employment.

with average hourly rates below those of their private-sector counterparts. But state and local government employees make up less than 8 percent of nonfederal blue-collar employees. 16/ Even significant wage differences between state and local government employees and federal employees would be of little weight in area wage surveys when pooled with data from the private sector.

Wage Differences with the Private Sector

CBO's examination of the Current Population Survey for March 1978 revealed that state and local government blue-collar workers employed in occupations similar to FWS occupations earned about 15 percent less than their counterparts in the private sector. Their comparatively small number, however, minimizes their influence on the average nonfederal (that is, private plus state and local) wage. The 15 percent wage disadvantage translates into a net reduction of about 1.2 percent in the average nonfederal blue-collar wage when they are included. But 1.2 percent of a 1980 wage bill of over $9.9 billion could mean a saving of over $100 million.

Effect on FWS Wage Rates Not Uniform

While the inclusion of state and local government wage data in the survey would offer the prospect of significant savings, the direction and magnitude of the wage effect would not be uniform for all geographic locations and occupations. The data in Table 4 show that the largest net decline in nonfederal-sector average wages would occur in the South and among craftsmen working in the construction trades.

The General Accounting Office, in its 1975 report on FWS pay practices, noted the significant, albeit far from uniform, effect on wage data of including appropriate state and local government occupations in the survey. For example, a doubling of survey job matches (blue-collar only) occurred in the Augusta,

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16/ CBO tabulations of the March 1978 Current Population Survey. Data pertain to full-time workers in 34 three-digit occupation groups containing at least 5,000 federal blue-collar employees identified in the survey, excluding those in the construction industry.

TABLE 4. PERCENTAGE CHANGES IN AVERAGE FWS EARNINGS WHEN STATE AND LOCAL GOVERNMENT DATA ARE ADDED TO PRIVATE-SECTOR WAGE DATA, SELECTED OCCUPATIONS

Selected Two-Digit Occupation Groups	Northeast	North Central	South	West
Foremen	-0.80	-0.18	-0.72	-0.75
Auto Mechanics	1.38	-0.48	NA	1.61
Mechanics, Except Auto	-0.15	-0.82	0.63	0.27
Craftsmen in Construction Tasks	-1.26	-1.88	-5.30	-2.13
All Other Craftsmen	-0.49	-0.07	-1.46	0.58
Drivers, Deliverymen	0.56	-3.81	-0.27	-0.76
All Other, Manufacturing	0.70	-1.18	-3.63	-0.42

SOURCE: CBO tabulations of the March 1978 Current Population Survey. Data pertain to full-time workers, except those in construction industries.

Maine, wage area when state and local government employees were included. 17/ This suggests that the inclusion of state and local government wage data could have substantial effects on comparability pay levels in certain isolated instances.

17/ General Accounting Office, Improving the Pay Determination Process for Federal Blue-Collar Employees, p. 18.

OTHER CONCERNS OVER THE SURVEY PROCESS

The exclusion of state and local government workers is one facet of a somewhat broader concern over coverage in the survey sample. The roster of private-sector jobs surveyed has been a source of controversy. For example, the Carter Administration has resisted efforts by FWS employee unions to require inclusion of construction industry wage data, contending that their highly seasonal employment pattern and high wage rates would tend to distort the comparability payline. Nevertheless, recent evidence suggests that restructuring the wage sample would improve survey coverage while reducing the administrative burden. 18/

Another matter of concern has been the statistical technique employed to construct a comparability payline from the sample wage data. Experimentation with various curve-fitting techniques shows that no single approach produces a best-fit payline for all wage areas. 19/

Although changes in survey scope and statistical techniques would be likely to shift the comparability payline in some wage areas, the net effect nationwide is very uncertain. CBO has not performed an independent analysis to estimate the budgetary effects of these other survey issues.

18/ C. Forrest Gilliam and others, Study to Improve the Administrative Procedures of the Federal Wage System, Report 1078-02-79-CR (General Research Corporation, August 1979).

19/ The Administration currently uses linear least-squares regression to construct a linear payline (that is, a payline with constant wage differences from one pay grade to the next). In the statistical sense, this method does not always provide the most accurate portrayal of the wage-rate pattern derived from the survey. Other, nonlinear curve-fitting techniques, or applications of linear techniques to transformed nonlinear data, might produce better fits. See, for example, Linda Pappas, Jerry Allen, and others, Wage Grade Payline Study, Report 1078-01-79-CR (General Research Corporation, May 1979).

CHAPTER OVERVIEW

This chapter examined four criticisms of the FWS pay-setting provisions, the most significant being that of the five-step within-grade advancement system. Few, if any, private firms offer such an elaborate step system. Moreover, the majority of FWS employees are now in steps four and five, entitling them to hourly rates as much as 12 percent above the average private-sector rates for comparable jobs.

The three other criticisms were directed at the use of out-of-area wage data, the uniform night-shift differential, and the exclusion of state and local government wage data. These have a less pervasive impact on FWS wage rates than the within-grade step advancement system. Repealing the Monroney amendment, which permits out-of-area wage data to be utilized when computing prevailing rates, would affect the pay of 20 percent of the FWS work force. The uniform night-shift differential is at variance with private-sector practices, although fewer than 4 percent of FWS employees work on evening or night shifts. The inclusion of state and local government wage data, now prohibited by FWS statute, would tend to reduce by 1.2 percent the average wage rate used as a comparability norm, although the impact could vary substantially from one survey area to the next.

Finally, legitimate questions can be raised about the methods used to assemble a sample of nonfederal-sector wage data and the statistical techniques employed to construct the comparability payline. While there seem to be opportunities for improvement, the net effect of such survey changes on the level of wages remains unclear. CBO has assumed throughout this analysis that the present comparability payline is a reasonably close approximation of nonfederal-sector wage rates for similar FWS occupations, except for its failure to include state and local government wage data.

CHAPTER III. INCLUSION OF FRINGE BENEFITS IN THE COMPARABILITY PROCESS: THE CARTER ADMINISTRATION'S APPROACH

Proposals to apply the principle of comparability to pay as well as benefits were made even before the enactment of the Federal Pay Comparability Act of 1970. At that time, however, federal fringe benefit costs were much smaller than they are now; and they were less, as a percentage of payroll, than those in the private sector. Several recent studies of federal compensation have again recommended extending the principle of comparability to benefits. 1/ This would raise several issues of policy: the role of the Congress in adjusting federal pay and benefits; whether pay and benefits should be considered together or separately; and what sort of guidance the Congress should give in implementing the changes. These policy issues have been examined at length in a CBO companion paper on white-collar compensation reform. 2/ This chapter explains how the Carter Administration proposes to treat benefits in its compensation reform bill, and notes a number of simplifications that could become a source of concern to the Congress.

MEASURING THE VALUE OF BENEFITS: THE CARTER ADMINISTRATION'S APPROACH

The Carter Administration's bill proposes to include fringe benefits in the comparability process for all federal nonmilitary

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1/ 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 1 (December 1977); General Accounting Office, Need For a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees, FPCD-75-62 (July 1975); and Civil Service Commission, Bureau of Policies and Standards, Total Compensation Comparability (October 1975).

2/ Congressional Budget Office, Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981, Background Paper (May 1980).

personnel. Both FWS and General Schedule employees would receive compensation adjustments based upon combined surveys of pay and fringe benefits. During the first five years, no change in fringe benefit provisions lowering their value would be permitted; thereafter, pay and most fringe benefits could be adjusted to achieve and maintain total compensation comparability. 3/ Thus, if surveys indicated total compensation of FWS employees was higher than that of their counterparts in the nonfederal sector, adjustments could be made only in the form of smaller pay raises during the first five years after the bill's enactment.

How would the value of benefits be measured? The Office of Personnel Management (OPM) intends to develop a standardized set of cost and benefit provisions using data collected by the Bureau of Labor Statistics (BLS). OPM would calculate a cost for each benefit provision from a BLS nationwide sample of 1,500 establishments, and weight the results by the respective number of plan participants in order to derive a standardized, nationwide per-capita cost for each benefit. The cost calculations would incorporate a common set of economic and actuarial assumptions applied against the population characteristics of a standard federal work force. The resulting weighted-average fringe benefit cost per employee would be included with wage survey data to arrive at total compensation amounts for employees in the nonfederal sector. 4/

Supporters of this approach contend that fringe benefits are such a significant part of compensation in both the federal and nonfederal sectors that they should be included in the comparability process. Others, skeptical of this approach, argue that the technical difficulties in identifying and measuring the worth of fringe benefits so as to adjust both pay and benefits in a valid, equitable manner may exceed the skill and ingenuity

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3/ The bill provides no authority to alter the federal retirement program, however. General Schedule and FWS employees participate in the same retirement program and generally have identical provisions in other fringe benefit categories.

4/ For a more complete description of the methodology, see Office of Personnel Management, "A Conceptual Framework for Total Compensation Comparability" (June 20, 1979; processed).

of any organization, public or private. The Carter Administration acknowledges that past data on private-sector fringe benefits have been inadequate for this purpose. Recently, however, it has gathered more comprehensive data that it believes would be sufficient. 5/

GROWTH AND DIVERSITY IN PRIVATE-SECTOR FRINGE BENEFITS: A MAJOR CHALLENGE TO THE CARTER ADMINISTRATION'S APPROACH

Even if the Administration succeeded in collecting reliable and comprehensive data on fringe benefits, it would face a number of other challenges in using them to adjust pay and benefits.

Difficulty in Keeping Pay and Benefits in Proper Balance

As noted earlier, the Carter Administration proposes to make federal compensation comparable with nonfederal compensation by estimating the worth of benefits and then adjusting pay in the first five years to offset any federal advantage in benefits. This approach, while offering potentially large and immediate payroll savings, could further distort the relationship between pay and benefits. Benefit provisions would remain frozen, in spite of the fact that fringe benefits in the private sector

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5/ Until recently, the Bureau of Labor Statistics gathered data on fringe benefits in the private sector in two surveys. These represent the prime source of information used in this report. First, the Area Wage Surveys, conducted biennially in about 60 metropolitan labor markets, serve private industry by providing detailed wage and salary data on a wide range of occupations. The reports also include supplementary data on fringe benefits. Second, the Employee Compensation in the Private Nonfarm Economy series surveys over 4,000 private establishments biennially and provides more comprehensive coverage and greater detail on employer fringe-benefit costs. This latter survey, last conducted in 1978, has been replaced by a revised survey intended to provide the Office of Personnel Management with the data necessary for implementing a total compensation comparability process for federal employees.

comprise a significant and growing share of total compensation. 6/ For example, over the decade 1966 to 1976, pay for hours worked in manufacturing grew by 6.8 percent annually, while fringe benefit costs grew at an 11.5 percent rate. 7/ In the short run, such rapid growth in private-sector benefits will tend to moderate the need for limits on FWS pay raises to achieve total compensation comparability. But over the long run, the Administration may be pressed to upgrade nonretirement benefit provisions at the expense of comparability in pay.

If the present trend continues, employer fringe benefit payments for blue-collar workers in manufacturing will increase from about one-quarter of total compensation in 1976 to one-third by the early 1980s. 8/ A number of factors probably contribute to this trend:

- o Rapid increases in program costs over which employers have little or no control. Health care and Social Security are two examples of program costs that have grown faster than wages and other prices over the past decade.

6/ For purposes of this study, fringe benefits include retirement, Social Security, health and life insurance, sick leave, and vacation/holiday leave. While the private sector offers a broader range of benefits, the benefit categories used in this study appear to represent those most commonly offered to blue-collar employees and constitute almost all of employer benefit costs.

7/ From data on blue-collar compensation in manufacturing in the BLS survey series Employee Compensation in the Private Nonfarm Economy, reported in U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics 1978 (June 1979), pp. 394-95.

8/ Recent evidence indicates that the pace has accelerated. The United Auto Workers' settlement with General Motors has been estimated to raise unit labor costs by one-third, from $15 to $20 per hour, over the next three years. Fringe-benefit improvements were the focal point of contract negotiations. Most notable were an automatic full cost-of-living allowance for retirees, expected to add 40 percent to annuities, and an increase in paid leave days from 12 to 26 over the next three years.

- o Revisions in accounting procedures and funding requirements, especially for retirement, that may reflect more accurately the full cost of programs. The Employee Retirement Income Security Act (ERISA) of 1974 was intended, among other things, to improve cost accounting procedures for federal tax reporting purposes.

- o Improved benefits for employees, notably more paid holidays and longer vacations. The spread of dental insurance programs is another example.

- o Efforts to minimize the employer and employee tax burden by diverting more of compensation into tax-exempt or tax-deferred benefits such as health insurance or retirement, with proportionately less going to wages. The efforts seek to avoid or defer not only federal income taxes, but also other taxes such as Social Security and state and local taxes.

National Norms for Fringe Benefits May Dilute the Principle of Comparability

The Carter Administration's proposal to adopt a national norm for nonfederal fringe benefits masks the considerable diversity in benefit provisions and employee participation along a number of important dimensions. Large variances around the computed norm make it less likely that a national benefit provision would be representative of local prevailing practices.

The growing share of total compensation allocated to fringe benefits varies by industry and by occupation, as shown in Table 5. White-collar workers generally receive relatively more benefits than blue-collar workers, and manufacturing industries generally pay a larger share of employee compensation as fringe benefits. Since manufacturing industries employ workers in occupations similar to those under the Federal Wage System, this segment of private industry should exert the greatest influence on comparability measurements.

Larger firms, as would be expected, generally offer more and better benefits. For example, hours of paid leave as a percentage of total employed hours increase with firm size for both white- and blue-collar workers (see Table 6). Employers support health and life insurance for almost all employees in large (more than 500 employees) manufacturing firms, while fewer than 40 percent of

TABLE 5. FRINGE BENEFITS AS A PERCENTAGE OF TOTAL COMPENSATION

Year	Manufacturing White-Collar	Manufacturing Blue-Collar	Nonmanufacturing White-Collar	Nonmanufacturing Blue-Collar
1966	20	18	17	15
1976	27	25	23	20

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics 1978 (June 1979), pp. 385, 393.

those employed in small (fewer than 100 employees) nonmanufacturing companies receive such benefits (Table 7).

Major Differences Between Federal and Private-Sector Retirement Programs Would Create Implementation Problems

Of all federal fringe benefits, the Civil Service retirement program is the most costly, and perhaps the most valuable from the employee's viewpoint. 9/ Yet the Carter Administration proposes to exempt this benefit permanently from any adjustment, while incorporating its actuarial cost in the measure of total compensation. Since retirement constitutes a significant benefit, its inclusion in the comparability measurement process could have a sizable effect on pay levels.

An examination of their demographic profile shows why FWS employees would perceive this benefit as more valuable than others, and in part explains the Carter Administration's reluctance to alter retirement provisions. In the Department of Defense, for instance, full-time nonsupervisory FWS employees

9/ By CBO's estimate, retirement accounts for over one-half of FWS employee benefit costs and about one-third of private-sector blue-collar benefit costs. The next chapter elaborates on the cost distinctions among various benefits.

TABLE 6. PAID LEAVE AS A PERCENTAGE OF TOTAL WORK HOURS IN MANUFACTURING INDUSTRIES, 1974 (By firm size)

	Fewer than 100 Employees	100-500 Employees	More than 500 Employees	All Sizes
White-Collar	7.1	8.6	11.1	9.6
Blue-Collar	5.5	7.2	10.0	8.1

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employee Compensation in the Private Nonfarm Economy, 1974 (1977), p. 46. These figures include vacation, holiday, sick, and personal leave.

TABLE 7. PERCENTAGES OF EMPLOYEES RECEIVING COMPANY-SUPPORTED LIFE AND/OR HEALTH INSURANCE IN MANUFACTURING AND NONMANUFACTURING INDUSTRIES, 1974 (By firm size)

	Fewer than 100 Employees	100-500 Employees	More than 500 Employees	All Sizes	Unionized (All Sizes)
Manufacturing					
White-collar	63	77	93	84	N/A
Blue-collar	63	80	93	82	93
Nonmanufacturing					
White-collar	56	75	84	67	N/A
Blue-collar	39	66	88	53	82

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employee Compensation in the Private Nonfarm Economy, 1974 (1977), p. 46. These figures represent the percentage of employees who receive employer support (both full and partial cost) for any or all of the following benefits: life, sickness/accident, and medical/hospitalization insurance.

average 44 years of age and have accumulated an average of 17 years of federal service, including military service, which counts toward retirement. 10/ Moreover, just over one-quarter of these DoD employees have reached retirement eligibility status.

While almost all private-sector employees participate in the Social Security program, participation in some form of private retirement program is not as universal. By conservative estimate, however, over three-quarters of blue-collar workers in manufacturing belong to some private retirement program. 11/

The following appear to be the major differences between the federal retirement program for FWS employees and retirement benefits offered to blue-collar workers in the private sector (summarized in Table 8):

- With few exceptions, private-sector workers usually retire between ages 62 and 65. Private firms often permit retirement as early as age 50, but with a substantially

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10/ By way of comparison, BLS tabulations of the January 1978 survey found that median years of tenure at a single firm for males employed full time in private-sector craft and kindred occupations approximated five years. Thirty-eight represents the median age for this segment of the blue-collar work force--about six years less than that of their FWS counterparts. As expected, older workers display longer tenure. For example, males aged 45 to 49 years average 11 years of tenure, while those aged 35 to 39 average six years of tenure. Statistics on DoD employees were taken from tabulations prepared by the Defense Manpower Data Center for CBO. Age data on the blue-collar work force were estimated from CBO tabulations of the March 1978 CPS file. Tenure data are from the January 1978 CPS file as reported in U.S. Department of Labor, Bureau of Labor Statistics, "Average Job Tenure Declines," News Release, USDL-79-285 (April 23, 1979).

11/ The BLS survey Employee Compensation in the Private Nonfarm Economy, 1974 found that 78 percent of non-office employees in manufacturing establishments participated in a private retirement program. Similarly, the BLS 1976 summary, Area Wage Surveys, found that 86 percent of plant workers in manufacturing establishments participated.

TABLE 8. COMPARISON OF FEDERAL WAGE SYSTEM RETIREMENT PROVISIONS WITH TYPICAL PRIVATE-SECTOR BLUE-COLLAR PLANS

Provision	Federal Wage System	Private-Sector Blue-Collar Plans
Age and Years-of-Service Requirements	Age 55, 30 years Age 60, 20 years Age 62, 5 years	Age 62 or 65, 10 years
Vesting	Full, after 5 years	Full, after 10 years
Benefit Formula	"High-three" year average salary multiplied by 1.5 percent, first 5 years; 1.75 percent, second 5 years; 2 percent, remaining years	Flat benefit of $10 to $20 per month for each year of service; rate often negotiated up when wage increases are provided
Early Involuntary Retirement	Any age with 25 years; age 50 with 20 years; 2 percent annuity reduction for each year retiree is under age 55	4 to 6 percent annuity reduction for each year under age 62 or 65; minimum 10 to 20 years' service; voluntary early retirement in many plans
Social Security Offset	Does not apply	Rare under current plans; where it occurs, pension annuity often reduced by an amount equal to one-half the Social Security payment
Disability Benefit	For full and permanent disability, immediate annuity of no less than 40 percent of final salary; minimum 5 years' service required	Normal retirement benefit provided until Social Security disability or retirement benefit takes effect
Survivor Benefit	55 percent of accrued annuity, but generally no less than 40 percent of final average salary to surviving spouse	Varies considerably; 50 percent of early retirement annuity (if eligible) common
Cost-of-Living Increases for Annuitants	Twice-annual increase tied to CPI	Intermittent, usually amounts to 25 to 50 percent of CPI growth
Employee Contributions	7 percent of base pay (more on voluntary basis)	Noncontributory

reduced annuity. 12/ The amount of the reduction appears to range between 3 and 6 percent of the annuity for each year below the normal retirement age. For example, a person retiring at age 55 who is participating in a program with a normal retirement age of 62 might incur a 25 to 50 percent reduction in annuity. 13/ For civil servants, on the other hand, normal retirement with unreduced benefits can begin as early as age 55.

- Most private-sector plans for blue-collar workers do not incorporate an automatic annual cost-of-living adjustment clause as does the FWS retirement system. 14/ Annuitants in private plans must rely on the benevolence of their employers (or the negotiating skill of their unions) to receive such post-retirement increases. As a result, the frequency and size of the annuity increases vary considerably over time and across companies. The inflation protection offered government employees provides them a considerable advantage over their private-sector counterparts, especially under today's economic circumstances.

- Although rare, some private-sector plans for blue-collar workers include an offset for Social Security benefits. The offset usually amounts to 50 percent of the old age

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12/ See Bankers Trust Company, 1975 Study of Corporate Pension Plans (1975), p. 10. These data apply to white-collar employees, but since the FWS employee participates in a retirement program dominated by the white-collar GS federal work force, the comparison on a programmatic basis is still valid. Inspection of a Bureau of Labor Statistics summary of private-sector benefit plans tends to confirm that a similar reduced annuity approach for early retirement typifies blue-collar plans as well.

13/ Based upon a review of 50 corporate retirement plans during 1977 conducted by the Wyatt Company. See Wyatt Company, Survey of Retirement, Thrift and Profit Sharing Plans Covering Salaried Employees of the 50 Largest U.S. Industrial Companies as of July 1, 1977 (1978).

14/ The recent General Motors wage settlement is a notable exception. (See footnote 8 for additional details.)

annuity paid under Social Security. 15/ The amount of the offset is typically fixed at the time the annuitant begins receiving Social Security benefits, and no additional offset occurs as the benefits are adjusted upward for inflation. Since federal civilian pay is not subject to Social Security tax (and, of course, no benefits accrue), FWS retirees could not be subject to an offset of this kind. 16/

- Most private-sector blue-collar plans compute the annuity in a manner that typically results in a less generous retirement program. The federal retirement program, and most private-sector white-collar employee plans, compute the retirement annuity as a percentage of pay--usually the average of the last three or five years' pay. Under this method, the annuity can grow as a natural by-product of wage increases. Most blue-collar workers in the private sector, however, receive a retirement annuity based upon a fixed sum--now usually $10 to $15 per month for each year of service contributed. This latter method does not allow retirement benefits to grow automatically as a result of negotiated wage settlements and may result in a relatively less generous pension than a white-collar worker retiring at the same salary would receive.

- Vesting rights also differ between the public and private sectors. The private sector usually offers full vesting

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15/ The rationale for the offset appears to be the fact that the employer and the employee share equally in contributions to the Social Security Trust Fund. The employer is therefore entitled to recoup his contributions through a reduction in the annuity provided in the private plan.

16/ Many federal workers, however, already have sufficient covered employment to receive a Social Security old age annuity upon retirement. An examination of the status of federal employees in 1972 revealed that fully one-third of all federal workers (that is, both white- and blue-collar) had sufficient quarters of covered earnings to qualify for at least minimal Social Security retirement benefits at age 62. In addition, about half of those employees covered under Social Security had been earning Social Security credits through part-time work while maintaining their full-time federal employment.

after ten years of service, compared to five years for civil service. In addition, job mobility often severs a person's right to a company pension, while mobility within the federal government (even between the Executive and Legislative Branches) does not impair a person's credit toward retirement benefits.

All of these differences tend to make private-sector retirement plans for blue-collar workers less generous than that for FWS employees. One important difference cuts the other way, however:

- o Most private-sector plans are noncontributory; that is, the company pays the entire cost of the retirement program. FWS employees, on the other hand, contribute 7 percent of their salary toward retirement. While the federal government as employer contributes the same amount to the retirement trust fund, the actuarial cost of the program is considerably higher and will eventually require much larger contributions.

CHAPTER OVERVIEW

The Carter Administration's proposal to include fringe benefits in the comparability process is a move toward more complete treatment of compensation adjustments in the future, but invites criticism from those skeptical of the government's ability to measure the worth of fringe benefits. Available survey data on private-sector fringe benefits reveal considerable variability in the value of benefit plans along a number of important dimensions such as geographic location and company size. To compute a standardized cost for each major benefit, as the Carter Administration proposes, would tend to mask these differences and run counter to the principle of locality-based pay setting.

In spite of these concerns, the inclusion of fringe benefits in the comparability measurement process, whether in the manner recommended by the Carter Administration or by some other approach, would serve both the federal employer and the employee. An increasing share of employee compensation flows into benefits, and, over time, this tends to erode the validity of any comparability system that fails to recognize explicitly the value of fringe benefits.

Because retirement benefits constitute one-third and over one-half of fringe benefit costs for private-sector blue-collar and FWS employees respectively, this chapter has accorded them special attention. Most private plans are noncontributory, but the FWS retirement program offers more generous benefits. The FWS plan provides for retirement with full benefits by age 55, and full cost-of-living protection for annuitants. Few, if any, private plans incorporate both these features.

CHAPTER IV. CALCULATING DISPARITIES IN PAY AND BENEFITS BETWEEN FEDERAL WAGE SYSTEM AND PRIVATE-SECTOR BLUE-COLLAR EMPLOYEES

The federal government pays FWS employees more per hour and, because of retirement, maintains a more expensive overall benefit package than private industry offers its employees in comparable jobs. This conclusion emerges from several surveys of private-sector pay and fringe benefits described in the previous chapters of this report. Table 9 compares an indexed valuation of pay and benefits currently received by FWS employees with what CBO estimates they would receive if private-sector practices were adopted. The comparison shows that their "total compensation index" would decline from 163.1 to 148.8, or by about 9 percent. This estimate includes the effect of recent limitations on pay raises, or "pay caps." The following sections of this chapter explain the derivation of each index component.

DISPARITIES IN HOURLY PAY RATES

As noted in Chapter II, certain provisions of the Federal Wage System statutes give FWS employees higher hourly rates than their private-sector counterparts earn. Table 9 shows that this hourly rate premium currently averages 5.8 percent. This includes the dampening effect of prior pay caps. The wage premium can be attributed primarily to the five-step within-grade advancement system (3.8 percentage points) and, to a lesser extent, to the use of out-of-area wage data (the Monroney amendment), as well as to the exclusion of state and local government wage data from the survey process.

Premium Attributable to the Step System

Before pay caps were introduced in fiscal year 1979, the five-step within-grade advancement system provided FWS employees an average hourly wage 7.8 percent above the private-sector prevailing rate computed from the area wage surveys. Table 10 presents the data and calculations used to derive this estimated 7.8 percent premium; note that 55 percent of the FWS population resides in step five, earning (uncapped) 12 percent above the private-sector prevailing rate.

TABLE 9. INDEX OF PER-CAPITA EMPLOYER COMPENSATION COSTS FOR FWS EMPLOYEES, FISCAL YEAR 1980

	If Private-Sector Practices Were Adopted	Current Practices Under Federal Wage System
Pay for Time Worked	100.0	105.8
Benefits a/		
Retirement	24.4 b/	33.7 c/
Paid leave d/	16.6	20.0
Health insurance	5.3	3.3
Life insurance	1.9	0.3
Bonuses, etc.	0.6	-0-
Total Pay and Benefits	148.8	163.1

a/ Expressed as a percentage of pay for time worked. Pay for time worked constitutes about 85 percent of basic pay after deducting paid leave.

b/ Includes employer's share of FICA, but excludes employee's share.

c/ Excludes employee's contribution of 7 percent of pay.

d/ Includes paid sick leave.

To what extent the five-step system grants an excessive and unjustified hourly rate premium to FWS employees remains a matter of some dispute. Its supporters argue that, when compared to private-sector practices, the present step system provides an essential reward for the above-average tenure and greater experience of the FWS work force. 1/ Sorting out the wage

1/ As noted in Chapter III, FWS employees average 17 years of total federal service (including military). In sharp contrast, company tenure in full-time private-sector craft and kindred occupations averages only five years.

premium controversy is further complicated by the method used to compute prevailing hourly rates for the jobs selected in the area wage surveys. The prevailing private-sector rate that eventually forms the step-two FWS hourly rate actually represents a composite of individual rates for the surveyed job. The composite rate tends to mask individual company longevity pay practices and the associated tenure of employees of a firm. Thus, the resulting rate does not reveal what private-sector hourly rates would be when matched for similar tenure. To what degree tenure should be taken into account in setting pay rates remains an open question. The statutes governing FWS pay-setting practices are primarily occupation- and locality-based, and they provide no explicit guidance as to whether or not tenure should be taken into account in determining the prevailing rate.

TABLE 10. CALCULATION OF FWS HOURLY PAY PREMIUM RESULTING FROM THE STEP PROMOTION SYSTEM

Pay Step	Percent Below or Above Comparability Pay Line (1)	Fraction of FWS Population in Each Step (2)	Weighted Average Pay Index (1) x (2)
One	96	0.039	3.7
Two	100	0.104	10.4
Three	104	0.165	17.2
Four	108	0.134	14.5
Five	112	0.554	62.0
Totals		1.000	107.8

Premium Attributable to the Use of Out-of-Area Wage Data and the Exclusion of State and Local Government Wage Data

The discussion in Chapter II pointed out that, while state and local government employees earn on average 15 percent less than their private-sector counterparts, they constitute only 8 percent of the relevant nonfederal work force. As a result, their inclusion in the survey would reduce the comparability payline by an average of 1.2 percent.

The so-called Monroney provision requires, under certain circumstances, the importation of pay-rate data from another wage area, often resulting in higher (but never lower) paylines. About 25 percent of FWS employees benefit from this provision, receiving an average 5 percent premium. Because the Monroney provision affects only a few wage areas, its repeal would reduce the comparability payline by an average of 0.8 percent.

Pay Caps Have Reduced the Hourly Rate Premium

The 5.5 percent pay cap for fiscal year 1979, and the subsequent 7 percent cap in fiscal year 1980, could reduce the average hourly rate premium accorded FWS employees from 9.8 percent to about 5.2 percent by fiscal year 1980 (see Table 11). Moreover, a decision to forego the proposed FWS pay revisions and limit pay raises to 9.1 percent in fiscal year 1981 would place over one-half of FWS employees at or below the comparability norm. 2/

DISPARITY IN THE COST OF RETIREMENT PROGRAMS

The principal reason for the disparity in benefits lies in the federal retirement program. Chapter III provided a detailed comparison of the Civil Service Retirement program, which also covers FWS employees, with programs typically available to blue-collar workers in manufacturing industries. Generally, the Civil Service Retirement system provides a larger annuity than is available in the nonfederal sector; it also provides inflation

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2/ FWS pay raises do not go into effect automatically at the beginning of a fiscal year. Rather, the pay raises take effect soon after the surveys are conducted in the local wage areas. Over half of the FWS employees are surveyed during the first four months of the fiscal year, and wage adjustments are provided. These lags in pay raises tend to complicate comparisons of pay indexes and slightly overstate the true difference in the wage premium accorded FWS employees at any given time, as displayed in Table 11.

TABLE 11. FORECAST COMPARISON OF FWS AND COMPARABLE PRIVATE-SECTOR PAY INDEXES

Fiscal Year	Private-Sector Pay Index a/	FWS Pay Index b/	FWS Pay Premium (percent)
1978	100.0	109.8	9.8
1979	108.2	115.8	7.0
1980	117.9	124.0	5.2
1981	129.0	135.3	4.9

a/ Taking fiscal year 1978 as the base (1978 = 100), the fiscal year 1979 index reflects the statutory comparability raise of 8.2 percent computed from the area wage surveys. CBO estimates increases of 9.0 and 9.4 percent for fiscal years 1980 and 1981, respectively.

b/ Based upon pay caps of 5.5 percent, 7 percent, and 9.1 percent in fiscal years 1979, 1980, and 1981, respectively. The index for fiscal year 1978 includes 7.8 percentage points for the step system calculated in Table 10, as well as 1.2 percentage points for the exclusion of state and local government wage data and 0.8 percentage points for the Monroney provision.

protection and permits retirement with full benefits at an earlier age than under private plans. The fact that private-sector workers are covered by Social Security retirement tends to narrow, but not eliminate, the disparity in retirement benefits.

Under certain circumstances, however, a blue-collar employee in the private sector may receive an annuity equal to or greater than that of an FWS employee. For example, an FWS worker retiring today at age 55 with 30 years' service can receive 56 percent of his last three years' average wage as an annuity. A private-sector employee, on the other hand, who retires at age 62 with 30 years' service under one of private industry's more generous retirement plans, and also receives maximum Social Security benefits, can receive over 60 percent of his last year's wage.

While the latter example is not typical, it may become so if present trends in private-sector retirement provisions and in Social Security continue. But it is difficult to generalize from comparisons made on a case-by-case basis.

Actuarial Valuation of Civil Service and Private-Sector Retirement Plans

Actuarial methods offer another approach to the valuation of retirement programs. CBO, with the cooperation of the Office of Personnel Management, developed an actuarial valuation for the retirement program available to FWS employees and compared it to the cost of a composite of private-sector programs applied to the federal work force. 3/

Excluding employee contributions, the entry-age normal cost of the FWS retirement program amounted to 33.7 percent of pay for time worked (that is, excluding paid leave), while that of the chosen private plan amounted to 10.6 percent. These figures represent the annual amount, expressed as a percentage of pay, that an employer would invest in a retirement fund during an employee's tenure to pay his future benefits under an annuity. The estimates apply to a cohort of new entrants (1975 to 1976) to the federal work force (both FWS and General Schedule) and employ a uniform set of actuarial rates for withdrawal, retirement, mortality, wage growth, inflation, etc.

Actuarial Valuation of the Social Security Retirement Program

OPM has also developed an actuarial valuation of the Social Security (the OASDI portion only) program. It estimates the entry-age normal cost of Social Security retirement for federal

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3/ The private plan actuarially valued by OPM was constructed by CBO and represents a composite of several plans. Its major features were: a flat monthly annuity benefit of $17 for each year of service, with the benefit amount growing at a long-term rate of 4 percent; annual annuitant adjustments equivalent to one-half the rise in the Consumer Price Index; and normal retirement with full benefits at age 62 and at least 10 years of service.

employees at 15.8 percent of basic pay. 4/ The equivalent figure expressed as a percentage of pay for time worked is 18.6 percent. On the assumption that FWS employees would pay the standard FICA tax of 7.8 percent of pay for time worked, the federal government would pay the remaining actuarial value of 10.8 percent.

To this amount, CBO has added another 3 percentage points to reflect the tax-free nature of Social Security retirement benefits. 5/ Civil service retirement benefits paid by the federal government are taxable to the annuitant, and the operating premise for this study is that FWS employees would receive equivalent tax benefits should they fall under a Social Security plan.

Actuarial Cost Comparison of Retirement Programs

Table 12 shows the actuarial cost of the Federal Wage System retirement program to be equivalent to 1.4 times the combined cost

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4/ Office of Personnel Management, "Standardized Cost Estimates of 'Typical' Benefit Plans" (June 19, 1979; processed), p. 3. Using a somewhat different set of actuarial assumptions than employed by OPM, the Social Security System has developed an actuarial normal cost estimate of 13.7 percent of pay for OASDI entrants. This 13.7 percent estimate implies 8.3 percent of pay for time worked as the employer's (federal government's) share. See Joseph Applebaum, "Some Effects of Fully Funding OASDI," U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of the Actuary, Actuarial Note No. 97 (September 1979).

5/ See Congressional Budget Office, Compensation Reform for Federal White-Collar Employees: The Administration's Proposal and Budgetary Options for 1981, Background Paper (May 1980) for additional details on this. Note that, under civil service and private retirement programs, the IRS considers disbursement of employee contributions (if any) in the form of an annuity as nontaxable, since the income earned and then contributed to the retirement fund was already taxed. Under the civil service program, annuity payments are not taxed until the amount paid out exceeds the employee's contributed capital. This point usually occurs about two years after retirement.

of a typical private plan plus Social Security retirement. This disparity in costs implies a more valuable retirement program for FWS employees than the combined private and Social Security retirement plans. 6/

TABLE 12. COMPARISON OF ENTRY-AGE NORMAL COST VALUATIONS OF RETIREMENT PROGRAMS a/

Federal Wage System	Private Plan	Social Security Retirement
33.7	10.6	13.8

a/ Employer share expressed as a constant percentage of pay for time worked.

DISPARITIES IN PAID LEAVE

FWS employees would experience an improvement in paid holidays if private-sector practices were adopted, but would lose compensation for sick leave, resulting in a net decline in paid leave benefits (Table 13). Moreover, adoption of private industry practices would eliminate the provision allowing annual sick leave

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6/ As noted earlier, individual cases can be developed that, from the FWS employees' perspective, place them at a disadvantage relative to their private-sector counterparts in terms of retirement annuities. These estimates are sensitive to interest and inflation rates assumed in long-run projections. Also, the structure and ultimate cost of a benefit package to some extent reflects the demographic composition of the respective work forces. Since private-sector workers are typically younger and less tenured than FWS employees in similar occupations, the emphasis on retirement relative to other benefits should differ between the two groups.

accumulation and its credit toward retirement. The value of sick leave as a retirement credit benefit has not been calculated in this study.

TABLE 13. DISTRIBUTION OF AVAILABLE WORKDAYS BY LEAVE CATEGORY FOR BLUE-COLLAR AND FWS EMPLOYEES

	Blue-Collar	Federal Wage System
Workdays per Year	260.0	260.0
Leave Days per Year		
Holidays	11.0	9.5
Vacation days	22.0	22.0
Sick days (paid)	3.5	10.0
Sick days (unpaid)	3.5	0.0
Subtotal	-40.0	-41.5
Total Days at Work per Year a/	220.0	218.5
Paid Leave Days as a Percentage of Total Days at Work	16.6	19.0 b/

a/ Workdays per year minus leave days per year.

b/ This figure was adjusted upward by 5.8 percent in Table 9 to reflect not only the difference in leave practices as shown on this table but also the additional basic pay value for the leave attributed to the computed FWS pay premium.

Paid Holidays

Like most federal workers, FWS employees receive nine paid holidays annually, although additional time is sometimes granted at the discretion of the Administration. The estimate in this report assumes an average of 9.5 paid holidays annually for federal workers.

Surveys of benefits for blue-collar workers conducted in 1976 indicate that private employers typically grant 10 paid holidays annually. 7/ Given the relatively rapid growth in private-sector benefits, however, an additional holiday was included, raising the estimate to 11 holidays annually for blue-collar workers.

Paid Vacations

As in the private sector, federal workers' paid vacation time is computed on the basis of time in service. FWS employees with less than three years of federal service (including military) receive 13 vacation days annually; those with three to fourteen years' service receive 20 days; and those with fifteen or more years earn 26 days' vacation. An examination of the years-of-service profile for FWS employees in the Department of Defense revealed that 46 percent were eligible for the maximum 26 days' vacation. The weighted-average vacation amounted to 22.1 days.

CBO applied the years-of-service distribution of FWS workers (DoD only) against 1976 data on vacation plans taken from the BLS Area Wage Survey and computed an average of 19 days' vacation if private-sector practices were adopted. Given the rapid growth in benefits over the past few years, this figure was raised to 22 days to reflect a more current estimate. Thus, no material difference in paid vacation would result if the federal government adopted private-sector practices, although more rapid growth in the length of vacations in the private sector could actually raise federal employee compensation costs in the future.

7/ Ten holidays represent the modal value based upon an examination of two BLS reports: Characteristics of Major Collective Bargaining Agreements, Bulletin 2013 (July 1, 1976), p. 8.; and Area Wage Surveys: Metropolitan Areas, United States and Regional Summaries, 1976, Bulletin 1900-82 (August 1979), p. 100.

Paid Sick Leave

Sick leave provisions in the private sector appear to be less generous than those for FWS employees. The federal government provides FWS (as well as General Schedule) employees 13 days' annual sick leave with full pay and the right to accumulate unused leave indefinitely.

In 1976, less than one-fourth of plant workers in manufacturing industries were covered by sick leave provisions offering full pay and no waiting period before coverage begins. Another 8 percent were entitled to sick leave with partial pay and/or with some waiting period required. In contrast, about three-quarters of white-collar employees in manufacturing industries participate in a company-sponsored sick leave plan, usually at full pay with no waiting period. 8/

While sick leave benefits are less common in private industry, some of the potential lost income can be offset by employer-financed sickness and accident insurance, available to about 60 percent of plant workers in manufacturing. 9/ The most common policy, termed a "1-8-26 plan," provides a fixed periodic payment beginning on the first day for a non-work-related accident and on the ninth day for any illness. This short-term disability pay usually amounts to two-thirds of an employee's base pay and extends for a period of up to 26 weeks. 10/

During fiscal year 1978, the latest year for which such data are available, FWS employees in DoD used an average of 10 sick

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8/ Bureau of Labor Statistics, Area Wage Surveys, 1976 Summary, p. 107.

9/ Ibid.

10/ Information provided to CBO by staff of the Health Insurance Association of America. Long-term disability insurance that extends coverage beyond 26 weeks is also available, but benefits under OASDI usually take effect after the first five months of disability. Work-related accidents are covered by workmen's compensation insurance, governed by state regulations.

leave days. 11/ Given that federal employees' sick leave benefits amount to 13 days annually, one can assume that, on average, all sick leave used was compensated at full pay. When participation rates and benefit levels are taken into account for both formal sick leave provisions and employer-financed health insurance plans, it would appear that one-half of the sick leave taken by private-sector blue-collar workers was compensated at full pay.

HEALTH BENEFITS

Both private industry and the federal government provide similar forms of health insurance for their employees. The major difference appears in the cost-sharing ratios of the respective employers. Surveys indicate that the vast majority of health plans offered to blue-collar workers in the private sector are employer-financed, noncontributory programs. On average, employers pay about 90 percent of health plan costs for blue- and white-collar employees in manufacturing. Under the Federal Wage System, the federal government pays 57 percent of medical insurance premiums, with the remainder contributed by the employee.

In fiscal year 1978, federal payments for health insurance under the Federal Employees' Health Benefits Act constituted 2.8 percent of basic payroll. 12/ This figure would rise to 4.5 percent of basic payroll if private-sector practices were adopted wherein the employer paid 90 percent of the program's cost. To be consistent with other calculations, the cost of these benefits as a percentage of pay for time worked would rise to 5.3 percent.

11/ Information provided to CBO by the Office of Personnel Management. Separate breakdowns by pay plan for sick leave used were not available. Sick leave data for DoD were chosen because 80 percent of all FWS workers are employed by the Defense Department. By comparison, unpublished tabulations from the 1978 Health Interview Survey of the Public Health Service show that blue-collar workers in private industry claimed an average of seven days' leave for sickness or injury during 1978.

12/ Information provided to CBO by the Office of Personnel Management.

CHAPTER OVERVIEW

This chapter sought to integrate the general findings of the two previous chapters on pay and benefits by developing an index of total compensation from available data sources on private-sector blue-collar practices. The analyses show that adoption of private-sector pay and benefit practices for FWS employees would lower this total compensation index by about 9 percent. About two-thirds of the total compensation premium implied by the index can be attributed to statutory provisions that give FWS employees hourly rates above the comparability norm.

In the area of benefits, FWS employees have an advantage over their private-sector counterparts in only two instances: retirement and paid sick leave. The FWS retirement program is much more generous than the typical private-sector plan. FWS employees have vacation programs similar to those of their private-sector counterparts, but receive fewer holidays. In addition, FWS employees pay a larger share of their health and life insurance costs than those in the private sector.

The weight of the evidence suggests that FWS employees receive a total compensation premium. Yet current data leave considerable room for debate about the precise size of the premium. The measures selected in this report reflect CBO's best judgment. Future evidence, especially that collected by BLS, could change these estimates, but the fact of a total compensation premium would likely withstand the test of new data.

CHAPTER V. OPTIONS TO ALTER FEDERAL WAGE SYSTEM COMPENSATION

This chapter presents several options that illustrate the range of policy choices available to the Congress in deciding upon FWS compensation. The options (summarized in Table 14) reflect varying judgments on how best to interpret the present comparability standards and on whether it would be desirable to include benefits as well as pay.

Table 14 shows that, depending upon the option chosen, FWS payroll costs could be reduced between 4 and 10 percent over the next five years as compared to what current law would provide (in the absence of pay caps). Relatively modest savings—ranging from $240 million to $370 million—could be expected in the first year under each option. This would occur because the new pay provisions (or caps) would not go into effect in all wage areas at the same time, but rather would await completion of the compensation surveys in each of the 135 wage areas.

Benefit provisions would remain untouched during the first five years, with only hourly pay rates subject to adjustment. Under each option, average pay raises over the five-year period would fall about one to three percentage points below what they would otherwise be (see Table 15). The Carter Administration's total compensation proposal, presented in Option IV, would result in the greatest variation in FWS pay raises over the first five years—holding them down to about one-half the nonfederal-sector comparability raises in the first two years but pushing them above those projected in fiscal years 1984 and 1985 to offset advances in benefit provisions likely to occur in the nonfederal sector.

OPTIONS TO ADDRESS PAY COMPARABILITY

For the most part, the federal government bases FWS comparability on prevailing rates for similar private-sector work in a local area. One would expect this to accord the FWS employee an equitable and competitive rate while having a neutral effect on the local wage structure. From the start, however, the Carter Administration has contended that certain provisions of the law prevent pay from being made truly comparable.

TABLE 14. SUMMARY OF PAYROLL COSTS AVOIDED UNDER VARIOUS FWS EMPLOYEE COMPENSATION OPTIONS (In millions of dollars, by fiscal year)

	1981	1982	1983	1984	1985	1981-1985
Total Payroll Budget Under Current FWS Statutes a/	9,850	11,000	12,100	13,260	14,470	60,680
Options to Address Pay Comparability						
I. Amend/repeal disputed FWS pay-setting provisions b/	-335	-800	-990	-1,090	-1,195	-4,410
II. Amend/repeal FWS step provision only c/	-240	-480	-550	-600	-660	-2,530
III. Cap pay at 9.1 percent in fiscal year 1981 only d/	-290	-550	-600	-660	-720	-2,820
Options to Address Both Pay and Benefits						
IV. Adopt Carter Administration's total compensation proposal	-370	-970	-1,450	-1,700	-1,780	-6,270
V. Cap pay at 7.8 percent through fiscal year 1985 to offset total compensation premium	-350	-790	-1,080	-1,260	-1,660	-5,140

a/ Payroll levels absent any pay caps and assuming a constant size work force with no further shifts in employee distribution among the grades and steps.

b/ Adopts that portion of the Carter Administration's total compensation proposal amending or repealing the pay-setting provisions of the Federal Wage System statutes. Assumes a three-step "average-to-average" within-grade advancement system.

c/ Savings reflect a return to a three-step system with the comparability norm retained at step two as an alternative.

d/ The pay raise adopted for fiscal year 1981; excludes 5.7 percentage points in raises due to prior pay caps.

TABLE 15. COMPARISON OF CBO-PROJECTED FWS EMPLOYEE PAY RAISES UNDER VARIOUS OPTIONS (In percent, by fiscal year) a/

	1981	1982	1983	1984	1985	1981-1985
Under Current FWS Statutes, With No Pay Caps	14.8 b/	9.9	9.9	9.3	9.0	10.6
Option I	7.7	6.7	8.9	9.3	9.0	8.3
Option II	9.8	9.2	9.9	9.3	9.0	9.4
Option III	9.1	9.9	9.9	9.3	9.0	9.4
Option IV	7.4	5.0	7.0	9.6	9.9	7.8
Option V c/	7.8	7.8	7.8	7.8	7.8	7.8

a/ Data show only the projected annual comparability raise and exclude consideration of possible pay increases through within-grade step advancement or promotion to a higher grade.

b/ Includes 5.4 percentage points as a catch-up for prior pay caps in fiscal years 1979 and 1980. CBO projects the normal comparability pay raise in fiscal year 1981 to be 9.4 percent.

c/ Equivalent to the average annual pay raise over five years under Option IV.

The first two options in this report seek to meet all or part of these pay criticisms. By choosing either option, the Congress would uphold the traditional interpretation of pay comparability, and remove pay restraints imposed legislatively over the past two fiscal years.

The third option would not undertake to change the comparability process. It would simply cap pay in fiscal year 1981, on the premise that most FWS employees receive a rate premium under the current law and that capping pay offers a legislatively expedient way of narrowing, if not eliminating, the average gap between FWS and private-sector pay.

Option I: Amend or Repeal All Disputed Pay-Setting Provisions of the Federal Wage System

The changes proposed here, and summarized in Table 16, correspond to the Carter Administration's recommendations. Chapter II of this report examined the available evidence on each of these recommendations and concluded that most of them would bring FWS pay-setting practices more in line with private-sector practices. CBO estimates that, when compared to what current FWS statutes would provide, these changes could avoid over $4.4 billion in cumulative pay raises between fiscal years 1981 and 1985.

TABLE 16. PAYROLL COSTS AVOIDED THROUGH AMENDING THE FWS PAY-SETTING STATUTES UNDER OPTION I (In millions of dollars, by fiscal year)

Proposal	1981	1982	1983	1984	1985	Total 1981-1985
Reversion to Three-Step "Average-to-Average" System	240	600	740	810	890	3,280
Elimination of Out-of-Area Wage Data	30	70	100	120	130	450
Introduction of State and Local Government Data	60	120	130	140	150	600
Adjustment of Shift Differential to Conform to Prevailing Practices	5	10	20	20	25	80
Total	335	800	990	1,090	1,195	4,410

Most Savings Attributed to "Average-to-Average" Step Proposal. Over 90 percent of the payroll costs avoided under Option I would result from repeal of the five-step within-grade advancement system and its replacement with an "average-to-average" three-step system--the most likely substitute step arrangement being considered by the Administration. Pay rates would be set so that the average hourly rate for FWS employees would equal the average rate computed from the area wage surveys of the nonfederal sector. Employees now in steps four and five would revert to step three, and the 4 percent hourly rate premium above the comparability norm would no longer be universally applied to those in step three.

Lower Entry Wages Under the Alternative Step System. The step system being considered by the Carter Administration raises the risk that recruiting problems could develop within the next few years because entry-level (step one) wage rates will remain about 7 percent below average private-sector rates for comparable jobs. 1/ Moreover, a continuation of depressed entry wages comes at a time when the Administration may confront an increase in recruiting requirements resulting from shifts in the age and experience mix of the FWS work force. Since the Vietnam War, the FWS work force has declined in size by about 45 percent--mostly through normal attrition (that is, retirement and voluntary departures) and concomitant hiring freezes. This has resulted in an older work force characterized by unusually low turnover, but with a high proportion of employees eligible for retirement. We may now have reached the point where work force levels have stabilized and recruiting requirements will grow to sustain constant employment levels and replace the large population having achieved retirement eligibility status. The step system being considered by the Carter Administration fails to address this fundamental long-term problem of higher turnover and a commensurate growth in recruiting requirements.

Gradual Phase-In of Pay Changes Through the Half-Raise Provision. After changes in the FWS pay-setting provisions

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1/ The uncapped five-step system provides entry rates 4 percent below the comparability norm as determined by FWS surveys. Due to successive pay caps, however, entry-level (step one) rates have fallen 8 percent below the private-sector average rate.

under this option, employees found earning an hourly rate premium would be limited to no less than half the normal annual comparability pay raise each year until their hourly rates equaled those of their counterparts in the nonfederal sector. This transition provision has several advantages. Aside from the fact that hourly rate increases normally differ across the 135 local wage areas, this "half-raise" provision would also permit pay increases to vary among the five steps. If the Congress believes that FWS employees earn an unjustified hourly rate premium, the half-raise provision represents a logical and more equitable approach to achieving pay comparability than the continued use of nonselective pay caps, a matter discussed under Options III and V.

In fiscal year 1981, for example, those still in steps four and five, who presently comprise two-thirds of the FWS work force, would be entitled to half the normal comparability raise resulting from the local area wage survey. Including a catch-up raise for prior caps, this would amount to 7.4 percent for those now in steps four and five and to about 8.3 percent for the remaining one-third of the FWS work force in steps one through three. Thus, all FWS employees would be subject to a restrictive raise provision averaging 7.7 percent in the first year (see Table 15).

In fiscal year 1982, the two-thirds of the FWS work force originally in steps four and five would continue on a restricted wage schedule, receiving 6.9 and 5.0 percent rate increases respectively. Those in steps one through three would no longer be on a restricted wage schedule and would receive the full 9.9 percent comparability increase projected by CBO. In fiscal year 1983, more than half the FWS work force--those originally in step five--would continue on a restricted wage schedule and receive an 8 percent raise, while all others would receive the full comparability raise, an average 9.9 percent increase. By fiscal year 1984, all FWS employees would have made the transition to new wage schedules with normal comparability increases.

Option II: Amend or Repeal the FWS Step Provision Only

Since the bulk of the savings under the Carter Administration's pay-setting proposal stems from a change in the step advancement system (see Table 16), the Congress may wish to make a less complex change and amend or repeal only Title 5 U.S.C. 5343(e), which prescribes the step advancement system for FWS employees. This action would leave in place the other disputed pay-setting provisions, but still grant the Administration substantial autonomy in setting pay rates for FWS employees.

Drop Steps Four and Five as an Alternative. The "average-to-average" approach being considered by the Carter Administration, while saving considerable money, does pose certain potential problems, as noted in the discussion of Option I. As an alternative, the Congress could direct a return to the arrangement in effect prior to enactment of the FWS statutes in 1972--a three-step system with step two retained as the comparability norm. This alternative would limit entry wages to 4 percent below the comparability norm and provide a premium at step three of no more than 4 percent above the norm. As compared to the current uncapped five-step system, this would narrow the range of within-grade advancement and more closely conform to private-sector practices.

Savings would not be as great under this step system as under the three-step "average-to-average" alternative presented in Option I. Rather than generating about $3.3 billion in cumulative five-year payroll savings (see line one, Table 16), it would offer $2.5 billion in savings between fiscal years 1981 and 1985 (see Table 14). Savings would be less because those FWS employees now at or above step three (equivalent to more than 85 percent of the entire FWS work force) would remain in step three, earning a 4 percent premium. Thus, while this alternative offers a more favorable entry wage than Option I, a broad segment of the work force would continue to earn an hourly rate premium. As noted in Chapter IV, the pay caps of the past two years have in effect reduced the average hourly rate premium under the five-step system from 7.8 percent to about 3.8 percent. Option I would eliminate this remaining premium, while Option II would only reduce it another percentage point, to 2.8 percent.

Other Alternative Step Systems Need to be Explored. In sum, neither alternative offers an entirely satisfactory solution to the dual problem of how to offer a competitive entry wage yet provide wage premiums on a more selective basis. Should the Congress favor the approach described in Option II, it might wish to explore with the Administration a broader range of pay advancement alternatives, examining not only the number of steps, but also the pay differentials between steps and the time required to progress from one step to the next. Moreover, the advancement system should be designed around a concept of the kind of FWS work force that will be needed to meet the federal government's future needs for laborers and skilled craftsmen--a matter not explicitly treated in the Carter Administration's proposal.

Option III: Cap Pay Raise in Fiscal Year 1981 at 9.1 Percent

In fiscal years 1979 and 1980, the Congress inserted language in various appropriations bills limiting annual FWS employee pay raises to no more than 5.5 and 7.0 percent, respectively. In fiscal year 1981, the Congress has again chosen to cap FWS pay raises at the 9.1 percent level recommended by President Carter. 2/

Continuation of pay caps offers a legislatively expedient way to reduce further or eliminate entirely any compensation premium now accorded FWS employees. In fact, CBO estimates that the pay caps in fiscal years 1979 and 1980 have already reduced the average FWS employee's hourly rate premium from 9.8 percent to about 5.8 percent. 3/ A third pay cap of 9.1 percent in fiscal year 1981, followed in later years by normal comparability raises, would avoid over $2.8 billion in cumulative pay raises through fiscal year 1985.

Like Option II, a 9.1 percent pay cap in fiscal year 1981 under this option would not entirely eliminate the average hourly rate premium accorded FWS employees. They would still average about 4.8 percent above the comparability norm, according to CBO estimates. Obviously, this premium could eventually be eliminated by smaller raises or by the continuation of pay caps in future years.

Distortions in the Comparability Process Created by Pay Caps. While pay caps are legislatively expedient, they create a number of difficulties:

2/ The joint resolution providing continuing appropriations for fiscal year 1981 (P.L. 96-369) contained language prohibiting annual increases in FWS hourly rates from exceeding the increase authorized for General Schedule employees.

3/ These figures reflect the difference between average FWS pay and the nonfederal-sector comparability norm as determined by the FWS area wage survey after including wage data on state and local government workers. (See Chapter IV for a further discussion of this.)

- o Across-the-board pay caps can distort the principle of locality pay by giving disproportionate shares of the full comparability raise to different wage areas. 4/ For instance, a 9.1 percent pay raise may represent a full comparability raise in one region but only three-quarters of the comparability amount in another. 5/

- o Unlike selective use of the half-raise provision under the Carter Administration's proposal, pay caps limit wages at all steps. This can adversely affect recruiting if entry rates in the lower steps drop well below the comparability norm. For instance, while the FWS pay-setting statutes place step one entry rates at 4 percent below the comparability norm, a third consecutive pay cap would depress the entry rate to 6.5 percent below the norm. Moreover, even though the first three steps would remain below comparability under this option, with the bulk of the work force in steps four and five, an average FWS hourly rate premium of 3.7 percent would continue.

- o The budgetary consequences of failing to approve a pay cap grow each year. For example, should the Congress fail to impose a pay cap or amend the FWS pay-setting statutes in fiscal year 1981, a $280 million increase beyond the normal comparability raise would ensue. Because of the compounding effect of past caps on future raises, the Congress would find the cost of failing to cap pay beyond the normal comparability raise surpassing $650 million by fiscal year 1985. The need for including pay caps in appropriation bills every year might be avoided by the enactment of permanent

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4/ Hourly rates for FWS employees are established by surveys in each of the 135 wage areas. Because the hourly wage is set locally, rates for the same grade and step can vary considerably from one area to another. This is not true of GS pay rates.

5/ For instance, DoD analyzed the effect of pay caps in fiscal years 1979 and 1980 for a sample of FWS employees in Grade 10, step two across 40 wage areas. It found the loss in pay due to the caps to be over 6 percent in one-fourth of the areas and under 3 percent in another fourth.

authorizing legislation that would lower the comparability payline to reflect past pay caps. Since federal pay raises remain a politically charged issue, this approach would eliminate the risk of failing to introduce restrictive pay language in some future appropriation bill.

- Probably the most telling criticism of pay caps lies in their rigidity. Pay caps fail to provide the necessary flexibility to adjust compensation in response to local labor market conditions. Thus, they deny the Administration opportunities to develop a compensation system that would enable better management of the FWS work force.

OPTIONS THAT AFFECT BOTH PAY AND BENEFITS

Options IV and V propose to extend the principle of comparability to benefits as well as pay. The Carter Administration asserts that, because benefits now comprise such a large share of compensation, any attempt to improve the comparability process must take account of them. Option IV would adopt the Carter Administration's legislative proposal. Option V would take benefits as well as pay into account and reduce or eliminate the compensation premium by offering continued pay caps.

Option IV: Adopt the Carter Administration's Total Compensation Proposal

This option represents a significant step beyond Option I, since it would incorporate some measure of benefits in the comparability equation. As Chapter III described, the Carter Administration proposes to use surveys to construct standardized national costs of adopting major nonfederal-sector benefit provisions for the federal work force, and compare those results to the costs of current federal benefit provisions. Should the comparison reveal a benefit premium for FWS employees, the Carter Administration would adjust federal pay, using the half-raise mechanism described under Option I. No downward revision in benefit provisions would be permitted in the first five years, and the retirement program would be permanently exempted from any change in provisions.

Significant Savings, but Problems. CBO estimates this option would avoid about $6.3 billion in pay raises over the next five years (Table 14). While it would offer the prospect of saving over 10 percent in FWS payroll costs in the next five years, it might have certain undesirable effects:

- In order to bring total compensation into rough conformance with the nonfederal sector, FWS employee pay would have to lag behind prevailing rates in the nonfederal sector during the first four years (see Table 15). Although CBO estimates that FWS employees earned a 5.8 percent hourly rate premium in 1980, by 1985 their pay would average 5 percent below comparable nonfederal pay rates. Moreover, entry wage rates at step one, now 8 percent below the comparability norm (partly because of pay caps), would fall to 14 percent below prevailing nonfederal hourly rates. This would raise the risk of serious recruiting and retention problems, especially among younger workers for whom benefits such as retirement are less appealing.

- While FWS employees would continue to maintain an advantage in retirement benefits, they would likely fall behind their private-sector counterparts in almost every other major benefit category over the next five years. Of the seven major benefits examined in this report, FWS employees most probably maintain an advantage in only two--retirement and paid sick leave. For the remaining five, they are slightly behind or equal to their private-sector counterparts. The federal retirement program would act as a financial drag on the entire compensation system for FWS employees under the Carter Administration's proposal; pay rates as well as six of the seven major benefits would have to lag behind the private sector to offset the retirement advantage.

- While significant savings could accrue under this proposal during the first five years, FWS employee compensation costs might rise more rapidly than private-sector costs in later years. This is because both pay and benefits (except retirement) would then become subject to adjustment, and the Administration would face significant pressure to restore pay to comparable levels and enhance the benefit provisions.

Why Not Adjust Benefits in the First Five Years? It seems logical to ask why the Congress should not choose to adjust both pay and benefits at the outset, instead of granting benefits a five-year grace period before any downward adjustment. 6/ Over the near term, such an action would effectively eliminate the additional five-year savings of approximately $2 billion resulting from the inclusion of benefits. Savings under this approach would actually be slightly less than under the pay adjustment changes proposed in Option I, unless the Congress decided to reduce retirement benefit payments to current annuitants. Since the more generous federal retirement program constitutes the predominant reason for the net advantage in benefit provisions enjoyed by FWS employees, even a modification in its provisions would not produce any savings in outlays until those now employed reach retirement. Moreover, almost all private-sector retirement programs are noncontributory, and a change in the federal program to make it noncontributory would raise agency retirement costs in the short run.

Option V: Cap Annual Pay Increases at 7.8 Percent Through Fiscal Year 1985 to Offset Total Compensation Premium

This option implicitly recognizes the premium in both pay and benefits, and seeks to offset it through pay caps. A capped raise of 7.8 percent annually was chosen because this equals the estimated average raise that CBO calculates would be granted over the five-year period under Option IV, the Carter Administration's total compensation proposal.

The cumulative five-year savings amount to about $5.1 billion, $1.2 billion less than under Option IV (see Table 14). Larger savings under the Carter Administration's proposal can be attributed to the compounding effect of a sharp decline in pay raises at the outset of the five-year transition.

The criticisms leveled at the use of pay caps under Option III carry even greater weight under this option because it would

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6/ The Administration would retain the authority to improve benefit provisions during the first five years, although such an action would further depress pay levels because of the requirement to bring total compensation into line with the nonfederal sector.

establish a long-term policy of across-the-board limits on pay. As under Option IV, average pay would fall 5 percent below prevailing nonfederal rates by fiscal year 1985, and entry-level step-one rates would slide to 15 percent below the comparability norm. Unless authorizing legislation permanently froze pay levels at the new capped rate each year, the risk of failure to impose a pay cap each year through the appropriations process would carry very significant budgetary consequences; these could jeopardize the entire $5.1 billion in savings generated over the first five years.

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