



Measuring Differences Between Federal and Private Pay

November 2002

Note

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Preface

This paper—which was prepared at the request of the Senate Committee on Governmental Affairs, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia—continues the Congressional Budget Office’s (CBO’s) series of assessments of how the federal government’s compensation practices compare with practices in the private sector. The current report, which incorporates data on nonfederal salaries from a commercial source, reviews federal pay setting and examines differences between federal and private salaries. In keeping with CBO’s mandate to provide impartial analysis, the report makes no recommendations.

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Summary and Introduction

The Federal Employees Pay Comparability Act of 1990 (FEPCA) calls for the pay of most federal white-collar employees to rise gradually to the estimated level of nonfederal pay in their local area (*see Box 1*). Under the law, the Bureau of Labor Statistics (BLS) surveys nonfederal organizations to determine the salaries they pay, and the Office of Personnel Management (OPM) uses that information to compare federal and nonfederal salaries and calculate pay raises for federal workers. The federal pay system and those pay comparisons have provoked much controversy. This analysis by the Congressional Budget Office (CBO) presents the results of the pay comparisons that it conducted, which show that federal salaries for selected professional and administrative jobs—but not for technical and clerical employment—lag well behind salaries offered by private firms. Those findings reinforce concerns about the federal pay system raised by OPM and others—specifically, that the system allows no variation in pay raises by occupation.

Concerns About the Federal Pay System

The federal government has not put into place the full raises called for under FEPCA. That decision stems in part from their cost—if fully implemented, the law would require raises averaging about 20 percent—and in part from questions about the federal pay process. Some observers have argued that the law’s focus on achieving comparability only in terms of pay is too narrow. Other analysts have criticized the way the government conducts the pay comparisons that the law requires. In addition, some people have argued that the system fails to provide enough flexibility in setting white-collar workers’ pay.

The Pay System’s Narrow Focus. Controversy surrounds the federal system’s exclusive focus on the comparability of pay, given that federal employees are also entitled to nonpay forms of compensation, such as paid vacations, retirement, and health insurance. In earlier work on the personnel system, CBO found that the value of federal benefits often exceeds the value of private firms’ benefits by as much as 7 percent of pay, offsetting some of the federal disadvantage in salaries.¹ Other analysts also note that the current pay system fails to consider benefits that federal employees may have, such as job security, that are not associated with compensation.

Problems with Pay Comparisons. Federal/nonfederal comparisons, even as estimates of differences in pay alone, have raised many concerns. Among other things, some observers question the government’s practice of comparing federal salaries with salaries for nonfederal jobs that match only descriptions of federal employment—and that may not reflect the actual work performed by federal employees. The continuing use of nonfederal salary data from the mid-1990s has also drawn fire; the government is revising its pay surveys, but the process is lengthy and at times has been controversial (*see Box 2*).

1. See Congressional Budget Office, *Comparing Federal Employee Benefits with Those in the Private Sector* (August 1998). Other CBO reports on federal pay include *Comparing Federal Salaries with Those in the Private Sector* (July 1997) and *Comparing the Pay and Benefits of Federal and Nonfederal Executives* (November 1999).

Box 1.

Federal Pay Setting and Raises

Under the Federal Employees Pay Comparability Act of 1990 (FEPCA), pay for federal white-collar employees was intended to rise to within 5 percent of nonfederal salaries in local areas. Percentage raises are granted in two parts in January of each year. One part, which is the same for all employees, is based on changes in the employment cost index, a measure of salary growth in the private sector. The other part, which is known as the “locality” raise and is of most relevance to this Congressional Budget Office analysis, is based on comparisons of federal and nonfederal salaries in local areas. Thus, raises for federal employees may vary from one locale to another depending on how federal and nonfederal pay compares in each place. The Office of Personnel Management makes the comparisons by using nonfederal salary data—which cover both private firms and state and local governments—that the Bureau of Labor Statistics collects through surveys. The comparisons cover only selected jobs and areas.

In broad outline, locality raises are computed as follows:

- First, the government uses data from salary surveys to compute a single weighted-average nonfederal salary for each local area.
- Second, it computes the amount needed to raise the area’s average federal salary to within 5 percent of the average nonfederal salary.
- Third, it computes the percentage amount needed to close a part of the difference between the average federal and average nonfederal salaries according to a schedule provided in FEPCA.

Long-standing questions about the pay system and about the cost of pay raises have led the federal government to provide salary increases that fall below the full amount called for in FEPCA. Nevertheless, comparability remains a statutory goal of federal pay policy, and each year, the government computes the increases necessary to achieve that goal overall.

Box 2.**Concerns About and Proposed Changes to Federal Pay Surveys**

The salary surveys of nonfederal jobs that the Bureau of Labor Statistics (BLS) has conducted for many years raise a number of difficult issues:¹

- *The Number and Choice of Jobs.* Many people have argued that past federal surveys covered too few jobs. They also maintain that too many of the jobs surveyed were those that are well compensated in the private sector.
- *Job Matching.* Observers have questioned the accuracy of the descriptions of federal work that BLS used in its surveys to find matching nonfederal jobs. Some people believe that the descriptions overstated the duties and responsibilities of federal positions and therefore led to incorrect estimates of federal/nonfederal pay differences.
- *Data Issues.* BLS's surveys in many cases produced data that met the agency's statistical standards for only a portion of the jobs covered. Debate over the years about the bureau's survey process has focused both on the standards and on how to make the surveys more productive so as to fill in missing data. Recently, concerns about pay comparisons have increased because some salary information is so far out of date. (Current comparisons use projections based on nonfederal salaries in the mid-1990s.)

The government is presently engaged in a lengthy (and often controversial) revision of its pay surveys. The changes that have been proposed prompt many of the same questions that earlier surveys have raised. Partly in response to budget constraints, BLS has proposed using data for pay comparisons that are collected as part of ongoing general surveys of white-collar pay; currently, those data support a variety of purposes, including BLS's computing of the employment cost index. But the bureau's sampling methods in those surveys collect information from any job in an establishment, not just jobs that match a description from a predetermined list. As a result, much of the current debate about the new approach centers on how to adapt those surveys to the needs of federal pay setting. Of particular concern are how to ensure that the surveys produce enough data on jobs to allow meaningful pay comparisons, how to fill in missing data, and how to accurately match federal and nonfederal jobs so that comparisons are appropriate.²

1. For more information on concerns about comparability and pay comparisons, see Congressional Budget Office, *Issues in Determining Pay Raises for Federal White-Collar Employees* (May 1995); and Congressional Research Service, memorandum to the Honorable Steny H. Hoyer, "Implementing the Federal Employees Pay Comparability Act" (March 15, 2001).

2. For more information on the proposed changes, see Office of Personnel Management and the President's Pay Agent, *Report on Improving General Schedule Locality Pay Surveys* (May 2001).

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In response, the Congress gave OPM the authority to follow the example of private-sector firms and use commercially available salary data.²

Flexibility. Some observers have criticized the process by which the results of federal pay comparisons, even if accurate, are used to set salaries. In a recent report, OPM argued for more flexibility in the federal pay system, including the ability to vary pay raises by occupation.³ Under current practices, all employees in an area get the same percentage raise, which is based on estimates of what pay comparisons reveal to be the average difference between federal and nonfederal salaries. But data from OPM and others show that federal/nonfederal pay differences vary widely by occupation, and those differences are consistent across geographic areas. In that case, granting the same percentage raise to all employees in an area would mean that some employees might be overpaid, relative to nonfederal workers, and others underpaid. Critics have also argued that the government should more closely follow private firms' practices and give its managers more flexibility to consider employees' performance and other factors when determining pay raises.

The Comparisons in CBO's Analysis

Given the Congress's interest in using commercial pay surveys—which are routinely used by private firms in setting pay—CBO obtained data on private-sector salaries from a well-established source, the Hay Group. In addition, CBO's comparisons of salaries took into account some of the weaknesses of the current approach. For example, the data it used were drawn from more-recent surveys than some of those employed by OPM. CBO's approach also used a method for matching jobs that addressed concerns about BLS's methods in previous surveys.

Nevertheless, most of the available commercial data, as OPM has observed, have considerable limitations. In general, the personnel office has concluded that the data do not meet high enough statistical standards for use in the current system. Pay data from commercial sources are not drawn from a random sample, which is the current BLS approach and helps ensure that the results are representative of the larger population from which

2. The House Committee on Appropriations authorized OPM to set pay in a few localities using data from commercial surveys rather than from BLS. However, OPM found that the private data were not well suited to the task. See House Committee on Appropriations, *Treasury, Postal Service, and General Government Appropriations Bill, 2001*, report to accompany H.R. 4871, Report 106-756 (July 18, 2000), p. 79; and President's Pay Agent, *Using Commercial Salary Surveys and/or BLS Surveys to Establish New Locality Pay Areas* (November 2001).

3. Office of Personnel Management, *A Fresh Start for Federal Pay: The Case for Modernization*, White Paper (April 2002).

the sample comes. Instead, commercial data are drawn largely from the clients of private-sector pay consultants.

A further limitation is that the number of firms, jobs, and localities sampled in commercial surveys is significantly smaller than the number sampled by BLS. The smaller samples provide less precision in pay comparisons. However, private firms using such data may find them adequate because in contrast to the federal system, private pay setting often gives less weight to the data and more weight to factors such as employee performance and trends in job markets.

The data limitations notwithstanding, the results that CBO observed for the jobs and areas it reviewed support the concerns about pay comparisons noted by OPM and others. That is, the federal/nonfederal pay differences varied widely by occupation. Data on most of the selected professional and administrative jobs that CBO reviewed tended to show that federal salaries lagged significantly behind those offered by private firms. However, for the technical and clerical jobs that CBO studied, the data showed either small differences in pay or federal salaries above the levels offered by private firms.

Pay Comparisons Based on Commercial Surveys

In its analysis, CBO compared the salaries of federal General Schedule employees with the pay of nonfederal employees in similar jobs. The General Schedule is the government's largest pay plan, covering 1.2 million workers in a variety of white-collar occupations, such as secretary, engineer, personnel administrator, attorney, and biologist. From the list of occupations that BLS surveyed, CBO selected specific jobs with a large number of federal employees, conducting 253 separate comparisons involving 18 jobs and 17 localities.⁴ Recent OPM comparisons cover over 100 jobs and 32 localities. (The jobs CBO reviewed are shown in *Table 1* on page 7; *Box 3* lists the localities.)

The federal salary for each job and geographic area came from the Office of Personnel Management. In total, about 50,000 federal employees work in the jobs and areas covered by CBO's analysis. The Hay Group, a personnel management consultant, provided the private-sector salaries; data were drawn from about 500 establishments, mostly in transportation, chemical, metal, and other goods-producing industries. Most of the firms were clients of the Hay Group. Little information from state and local governments was included in the consultant's data.

4. The number of areas and jobs would permit a maximum of 306 comparisons (18 times 17), but data were not available for each job and area. Most of the missing salaries were for jobs in technical and clerical occupations.

Box 3.**Geographic Areas Covered by CBO's Analysis**

For its pay comparisons, the Congressional Budget Office reviewed federal jobs in the following localities:

Atlanta, Georgia	Kansas City, Missouri
Baltimore, Maryland	Los Angeles, California
Boston, Massachusetts	Milwaukee, Wisconsin
Chicago, Illinois	New York, New York
Dallas/Fort Worth, Texas	Philadelphia, Pennsylvania
Dayton, Ohio	San Francisco/Oakland, California
Denver/Colorado Springs, Colorado	Seattle/Tacoma, Washington
Detroit, Michigan	Washington, D.C.
Houston, Texas	

How Jobs Were Compared

The Hay Group provided private salaries for jobs that matched corresponding federal employment on the basis of *evaluations* of the actual work that employees performed (see below). By contrast, the government's pay comparisons use nonfederal salary data for jobs that match *descriptions* of federal work, which some analysts believe are inaccurate. If descriptions are inaccurate, the jobs in pay comparisons will be mismatched, and the results of the process will be misleading. CBO's approach attempts to avoid such problems by considering the actual work that is performed.

The Hay Group's evaluations of federal work were conducted in five agencies in the Washington, D.C., area: the Office of Personnel Management, the Internal Revenue Service, the Department of Defense, the Securities and Exchange Commission, and the Department of Justice (*see Table 1*). The consultant assessed the work of three or four federal employees in each of the 18 jobs, interviewing incumbents about their responsibilities; the knowledge required to perform their job; the types of interactions, both inside and outside the agency, that their job entailed; and the impact of their work on the agency's decisionmaking. It scored the jobs on the basis of their content so that they could be ranked. For example, an attorney doing work that required mastering specialized information acquired through considerable experience and training would rank higher than an attorney doing work that required only basic knowledge of the law.

After completing its evaluations of federal jobs, the Hay Group provided CBO with the average private salary in each locality for jobs whose work ranked similarly to that performed by federal employees in each of the occupations being studied. If Hay's database had fewer than five private salaries for a job in an area, it reported no average. CBO then

Table 1.**Jobs Covered by CBO's Analysis**

Occupation/GS Level	Occupational Group	Agency ^a
Clerk/3	Clerical	Office of Personnel Management
Clerk/4	Clerical	Office of Personnel Management
Secretary/5	Clerical	Office of Personnel Management
Secretary/6	Clerical	Office of Personnel Management
Secretary/7	Clerical	Office of Personnel Management
Secretary/8	Clerical	Office of Personnel Management
Computer Operator/6	Technical	Office of Personnel Management
Computer Operator/7	Technical	Internal Revenue Service
Computer Specialist/13	Administrative	Department of Defense
Personnel Specialist/14	Administrative	Department of Defense
Accountant/7	Professional	Office of Personnel Management
Accountant/9	Professional	Office of Personnel Management
Accountant/12	Professional	Internal Revenue Service
Attorney/11	Professional	Internal Revenue Service
Attorney/12	Professional	Internal Revenue Service
Attorney/13	Professional	Internal Revenue Service
Attorney/14	Professional	Securities and Exchange Commission; Department of Justice
Attorney/15	Professional	Securities and Exchange Commission; Department of Justice

Source: Congressional Budget Office.

Note: GS = General Schedule.

a. Data on the listed jobs were gathered by the Hay Group, a personnel management consulting firm, in the agencies' Washington area offices.

used a method consistent with the government's approach to calculate—for each job and area—the amount by which federal salaries would have to rise (a positive difference) or fall (a negative difference) to match private-sector pay. All of the differences calculated were for 2000.

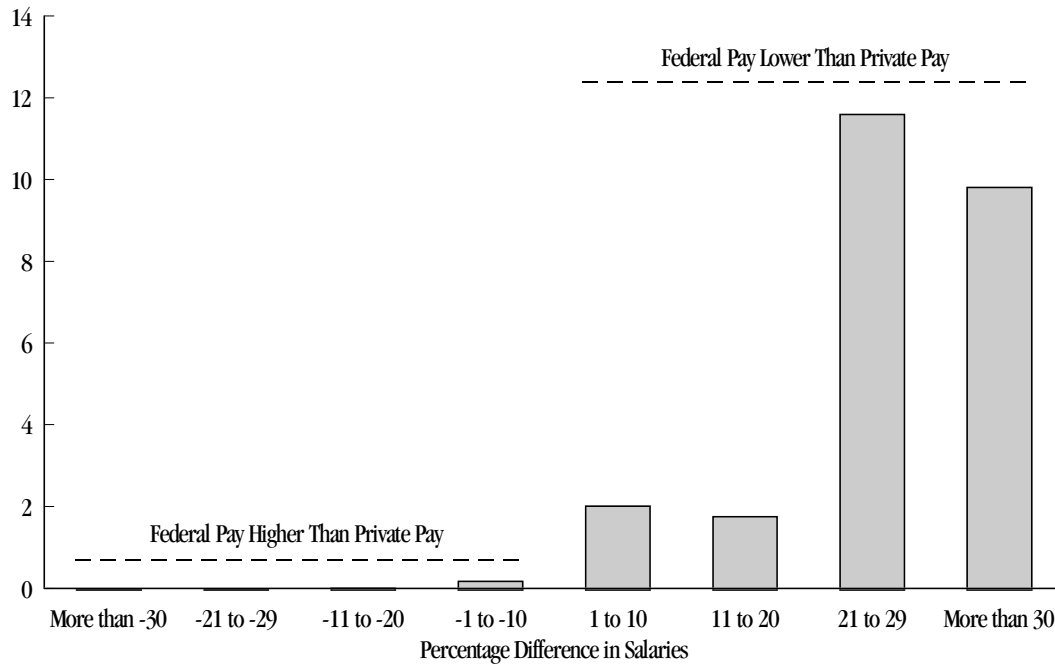
Results

The data from the Hay Group indicated wide variation in federal/private-sector pay differences by occupation. For example, federal employees in selected professional and

Figure 1.

Estimated Distribution of Federal/Private Salary Differences for Selected Professional and Administrative Occupations, 2000

(Thousands of federal employees)



Source: Congressional Budget Office based on data provided by the Hay Group and the Office of Personnel Management.

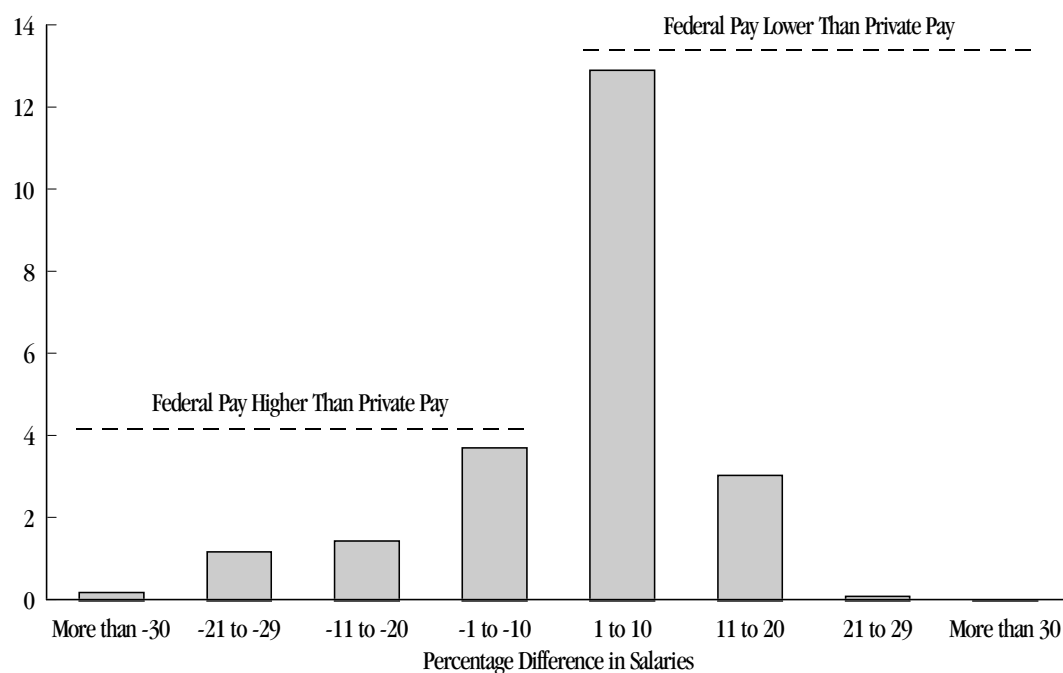
administrative occupations tended to hold jobs that paid less than comparable jobs in private firms (*see Figure 1*). For about 85 percent of those federal employees, their pay lagged behind private salaries by more than 20 percent. By contrast, about 30 percent of federal employees in selected technical and clerical occupations held jobs with salaries above those paid by private firms (*see Figure 2*). In general, jobs in technical and clerical occupations showed much smaller differences in pay between federal and private workers. About three-quarters of federal employees in this analysis held jobs in those occupations with salaries that were within 10 percent, plus or minus, of private levels.

The results of CBO's analysis are on a par with those reported by OPM. For example, OPM reported that in 2000, salaries for federal professionals lagged behind private pay by an average of 32 percent. The comparable figure for jobs in clerical occupations was only about 7 percent.

Figure 2.

Estimated Distribution of Federal/Private Salary Differences for Selected Technical and Clerical Occupations, 2000

(Thousands of federal employees)



Source: Congressional Budget Office based on data provided by the Hay Group and the Office of Personnel Management.

Conclusion

Pay comparisons are complex undertakings, and the federal approach raises many difficult issues. In the same way, the comparisons that CBO presents here have their limitations—in particular, because they cover only selected jobs and localities. The results of both comparison processes, however, reinforce a long-standing concern about the federal pay system: it allows no variation in pay raises by occupation, with the potential result that employees in professional and administrative occupations may receive smaller pay raises than those needed to match private salaries for similar jobs, and employees in technical and clerical occupations may receive pay raises that are higher than those needed to match salaries in the private sector.

Thus, even if the current system was fully implemented as envisioned in FEPCA, it would fail in its aim to provide federal pay that was comparable to pay for nonfederal jobs. Granting the same percentage raise to all workers in an area will result in above-market salaries for some occupational groups and below-market salaries for others. Moreover,

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the jobs that show the greatest pay disadvantage for federal workers make up an increasing share of the federal workforce. From 1985 through 2000, for example, federal employment in professional and administrative occupations rose from 41 percent to 56 percent of total federal civilian employment.⁵

The consequences for the federal government of low pay for its employees may vary across jobs and agencies. In some cases, generous employee benefits, job security, and other conditions of federal employment may compensate for relatively lower salaries. In other cases, federal managers may be able to manipulate the pay grades of some jobs to obtain higher salaries for workers.⁶ Some evidence also suggests that relatively low federal salaries may result in an adjustment in the employees attracted to federal service, with the federal government on occasion having to accept employees with less experience and training than private firms would.⁷

5. See Congressional Budget Office, *Changes in Federal Civilian Employment: An Update* (May 2001).

6. Audits of about 3,500 jobs conducted by the Army and Navy for the years 1989 through 1992 show that 2 percent of positions had pay grades higher than warranted by the work involved and 1.3 percent had pay grades lower than warranted. Those percentages are much lower than the figures in a 1983 study by OPM, which estimated that 14.3 percent of the General Schedule workforce was overgraded and 1.5 percent was undergraded.

7. For further discussion of that issue, see Congressional Budget Office, *Comparing Federal Salaries with Those in the Private Sector*.



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