



PARTNERSHIP FOR PUBLIC SERVICE

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Labor Policy**

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“Are Federal Workers Underpaid?”**

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Chairman Ross, Ranking Member Lynch, and Members of the Subcommittee, thank you for the opportunity to appear before you today. I am Max Stier, President and CEO of the Partnership for Public Service, a nonpartisan, nonprofit organization dedicated to revitalizing the federal civil service and transforming the way government works. I appreciate your invitation to testify on the issue of federal employee pay. How we treat our federal workers and, in particular, the pay and compensation system we use to recruit, motivate, and retain those workers is of tremendous importance to the federal government's ability to function effectively in delivering the benefits and services the American public wants and needs.

Federal employee pay is currently a hotly debated topic with not only conflicting opinions but also, it seems, conflicting data underlying those opinions. We've all seen the reports and opinion pieces that are adamant in their position that federal employees are paid more highly than their private sector counterparts. And, we've seen others that are equally adamant that federal employees are significantly underpaid.

Part of the disagreement stems from differences over what is being compared and how it is compared. Are we comparing like jobs with equal levels of authority, responsibility, and impact? Are we taking into consideration potential differences in the skills, qualifications, and experience of the individuals in those jobs? And then there is the value each side places on federal employee benefits and how those benefits are taken into account when comparing private and public sector pay - including such intangible benefits as job security. The reality of federal pay, however, was perhaps best captured by John O'Leary at the Ash Center of the Harvard Kennedy School in what he called "the Goldilocks truth: Among any group of public employees, some are underpaid, others overpaid, and still others are paid just about right."

One area in which there does seem to be at least more agreement, however, is that the current multiple approaches to setting federal pay and the 1949-era General Schedule (GS) system do not serve well either federal employees or the American public. The GS system is inflexible and it is clearly not market-sensitive. We agree with the 2002 Office of Personnel Management (OPM) White Paper, "A Fresh Start for Federal Pay: The Case for Modernization," which concludes that:

"All the reform efforts of the last 50 years...have left the General Schedule system intact. However, as the President and the Congress work to pursue good government policies and practices that improve management and accountability, OPM believes the time may have come for substantive reform that brings the era of the General Schedule to a close."

Congressional intent with regard to federal pay comparability is clear (5 USC Section 5301(3)) in specifying that "Federal pay rates be comparable with non-federal rates for the

same levels of work within the same local pay area.” In essence, Congress has called for federal pay to be market-sensitive. However, the fact of the matter is that the GS pay system is not responsive to changes in what other major non-federal employers pay to attract and hire the talent they need for specific jobs and occupations. Under the GS pay system, for example, a GS-12 level engineer, budget analyst, HR specialist, attorney, or IT specialist in the San Francisco area are all paid the same regardless of the fact that non-federal employers in that area may pay very different salaries for people in those occupations.

If we rephrase the question posed by the title of this hearing and ask – are federal workers being paid at a rate comparable to their private sector counterparts – the answer, too frequently, is no. I respectfully submit that the real question that needs to be addressed by Congress and the Administration is not whether the laws governing federal pay should be changed but rather how should they be changed. While reaching consensus on the details of new pay legislation will be quite challenging, we suggest starting with the goal of reaching general agreement on the outcomes to be achieved and the core principles to be followed. Here is what the Partnership recommends in that regard.

The Right Goal for the Federal Pay Setting Process:

At the end of the day, the federal pay system should allow the federal government to attract, motivate, and retain highly-qualified workers to carry out the many missions of the federal government. And it should do it as cost-effectively as possible.

We should want the federal government to employ some of the best medical and health professionals in the country to care for the nation’s war fighters and to staff the Centers for Disease Control, the National Institutes of Health, the Public Health Service, and the Indian Health Service. We need to attract individuals who are among the most capable in the country at carrying out the difficult, demanding, and often dangerous jobs involved in keeping the American public safe, for example, the customs and border protection officers and border patrol agencies in the Department of Homeland Security; the criminal investigators in the FBI and Drug Enforcement Administration; and correctional officers in the Bureau of prisons. We need the best scientists and engineers available to lead efforts against bioterrorism and to oversee development of new weapons systems by private sector contractors for the Department of Defense; we should want to attract some of the best legal minds to the Departments of Justice and State, among others. And yes, we should want the federal pay system to allow the federal government to hire and retain individuals who excel at tasks such as air traffic control, tax examination, meat and poultry inspection; and examining and adjudicating claims for veterans benefits, social security, Medicare and Medicaid benefits, and the list goes on.

Whether one wants a bigger or smaller government, an enhanced or a reduced role for government, there should be little disagreement that once we decide as a nation what we want the government to do, it should be able to do those things effectively and efficiently. In order to do this, the country needs talented and motivated people in government and it needs an approach to pay and compensation that enables it to attract, motivate, and retain those employees. Pay reform in government is clearly needed.

I appreciate having this opportunity to outline seven recommended principles to guide federal pay reform, followed by some suggestions for achieving success where previous attempts have failed.

I. Seven Core Principles to Guide Pay Reform

1. Set federal pay based on the market for the talent needed.

The federal government should not and need not pay more for talent than relevant non-federal employers but neither should it lag so far behind that it becomes an employer of last resort for individuals who are among the most capable of doing a particular job. As noted, current law already calls for federal pay to be comparable to that paid by private sector employers when filling comparable jobs and that is the right standard. The problem is that the current GS pay system is not flexible enough for us to meet that standard. For example, in 2010, the average private sector salary for a recent college graduate with a four-year degree was \$48,661. In Washington, DC the GS-system sets the federal starting salary for that graduate at \$34,075 or – for candidates with evidence of superior academic achievement - \$42,209. For those jobs in government which also require a professional certification or license, the gap can be even higher.

At the upper end of the pay schedule, even jobs as demanding as the Secretaries of Defense, Justice, State, and Treasury pay less than \$200,000 a year. We are not suggesting, of course, that pay for top government officials approach anything close to the much higher salaries paid to private sector executives and CEO's. We are merely noting that the intent of current law regarding market-sensitive pay is frequently not achieved. Any change to the current GS pay system must strive for at least greater market-sensitivity than is currently the case.

Market-sensitive pay setting should take into account not only geographic differences driven by cost of living considerations but it should also take into account the differences in pay for different occupations and skill sets that are driven by labor-market supply and demand. Finally, in rethinking the federal approach to pay setting, one should also remember that sometimes the federal government actually sets the market for some jobs that are clearly vital but for which there may be few private-sector counterparts.

Negotiating treaties and agreements with foreign governments, for example, is something that is inherently governmental and it is also clearly in the best interests of the country for the government to be able to attract some of the best minds and most skilled negotiators to that task and to the foreign affairs field generally.

2. Take federal employee benefits into account – carefully.

A number of commentators on the federal pay issue have correctly suggested that we should not ignore the cost – or the value - of federal employee benefits when considering any changes to the federal system. We agree. We must also urge caution in how those benefits are taken into account. Done incorrectly, it can work against the aforementioned overarching goal for federal pay setting. For example, the retirement system for federal employees hired after December 31, 1983 is the Federal Employees Retirement System (FERS). It's a three tiered system consisting of Social Security Benefits and a 401K type plan (Thrift Savings Plan) similar to that available to many private sector employees. The third tier is a defined benefit plan that is increasingly less common. It's been suggested that since the value of the federal retirement system for those who make a full career in the federal government may be greater than that for many private sector employees, that should allow for lower starting salaries in the government compared to the private sector. What that approach overlooks is that job applicants place different values on job benefits vs. salary. For example, a new college graduate, especially one of the many graduates with student loans to pay off, isn't thinking about retirement when looking for their first job – they are more focused on the size of the pay check. A few thousand dollars a year difference in starting salary offers is enough to make a top candidate decide they simply can't afford to take a job in public service.

Similarly, some have expressed a view that the greater “job security” that public service might provide is a benefit that could justify setting federal salaries below those of comparable private sector jobs. First, we're not sure how one accurately measures “job security” – federal employees do get fired for cause or are removed on occasion through no fault of their own (e.g., when a military installation closes). More to the point, however, is that the type of new hires most needed in the government are individuals who are confident, talented, and motivated – and are unlikely to be thinking of job security when deciding which employer to pursue. For example, many of the heavily recruited young professionals with IT or cyber-security skills expect to change jobs and sectors several times throughout their careers. In fact, if a job applicant is motivated primarily by a belief that if they can get a government job from which they can never be fired – they are both wrong and also not the type of employee we want to attract to government in the first place. We agree that the process for removing a poorly performing federal employee may be more complicated than it needs to be, but suggest that Congress and the Administration deal with that directly rather than penalizing the vast majority of well-

performing employees by reducing overall pay.

Finally, we recognize that there are other benefits that are attractive to job candidates and which the taxpayer funds such as health insurance (even here, however, it must be noted that federal employees and retirees pay for approximately 30 percent of the premium). Our point is that if the financial cost of combined salaries and benefits within the government is determined to be too high, cutting base salaries should not automatically be the first option considered to bring costs down.

3. Gather better and more complete pay data.

To enable more market-sensitive pay setting, the federal government will need to invest in more robust data gathering to ensure that federal employee pay is being set based on true “apple to apple” job comparisons. Major private-sector companies have long relied on market surveys to determine what they need to pay to attract the talent they need – and to avoid paying more than they need. The federal government should tap into that data base and/or expand its own data gathering to ensure accurate pay comparisons to the relevant labor market. This should take into account geographic location, industry sector, occupation/skills requirements, and level of responsibility within an occupation. In short, before the federal government charts a new and more market-oriented destination for federal pay-setting, it needs a better understanding of where it currently stands.

When the General Schedule pay system was established in 1949, the emphasis was on internal equity within the federal workforce. The guiding principal was to provide equal pay for substantially equal work. Salary surveys to compare federal pay to comparable positions in the private sector were not conducted. In fact, salaries for all white-collar positions were set on a national scale – employees with the same grade and step were paid the same salary regardless of occupation or location. While this was frequently advantageous for federal employees in low-cost of living areas it was frequently a disadvantage for employees in high-cost of living area where private sector wages were typically higher for comparable jobs. It was only with the passage of the Federal Employees Pay Comparability Act of 1990 that Congress recognized the need to adjust wages based on geographically determined locality wage areas and to gather non-federal private sector salary data to help make that determination. However, pay adjustments in each locality pay area are still based on average differences between federal and non-federal jobs, i.e., the adjustments do not vary by occupation. To be fair to federal employees and to the taxpayers, the government should invest in more robust market-based salary surveys.

4. Assess the quality of new hires.

The true bottom-line test of whether both the federal hiring system and the federal pay system are working well, of course, is whether the individuals being hired are well-qualified and well-matched to the jobs for which they are hired. Even an employer who pays substantially below what other employers in the area are paying for comparable jobs will eventually find individuals willing to take the job. That employer, however, is likely to find that a percentage of those hires are also substantially below the quality of the hires being made by their better paying competitors. Frankly, we believe the work done by the federal government is too important to ever settle for “warm bodies” in place of highly qualified, motivated employees. However, in order to determine if any pay system is enabling the federal government to make the right hires, data should also be gathered on the quality of the hires that are being made and that quality should be tracked over time. This would provide for a much needed feedback loop so that refinements in pay setting might be made, as needed, to ensure that the American public is being served by federal employees who are among the best at doing the jobs for which they are hired.

5. Reform the federal job classification system.

Part and parcel of the GS pay system is the federal job classification system which requires each job to be classified or placed into one of 15 grade levels as well as the associated job family and job series within that family. The job classification component of the GS system has long been criticized as outdated and stultifying. This characterization is reinforced in a 2010 report, “Closing the Gap: Seven Obstacles to a First-Class Federal Workforce,” based on in-depth interviews with 68 federal Chief Human Capital Officers (CHCOs) and other HR Leaders. Those interviews, conducted by the Partnership for Public Service and Grant Thornton, LLP, revealed that the very officials whose job it is to operate the federal classification system find it outdated and in need of an overhaul. According to one CHCO, “The classification system is ancient.” When asked what should be done with the system, another CHCO bluntly suggested “We should just blow it up.”

As alluded to earlier, one problem with the position classification system is that the differences between grade levels are not aligned with the realities of today’s job market. Entry-level grades for many occupations pay below private-sector starting salaries while mid-level grades in the occupation may pay at or even above the market before going below market again at senior pay levels for some jobs. Further, as an employee advances into higher grades, the need to divide all jobs into one of 15 grade levels can lead to seemingly arbitrary distinctions. For example, the difference in statute between a GS-11 and a GS-12 level job is, in part, that the GS-11 position performs work of “marked difficulty and responsibility,” while the GS-12 position performs work of “a very high

order of difficulty and responsibility.” Many respondents said this is a root cause of the problem with the General Schedule. As one CHCO noted, “Market-based pay makes sense, but you run into problems with the classification system.”

6. Ensure the government uses a comprehensive workforce planning effort to identify the talent for which it will compete.

How much one needs to pay an employee to attract, motivate, and retain the talent needed obviously depends on the job that needs to be done and how the work is structured. It should not be assumed, for example, that the right goal is to fill a newly vacated job with someone with the same skills and attributes of the employee who last held that job. In some cases, the best response is to abolish the job and design a new position that is better aligned with a need or work environment that has changed. Or perhaps the job no longer needs to be done. In other cases, an organization may find that while the tasks and responsibilities that need to be assigned to the job may be relatively unchanged, but there is a need to upgrade the knowledge or skills set of the individuals hired to do that job. The point is that when embarking on a pay reform effort, we should also ensure that at the same time the federal government is actively engaged in an on-going, systematic effort to identify the number, quality, and level (entry-level, intermediate, or senior level) of employees needed to carry out its missions as effectively and efficiently as possible. Too often the case is that when one employee departs, there is an automatic refilling of the exact same position, without the benefit of a workforce review.

7. Design a federal pay system that is flexible enough to encompass most, if not all, federal organizations.

Part of the challenge for the federal government currently is that in addition to the GS pay system, there are a variety of other pay systems that have been authorized by Congress for selected federal agencies and agency subcomponents. For example, Congress authorized many of the financial agencies, such as the Securities and Exchange Commission (SEC), the Federal Deposit and Insurance Commission (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Federal Housing Finance Agency (FHFA), to develop pay systems that are more flexible than the GS system and more market-sensitive to enable those agencies to attract and retain needed talent. The Department of Veterans Affairs has a different pay system for its medical and health professionals, the Federal Aviation Administration has a unique pay system, the U.S. foreign service uses a different pay system and federal senior executive service is paid under a non-GS system approach, and then there are other federal organizations that are using pay systems developed under the demonstration project authority authorized under the 1978 Civil Service Reform Act.

Most of the alternative pay systems for white-collar employees in the federal government exist because the GS pay system was determined to be inadequate for those agencies. The existence of these multiple pay systems in the federal government increases the administrative complexity of the federal HR system and also causes internal alignment issues as some agencies are able to pay their employees more than other agencies for the same type of work, e.g., HR and budget specialists. Federal pay reform for the executive branch, therefore, should adopt as a guiding principle the goal of a pay system that is flexible enough and responsive enough to changing market conditions to encompass most, if not all, of the alternative pay systems that currently exist within the executive branch. It would also be suggested that these pay systems be reviewed to determine their success, as it may be possible to adopt what's already in place in other government agencies.

II. How to Move Forward in Creating a More Modern Federal Pay System

Gaining consensus on the need for change to the laws governing federal pay and benefits may be the easy part of the change process. Identifying and gaining agreement on both what should be changed and how the changes should be made are the goals that have eluded would be reformers in this area for more than 50 years now. Please allow me to offer three recommendations for how the federal government might make some progress this time around.

A. Brace yourself – federal pay reform is a heavy lift and will require an effort commensurate to the task.

Having a bi-partisan dialogue about the need for federal pay reform is a good start, but to achieve real results will require very substantial, sustained, and high-level commitment from all the players involved. That also means a substantial commitment of time and resources to design the new systems, to get the buy-in from all stakeholders, to develop viable long-range implementation plans, and to engage in what will have to be a multi-year training and development effort for the federal workforce. Effective pay reform is going to require no less than a fundamental culture change for everyone affected. There will also be transition issues to be addressed to ensure that moving from where the federal government is today to where it needs to go is done as smoothly as possible. For example, should a thorough market survey find that one or more federal occupations in selected geographic areas are being paid above market rates, there will need to be a clear plan to bring pay into alignment while being sensitive to the impact it will have on the employees. Conversely, where there are instances of federal pay that is under market, a plan to correct that situation within a reasonable amount of time will be needed.

B. Engage the best minds and expertise from all key stakeholder groups – including from the private, academic, and non-profit sectors, from political leaders in Congress and the Administration, and from federal employee unions and career managers and executives – and keep the focus on the end goal.

Care will need to be exercised to ensure that pay reform does not become an exercise to push forward an ideological agenda. For example, federal pay and benefits should not be seen as leverage points to increase or decrease the size and role of government in our society – that’s a different debate and one worth having – but it should not drive decision-making about how much to pay or what benefits to provide to those workers hired to ensure that the work of government gets done as effectively as possible. As suggested at the outset of this testimony, this should be about good workforce management. It’s about designing and implementing a federal pay and benefits system that enables the federal government to attract, motivate, and retain highly-qualified workers to carry out the many missions of the federal government. In other words, it’s about ensuring that our country has a world-class government staffed by a world-class workforce. Making sure that all stakeholders are meaningfully engaged in the process and that all are focused on the end goal will substantially increase the chance of success.

C. Don’t reinvent the wheel – look at what has already worked and build on that and gathered lessons learned from what was tried and failed, as well as what’s currently working.

We clearly don’t have to start from scratch in this effort. For example, the purpose the demonstration project authority (5 USC Section 4703) that Congress put into law in 1978 has been constructively used by a variety of federal organizations to experiment with different approaches to federal employee pay and those efforts has been well documented under the requirements of the authority, including instances where the outcomes were clearly superior to the GS system. Other federal organizations that have been authorized by Congress to design and operate unique pay systems, such as a number of federal financial agencies, parts of IRS, NASA, and VA, and the U.S. foreign service and their successes – and some of their less successful experiences – can also inform the debate going forward.

The federal government does not exist in a vacuum. While there are clearly differences between running an effective federal agency and a successful for-profit company in the private sector, for example, there are also similarities. Federal pay reform efforts, therefore, should also be informed by what has worked – or not worked – in the private and non-profit sectors. Finally, a number of state, local, and foreign governments have also developed approaches to pay setting that differ in significant ways from that of the federal government and we should look for the best and the worst (in terms of outcomes)

among them to learn more about this extremely important – and highly controversial – issue.

III. In Conclusion

Steven Covey said, “The main thing is to keep the main thing the main thing.” The main thing for this Subcommittee is a clear understanding of what it takes to build a more market-based pay system for the federal government that neither overpays, nor underpays, the talent needed by the federal government to provide vital benefits and services for the American public.

One way to help avoid distractions will be to keep a clear focus on the end goal of a highly qualified, motivated federal workforce that performs with the excellence that the American people deserve.

We commend the Subcommittee for your effort to learn more about this complex issue and we encourage you to keep at it. Thank you for inviting us to share the views of the Partnership for Public Service. We look forward doing whatever we can to help.