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Executive Compensation in the Federal Government

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EXECUTIVE COMPENSATION IN THE
FEDERAL GOVERNMENT

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PREFACE

Compensation of the civilian work force of the federal government is a subject of major budgetary significance with a current annual civilian payroll of about \$42.5 billion. The Congressional Budget Office has devoted continuing analytic effort to developments in federal pay and benefits and their effect on the Congressional budgetary process.

While executive compensation represents a relatively small portion of the total payroll it has important implications for the management of federal programs. There is considerable interest in the subject at this time because of the recently published report of the third quadrennial Commission on Executive, Legislative, and Judicial Salaries. The President's recommendations to be submitted with his budget for fiscal year 1978 will become effective thirty days thereafter unless otherwise acted on by the Congress. The purpose of this paper is to provide Members of the Congress and their staffs with some background material on the nature and scope of executive compensation in the federal government.

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SUMMARY

The President's budget for fiscal year 1978 will include recommendations for increasing the salaries of senior officials of the executive branch, Members of Congress, and federal judges. The President's recommendations, based on his consideration of the December 1976 report of the third quadrennial Commission on Executive, Legislative, and Judicial Salaries, will affect the pay of about 23,500 federal officials:

- o 2,350 top executives directly within the purview of the quadrennial Commission's review.
- o 9,050 senior rank officials of all three branches in "supergrade" positions (grades 16, 17, and 18 of the General Schedule or equivalents in other pay systems). 1/
- o 12,100 employees below the supergrade category (step 7 and above of grade 15), whose salaries, while not under the Executive Schedule, are not to exceed Level V of the Executive Schedule. 2/

Rates of pay for federal executives are now determined under two basically different systems. The level of compensation for the top echelon-- Executive Schedule, Members of Congress, and judges --is reviewed once every four years by a commission

1/ General and flag rank officers of the uniformed services are not included in these figures.

2/ The October 1976 pay adjustment increased the maximum pay under the General Schedule and related schedules to \$39,600 even though Executive Level V remained at \$37,800. However, this situation will exist only until the next annual adjustment unless some further action is taken.

appointed specifically for the purpose. About 20 percent of those receiving executive compensation come within the purview of the Commission on Executive, Legislative, and Judicial Salaries.

Pay for the other 80 percent in supergrade or equivalent positions is determined by procedures under the General Schedule--either directly or indirectly through other pay schedules and positions which are linked to it. In principle, General Schedule pay is designed to be comparable with private enterprise rates and to maintain distinctions between rates based on differences in work and performance. There is no similar requirement for the salaries set under the "Quadrennial Review."

Since February 1969 officials within the direct purview of the quadrennial Commission have received only one pay adjustment of 5 percent in October 1975. During the same period pay for most of the federal work force increased by 65.4 percent and the Consumer Price Index has risen by 53.3 percent. The restraining effect of Executive Schedule pay on supergrade pay has resulted in a phenomenon referred to as "salary compression." More than 20,000 employees received the same salary of \$39,600 despite differences in levels of work and responsibility among them.

Recent studies indicate that the compensation of federal executives needs to be increased if the government is to be competitive with non-federal employees. It is relatively easy to identify individual cases where inadequate compensation made it difficult to recruit talented individuals for top level positions or resulted in the loss of senior personnel through resignation and early retirement. However, the longer term implications of the current situation are difficult to assess. Quantifiable data, particularly regarding supergrades, is very limited.

The President's recommendations will become effective thirty days after transmittal of the budget unless otherwise acted on by the Congress. Within the thirty-day period, the Congress may:

- o Disapprove all or part of the President's recommendations by resolution of either House; and/or
- o Enact legislation which establishes alternative rates of pay for all or part of the President's recommendations.

Compared to the overall federal civilian payroll of \$42.5 billion, the differences in the costs of various approaches to adjusting executive pay are relatively small. The total annual cost of increasing executive, legislative, and judicial salaries could range between \$61 million and \$150 million--depending on the specific rates which might be adopted. At least 60 percent of the cost increase would be for the 20,800 executives and other employees whose salaries are now frozen at \$39,600 by past linkage to the Executive Schedule. 3/

Congress has several alternatives in changing executive, legislative, and judicial salaries. The annual cost impact may be illustrated under three general options--others are possible, including no increase at all.

Option 1: Follow the past Congressional practice of linking salary increases to annual General Schedule adjustments (including the 4.83 percent for fiscal year 1977). This would increase the Executive Level V salary from \$37,800 to \$41,800. Total annual cost for all positions affected would be \$61 million.

3/ For the past two years, supergrade employees have received salary adjustments equal to the average percentage increase for all General Schedule employees. However, the level of the supergrade salaries remains below that specified in the General Schedule as a result of historical linkage to Executive Level V positions.

Option 2: Adopt the recommendations of the third quadrennial Commission on Executive, Legislative, and Judicial Salaries. This would increase the Executive Level V salary to \$49,000. Total annual cost for all positions affected would be \$130 million.

Option 3: Adopt the recommendations of the President's Panel on Federal Compensation (December 1975) by allowing the supergrade salaries to increase to the comparability rates currently specified in the General Schedule with corresponding increases in other top level positions. 4/ This would increase Executive Level V pay to \$55,200. Total annual cost for all positions affected would be \$150 million.

4/ Assumes that pay rates related to the General Schedule would be increased to comparable levels and that the pay of Senators, Congressmen, Judges, and executive branch officials under the Executive Schedule would be increased to essentially restore the 1968 relationship to the rate for GS-18 under the General Schedule.

CHAPTER I EXECUTIVES IN THE FEDERAL GOVERNMENT--
 THE UNIVERSE

Senior civilian management of the federal government consists of about 11,400 people. There are different ways to define an "executive" in the federal government. For purposes of the analysis in this paper, "executive compensation" will refer to the pay and benefits of: (1) Executive Schedule officials and supergrades in the executive branch, (2) Members of Congress and senior legislative employees receiving compensation at Executive Schedule and supergrade equivalents, and (3) Judges and senior judicial staff receiving compensation at Executive Schedule and supergrade equivalents. Those receiving executive compensation represent less than one-half of 1 percent of the total federal civilian work force of about 2.8 million persons. Their pay and benefits amount to approximately \$490 million or about 1.5 percent of the amount for the total civilian work force.

As used in this paper, "executive compensation" does not include the salaries of General Schedule employees below the supergrades. However, some 12,100 civil servants in Grade 15 (step 7 and above) or the equivalent will also be affected by Congressional action on executive pay. As explained more fully in the next chapter, they have "asterisk" or "paper" salaries higher than their actual salaries, and revision of the Executive Schedule will allow their actual salaries to rise.

THE EXECUTIVE BRANCH

About 78 percent of the federal officials receiving executive compensation are employed in the executive branch. Of these 9,000 officials, about 850 are compensated at rates specified in a statutory "Executive Schedule," which is composed

of five levels (I through V in descending order of pay). 1/ Most of these officials are Presidential appointees who provide political leadership to executive departments and independent agencies. Executive Schedule positions include Cabinet Secretaries, Assistant Secretaries, and Administrators of major independent agencies. As of October 1, 1976, the following salaries were in effect:

1/ To be precise, 505 officials are paid under the Executive Schedule, and 339 are paid equivalent salaries under other pay systems. See Table 2.

TABLE 1. SELECTED EXECUTIVE COMPENSATION POSITIONS

Position	Salary
President of the United States	\$200,000, plus \$50,000 personal expense allowance, plus \$40,000 travel allowance
Vice President of the United States	\$65,000, plus \$10,000 expense allowance
Chief Justice of the United States	
Speaker of the House of Representatives	
President pro tempore of the Senate	\$52,000
Majority and Minority Leadership of the Senate and House of Representatives	
Cabinet Officers, Associate Justices of the Supreme Court, Postmaster General, and Special Representative for Trade Negotiations	Level I, \$63,000
Deputy Secretaries of Defense and State, Deputy Attorney General, Senators and Congressmen, Secretaries of the Military Departments, Administrators of major independent agencies, Comptroller General, and Judges of U.S. Courts of Appeal, U.S. Court of Claims, and U.S. Court of Customs and Patent Appeals	Level II, \$44,600
Under Secretaries of Cabinet Departments, Deputy Administrators of major independent agencies, Chairmen of Regulatory Commissions, and Judges of the U.S. District Courts and U.S. Customs Court	Level III, \$42,000
Assistant Secretaries of Cabinet Departments and equivalent positions in major independent agencies	Level IV, \$39,900
Chiefs of major bureaus	Level V, \$37,800

The remaining 8,100 senior officials belong primarily to the category known as "supergrades" in the classified civil service (grades 16, 17, and 18 of the General Schedule) or are counterparts in other pay systems; e.g., Postal Service, Foreign Service, and the Veterans Administration's Department of Medicine and Surgery. About two-thirds of the group have career or tenured status while the other one-third serve at the pleasure of the appointing official. 2/

2/ For further discussion of federal executives, see U.S. Civil Service Commission, Executive Manpower in the Federal Service, September 1975.

TABLE 2. DISTRIBUTION OF EXECUTIVE COMPENSATION EMPLOYEES IN THE EXECUTIVE BRANCH a/

<u>Executive Level b/</u>		<u>Number c/</u>			Grand Total:
Salary:	Title 5:	Equivalentents:	Total:		
I	\$63,000	12	1	13	
II	44,600	22	47	69	
III	42,000	65	51	116	
IV	39,900	267	113	380	
V	37,800	<u>139</u>	<u>127</u>	<u>266</u>	
		505	339	844	844
<u>Supergrades</u>		<u>Number d/</u>			
Salary:	General Schedule:	Equivalentents:	Total:		
GS-18	\$39,600	327	681	1,008	
GS-17	39,600	927	530	1,457	
GS-16	39,600	<u>3,207</u>	<u>2,438</u>	<u>5,645</u>	
		4,461	3,649	8,110	<u>8,110</u>
					<u>8,954</u>

<u>Supergrade Equivalentents Distributed as Follows:</u>	<u>Number</u>
Postal Service <u>e/</u>	160
Scientific and Technical	1,883
Foreign Service	1,336
Veterans Administration	54
Miscellaneous	<u>216</u>
Total	<u>3,649</u>

a/ Data derived from information in the Report of the Commission on Executive, Legislative, and Judicial Salaries (December 1976).

b/ Excludes 11 executive level positions in legislative branch agencies.

c/ Executive level officials listed by position in Title 5 of the U.S. Code and equivalent positions authorized by other statutes.

d/ Supergrade officials paid under the General Schedule and equivalent salary levels in other pay systems.

e/ The Commission on Executive, Legislative, and Judicial Salaries did not consider U.S. Postal Service compensation which is also excluded from CBO cost estimates. Salaries for Postal Service executives range from \$32,800 to \$59,450.

THE LEGISLATIVE BRANCH

The top "executive" level in the legislative branch represents about 12 percent of all federal officials receiving executive compensation. This level includes 535 Senators and Representatives and 4 nonvoting Delegates and Commissioners. In addition, about 800 staff members in the legislative branch draw compensation equivalent to Executive Schedule and supergrade pay levels. Most of these employees either are on the staffs of the individual Senators and Representatives or are senior staff directors of Congressional committees and subcommittees. The remainder are found in the legislative agencies-- General Accounting Office, Library of Congress, Government Printing Office, Architect of the Capitol, Office of Technology Assessment, and the Congressional Budget Office.

TABLE 3. DISTRIBUTION OF EXECUTIVE COMPENSATION POSITIONS IN THE LEGISLATIVE BRANCH

Title	Salary <u>a/</u>	Number
Senators and Representatives	\$44,600	535
Delegates and Commissioners	\$44,600	4
Congressional Staff <u>b/</u>	\$39,600	565
Legislative Agencies <u>c/</u>	\$39,600	235
		<u>1,339</u>

a/ Most positions.

b/ Estimates from Senate and House disbursing and finance offices.

c/ Estimate includes 23 executive level, 180 general schedule, and 32 positions in other pay systems.

THE JUDICIAL BRANCH

The judicial branch has 10 percent of the federal officials receiving executive compensation. Those receiving salaries at the supergrade equivalent and higher include 1,105 judges (of whom 200 are full-time bankruptcy judges and 167 are retired) and 35 senior staff employees.

TABLE 4. DISTRIBUTION OF EXECUTIVE COMPENSATION POSITIONS IN THE JUDICIAL BRANCH a/

	Salary	Number
Chief Justice	\$65,000	1
Associate Justices	63,000	8
Judges:		
Courts of Appeals	44,600	97
U.S. District Courts	42,000	398
Bankruptcy (full-time)	37,800	200
U.S. Magistrates	37,800	150
Other Courts <u>b/</u>	42,000-44,600	<u>251</u>
Subtotal		1,105
Staff	39,600 <u>c/</u>	<u>35</u> <u>d/</u>
		1,140

a/ Data derived from information in the Report of the Commission on Executive, Legislative, and Judicial Salaries (December 1976) plus 26 judgeships which currently are vacant.

b/ Includes Court of Claims, Court of Customs and Patent Appeals, Customs Court, part-time bankruptcy judges, trial judges of the Court of Claims, and 167 retired judges.

c/ Most positions.

d/ Reported by the Administrative Office of the United States Courts.

Two distinct groups of federal executives receive executive compensation:

- o Executives who come within the direct purview of the Commission on Executive, Legislative, and Judicial Salaries (Quadrennial Review); and
- o Executives who hold supergrade positions under the General Schedule or other authorities.

Both the basis for and the recent history of setting pay for these two groups differ significantly. Salaries of employees under the quadrennial review system are not required to be comparable with private sector salaries. Supergrade salaries, on the other hand, are intended to follow the principle of comparability. Since 1969, there has been but one adjustment of the salaries under quadrennial review, but the supergrade salaries have been adjusted annually, at least on paper. This difference in recent history has produced a number of anomalies to be discussed later in this chapter.

QUADRENNIAL REVIEW

The level of compensation for the top echelon-- Executive Schedule, Members of Congress, and Judges-- is reviewed once every four years by a commission specifically appointed for the purpose. About 2,400 positions--about 20 percent of those receiving executive compensation--come within the direct purview of the Commission on Executive, Legislative, and Judicial Salaries. In view of the unique nature of positions within its purview, it has wide latitude in developing recommendations to the President for "appropriate (emphasis added) pay levels and relationships" among respective offices and positions,

including the relationship of such pay to classification and pay rates in the General Schedule. 1/

After receiving the Commission's recommendations, the President must include his proposals for executive, legislative, and judicial pay in the next budget to be transmitted to the Congress. These proposals take effect after 30 days unless either House disapproves them, in whole or in part, or the Congress enacts alternative rates.

The President's recommendations for the first quadrennial review were below the levels recommended by the Commission. (See Table 5.) Congress adopted the President's recommendations in 1969. 2/

TABLE 5. THE FIRST QUADRENNIAL REVIEW

	1968 Actual	1969	
		Commission Recommendation	Proposed/ Enacted
Level I	\$35,000	\$60,000	\$60,000
Level II	30,000	50,000	42,500
Level III	29,500	46,000	40,000
Level IV	28,750	43,000	38,000
Level V	28,000	40,000	36,000
Members of Congress	30,000	50,000	42,500
Associate Justices	39,500	65,000	60,000
Appellate Judges	33,000	50,000	42,500
District Judges	30,000	47,500	40,000

1/ Public Law 90-206, (December 16, 1967).

2/ Report of the Commission on Executive, Legislative, and Judicial Salaries, (December 1968), p. 11-14.

The subsequent history of the quadrennial review process can be briefly summarized:

- o In February 1974, the President slightly modified the total increases recommended by the second quadrennial commission but proposed that they be phased in over a three year period. Congress disapproved the President's recommendation, and thus the rates remained at the March 1969 level.
- o In 1975, the Congress enacted legislation to increase the rates of pay each year for all positions subject to the quadrennial review procedure by the same percentage as the average General Schedule (GS) pay comparability adjustment. 3/ The 1975 adjustment of 5 percent thus became effective in October.
- o In September 1976, the Congress included language in the Legislative Branch Appropriation Act 4/ which bars payment of the October 1976 General Schedule pay comparability adjustment of 4.83 percent to officials covered by the quadrennial review process.
- o In December 1976, the third quadrennial commission submitted its recommendations to the President.

3/ Public Law 94-82, (August 9, 1975).

4/ Public Law 94-440, (October 1, 1976).

A comparison of selected salaries under these various actions follows:

TABLE 6. SECOND AND THIRD QUADRENNIAL REVIEWS

	Second Quadrennial Review 1974 Proposed <u>a/</u>	Current Salaries 1975 <u>b/</u>	Third Quadrennial Review Recommen- dations 1976 <u>c/</u>
Level I	\$70,000	\$63,000	\$67,000
Level II	53,000	44,000	60,000
Level III	50,000	42,000	57,000
Level IV	47,500	39,000	53,000
Level V	45,000	37,800	49,000
Members of Congress	53,000	44,600	57,500
Associate Justices	70,000	63,000	77,500
Appellate Judges	53,000	44,600	65,000
District Judges	50,000	42,000	62,000
Bankruptcy Judges (full-time)	45,000	37,800	53,000

a/ Report of the Commission on Executive, Legislative, and Judicial Salaries (June 1973), pp. 13-14.

b/ Salaries enacted in 1969 increased by 5 percent (rounded to nearest \$100).

c/ The Report of the Commission on Executive, Legislative, and Judicial Salaries (December 1976), Part II, Table 2.

As can be seen from this brief summary, officials within the purview of the quadrennial commission have received only one pay adjustment since February 1969, a 5 percent increase in October 1975. That pay increase was coincident with the General Schedule pay comparability adjustment, and it was not a result of the quadrennial review process. On the contrary, since 1969, Congress has not approved any pay increases recommended by the quadrennial review commission.

During this same seven year period, pay for most of the federal work force has been adjusted annually and has risen 65.4 percent. The Consumer Price Index has risen 53.3 percent.

GENERAL SCHEDULE SUPERGRADES

Pay for nearly 80 percent of those receiving executive compensation is determined by procedures under the General Schedule--either directly through the General Schedule or indirectly through other pay schedules and positions linked to it.

In principle, General Schedule pay is designed to be comparable with private enterprise rates and to maintain distinctions between rates based on differences in work and performance. For grades GS-1 through GS-15 of the General Schedule, the rates are developed from an annual survey of similar jobs in the private sector--the National Survey of Professional, Administrative, Technical, and Clerical Pay (PATC). However, the pay rates at the supergrade level (grades GS-16, 17, and 18) are not based on a survey of similar jobs in the private sector; they are an extension of the salary differentials that exist at the GS-14 and 15 levels.

Pay Relationships

In the past, the Executive Level V salary has served as a statutory "lid" on pay to General Schedule employees. That is, no General Schedule employee was to receive a salary higher than that set for Executive Level V. The October 1976 General Schedule adjustment modified this provision by permitting the Level V lid to be exceeded by 4.83 percent, the average increase for all General Schedule employees, bringing the new General Schedule maximum to \$39,600. Both the original policy and the modification have produced anomalies in the overall pay structure.

Because of the Executive Level V lid, the actual salaries of supergrades under the General Schedule and related authorities have been frozen below those generated by the schedule. While supergrade pay has been adjusted on paper, actual salaries for supergrades have been restricted, currently to \$39,600. As of October 1976, these unrealized rates, referred to as "asterisk" or "paper" rates, are:

TABLE 7. RATE RANGE

Steps:	1	2	3	4	5	6	7	8	9
Grade 16	39,629*	40,950*	42,271*	43,592*	44,913*	46,234*	47,555*	48,876*	50,197*
Grade 17	46,423*	47,970*	49,517*	51,064*	52,611*				
Grade 18	54,410*								

* Salaries limited to \$39,600.

A substantial difference has developed between the existing pay of supergrades and the General Schedule rates that would be in effect if there were no linkage to the Executive Schedule or other limitations. The unrealized pay ranges from an average of \$5,300 for GS-16's to \$14,800 for those at the GS-18 level.

TABLE 8. DIFFERENCES BETWEEN RATES ON THE GENERAL SCHEDULE AND ACTUAL SUPERGRADE SALARIES

	GS-16	GS-17	GS-18	Weighted Average <u>b/</u>
General Schedule				
Average Salary <u>a/</u>	44,900	50,500	54,400	46,800
Existing Pay	<u>39,600</u>	<u>39,600</u>	<u>39,600</u>	<u>39,600</u>
Difference	5,300	10,900	14,800	7,200

a/ Average salary (rounded to nearest \$100) derived by number of employees at each step in each respective grade.

b/ Weighted average reflects the distribution of employees among grades 16, 17, and 18.

These differences between General Schedule rates and actual salaries underscore the point that, in practice, the Executive Schedule effectively determines the rates of pay for executives under the General Schedule and related authorities.

A further anomaly has resulted from the 1976 General Schedule comparability adjustment. Because the average increase under this adjustment was not given to most employees within the purview of the quadrennial commission, more than 270 officials at Executive Level V or equivalent still receive a salary of \$37,800, while nearly 8,700 lower-ranked supergrade executives now receive \$39,600.

Salary Compression

As pay under the General Schedule and related authorities has increased each year, the number of executives and other employees at the "asterisk" or "paper" rates has increased until it now exceeds over 20,000. This figure includes about 8,700 executives at the supergrade level and 12,100 other employees in GS grade 15 (step 7 or above) or equivalent. All of these employees receive the same salary of \$39,600 despite differences in levels of work and responsibility. This phenomenon is often referred to as "salary compression."

TOTAL COMPENSATION

A discussion of executive compensation should address benefits as well as pay. The recent President's Panel on Federal Compensation recommended that the principle of General Schedule pay comparability with the private sector should include consideration of benefits as well as pay. ^{5/} The report of the third quadrennial commission also recommended certain changes

5/ Report to the President of the President's Panel on Federal Compensation, (December 1975), p. 7.

in the benefits for top level officials; e.g., retirement, reimbursement for relocation costs, and allowance for maintaining two residences.

In the federal government, the nature of "fringe" benefits for executives is essentially the same as that provided all employees--retirement, vacations, sick leave, and contributions toward group health and life insurance. Top officials receive other "perquisites" of office (e.g., the use of automobiles for official business), just as the top officials of corporations receive additional forms of compensation beyond the standard benefits package.

Retirement

Members of the executive compensation group are included under the Civil Service Retirement System with the following major exclusions: The President, Judges of the United States appointed for life, and certain executives subject to another Government retirement system.

The principal features of the retirement system include:

- o Employee contribution of 7 percent of salary supplemented by agency contributions and appropriations.
- o Compulsory retirement at age 70 with 15 years service.
- o Retirement with full annuity at age 55, with at least 30 years of service; at age 60 with at least 20 years of service; or at age 62 with at least 5 years of service.
- o Total disability benefits payable after 5 years of service.
- o Entitlement to immediate but not full annuity benefits after involuntary separation without cause after minimum of 25 years of service at any age, or 20 years if age 50 or over.

- o Survivor annuity benefits to widows or widowers and dependent children of employees.
- o Crediting of military service and unused sick leave.
- o Automatic cost-of-living increases twice a year.
- o Maximum annuity not to exceed 80 percent of salary (after 41 to 42 years of service).

Employees serving fewer than five years receive no vested interest in federal retirement. However, deductions of 7 percent are withheld from pay and refunded without interest if there is less than one year served and with 3 percent interest after one to five years service. These vesting and refund provisions apply to all employees, but they are of special concern to many noncareer executives who serve short-term appointments.

Members of Congress and employees of the Congress who elect to belong to the Civil Service Retirement Systems contribute at higher rates and receive annuities based on somewhat different formulas.

Vacation and Sick Leave (Civil Service)

Vacation (annual) leave is earned at the rate of 26 days per year for employees with 15 years or more service, 20 days for employees with more than 3 but fewer than 15 years of service, and 13 days for employees with fewer than 3 years of service. Up to 30 days of annual leave may be accumulated and carried over from one year to the next.

Sick leave is earned at the rate of 13 days per year by all full-time employees and may be accumulated without limitation.

Health Insurance

Almost all employees may participate in the Federal Employees Health Benefits Program, providing a choice

of over 50 different plans. The program is a voluntary one and is financed by employee and government contributions. The government pays 60 percent of the average "high option" premium of six large and representative plans, not to exceed 75 percent of any individual's total premium. Coverage may continue after retirement after a minimum of 12 years of service or for disability.

Life Insurance

A group life insurance program providing term insurance is available to almost all employees. The cost of the insurance is shared--one-third by the government and two-thirds by the employee. The amount of insurance available equals the employee's annual pay rounded to the next higher thousand plus \$2,000, with a minimum of \$10,000 and a maximum of \$49,000. Thus, a supergrade with an annual salary of \$39,600 would be covered by \$42,000 in term life insurance.

Relocation Costs

Except for certain "critical skill" workers, employees receive no reimbursement for relocation costs associated with their first appointment to federal service.

CHAPTER III EXECUTIVE PAY AND BENEFITS IN THE NON-
FEDERAL SECTOR

Recent studies indicate that the compensation of federal executives needs to be increased if the government is to be competitive with non-federal employers. 1/ If competitiveness is desired, one should consider the different modes of compensation in the private sector to arrive at a balanced view of federal executive compensation. Top level compensation in the private sector consists primarily of (1) cash payments (in the form of basic salary and bonuses), and (2) supplemental compensation or "fringe" benefits.

BASIC SALARY AND BONUSES

Compensation surveys conducted by federal and private organizations provide some indication of the status of compensation for federal executives relative to comparable levels of responsibility in the private sector. These include a 1974 staff study by the Civil Service Commission and the Dartnell Corporation survey of executive compensation for 1975. 2/ Other bases for comparison include executive pay in the non-federal public sector and the recommendations of the President's Panel on Federal Compensation.

1/ Comptroller General of the United States, Critical Need for a Better System for Adjusting Top Executive, Legislative, and Judicial Salaries, FPCD-75-140; Staff Report of the President's Panel on Federal Compensation (January 1976); and the Report of the Commission on Executive, Legislative, and Judicial Salaries (December 1976).

2/ Dartnell's 11th Executive Compensation Survey (1976), a survey for calendar year 1975 of over 350 companies representing compensation data on over 4,100 executives.

Civil Service Commission Study

The Civil Service Commission conducted a staff study in April 1974 to assess the comparability of General Schedule rates at grades 14 through 18 with those in the private sector at equivalent levels of work. The study obtained salary and bonus data for eight occupations from 128 companies (covering more than 700 employees in GS 16-18 equivalent level positions). Analysis of CSC data indicates that the average General Schedule rates for supergrades would need to have been 30 percent higher to achieve pay comparability with the jobs surveyed, and 40 percent higher if bonuses were included.

TABLE 9. COMPARISON OF MEAN SALARIES--1974

	General Schedule Rates	CSC Study of 128 Companies		Increase Over GS-Rates	
		Salary	Salary & Bonuses	Salary	Salary & Bonuses
GS-16	\$35,500	\$45,200	\$48,000	\$9,700 27%	\$12,500 35%
GS-17	43,600 <u>a/</u>	56,400	62,300	12,800 29%	18,700 43%
GS-18	46,300 <u>a/</u>	71,100	77,800	24,800 54%	31,500 68%

a/ Actual 1974 rates were limited to \$36,000. Source: U.S. Civil Service Commission Staff Report, Study of Private Enterprise Pay Rates for Positions Equivalent to GS-14/18, June 1974. Amounts rounded to nearest \$100 and based on calculations from data in CSC study. See Appendix for comparison of eight occupations.

The difference between the General Schedule rates and the salary levels in the CSC study was attributed both (a) to differences in the job matches in the survey, and (b) to a constant or increasing percentage increase between salaries for upper-level jobs in private industry, compared to a declining percentage increase between supergrade rates in the General Schedule.

Dartnell's Survey

Dartnell's Executive Compensation Survey for 1975 offers another way of looking at federal pay for top officials. The amount of compensation varies by size, reflected in annual sales volume, and by profit levels, which impact significantly on the size of bonuses paid. (Bonuses received by executives in 1975 were sharply below levels in previous years due to lower profits during the period.) Annual compensation for top corporate officials ranged from \$134-\$216 thousand for firms with annual sales exceeding \$250 million, and \$66-\$98 thousand for firms with \$50-\$100 million in annual sales. While any direct comparison between executive positions in the federal government and private industry is admittedly tenuous, there are some senior positions that are common to both and draw upon the same general pool of professional talent. Some of these corporate positions and the 1975 Dartnell compensation data for them are compared in the following table with similar federal positions.

TABLE 10. COMPENSATION (HIGH AND MEDIUM SIZE CORPORATIONS)
FOR SELECTED EXECUTIVE POSITIONS

	Calendar Year 1975 Salaries and Bonuses	
	Annual Sales Over \$250 Million	Annual Sales \$50-\$100 Million
Legal Vice President	\$ 89,000	\$45,000
(In comparison, the General Counsel of the Department of Health, Education, and Welfare receives \$39,900; the Chief Counsel of the Internal Revenue Service receives \$37,800.)		
Financial Vice President	\$104,000	\$50,000
Treasurer	65,000	37,000
Controller	65,000	34,000
(In comparison, the Comptroller of the Defense Department receives \$39,900; the Fiscal Assistant Secretary of the Treasury receives \$37,800.)		
Administrative Vice President	\$ 93,000	\$45,000
(In comparison, the Assistant Secretary of Commerce for Administration receives \$39,900; the Assistant Secretary of Agriculture for Administration receives \$37,800.)		
Industrial Relations Vice President	\$ 69,000	\$36,000
Personnel Director	\$ 42,000	\$22,000
(In comparison, the Chairman of the Civil Service Commission receives \$42,000; personnel directors of major agencies receive \$39,600.)		
Engineering Vice President	\$ 59,000	\$47,000
Research Vice President	\$ 50,000	\$45,000
(In comparison, the Director of Defense Research and Engineering receives \$42,000; the Assistant Administrator for Research and Development of the Environmental Protection Agency receives \$39,900.)		

State/Local Executive Pay

Executive pay in the non-federal public sector provides another basis for assessing federal executive compensation. Some recent examples of salaries of public officials at the state and local government levels include:

- o The average salary of the Governors of the 10 most populous states in late 1973 was \$51,210.
- o The average salary of the city or county managers (1974) in jurisdictions of over one million population was \$49,640.
- o The median salary of chief executive officers of public universities (1975-76) with enrollments of 20 thousand or more was \$49,500.

President's Panel on Federal Compensation

The President's Panel on Federal Compensation recommended that the General Schedule be subdivided into a "Clerical/Technical Service" and a "Professional/Administrative/Managerial Service." One objective of such a separation would be to achieve a greater degree of comparability by closer external alignment with similar occupations in private enterprise. In other words, a Professional/Administrative schedule would provide a more comparable set of executive compensation levels by deleting clerical and para-professional occupations from the comparison.

The estimated effect of such separation offers another basis to examine the comparability of General Schedule rates with those in the private sector. At the supergrade level the average "paper" rates would increase by 6.9 percent for a GS-16 and 16 percent for a GS-18. 3/

3/ This estimate assumes that all other factors remain unchanged. The Civil Service Commission staff believes other changes would occur and that the impact of subdividing the General Schedule cannot reasonably be projected at this time. However, they agree that increases in supergrade rates would be probable.

TABLE 11. ESTIMATED EFFECT OF SPLITTING THE GENERAL SCHEDULE

	Average Current GS-Comparability Rates--1976	Average GS-Comparability Rates Under a Separate Professional Administra- tive Schedule	Increase Under Separate Schedule	
GS-16	\$44,900	\$48,000	\$3,100	6.9%
GS-17	50,500	56,700	6,200	12.3%
GS-18	54,400	63,100	8,700	16.0%

SUPPLEMENTAL COMPENSATION 4/

The most common types of supplemental compensation (other than bonuses) paid by private corporations to their senior officials include retirement and deferred compensation, health and life insurance, stock distributions and profit sharing. A formalized savings or thrift plan is offered by some companies.

Retirement and Disability Benefits

Formal pension plans are established in 54 percent of the firms with the company underwriting approximately 78 percent of the cost. No data were available in the Dartnell Survey on the level of benefits received. Temporary and long-term disability benefits are provided by 72 percent and 77 percent of the companies respectively.

4/ Data on supplemental compensation in the private sector is from Dartnell's, op. cit., unless otherwise noted.

Health and Life Insurance

Ninety percent or more of the premium costs were paid by nearly 60 percent of the companies for health insurance and by 72 percent for life insurance.

Stock Distribution and Profit Sharing

More than 80 percent of the companies reported that top management employees obtained stock purchase privileges, were granted stock bonuses, or received both. Like cash bonuses, profit sharing is closely tied to corporate profits, and in 1975 it was provided by 41 percent of the companies.

Savings and Thrift Plans

A formalized savings plan is provided by 13 percent of the companies, generally those with annual sales in excess of \$100 million. Of these companies with savings plans, two-thirds reported that the employer matching contribution exceeded 90 percent.

Relocation Expenses

Nearly half of the companies provided some reimbursement for moving and relocation costs for top and middle management. Another survey of 320 companies indicates that more than 75 percent provide new hires with reimbursement of costs associated with house-hunting trips, shipment of household goods, travel to new location, and temporary living quarters. 5/

5/ Commission on Executive, Legislative, and Judicial Salaries, op. cit., p. 11.

IMPLICATIONS OF THE CURRENT EXECUTIVE COMPENSATION SITUATION

Before considering the various actions the Congress can take affecting executive compensation, it is important to examine what will happen if there is no action to increase the compensation of top federal officials.

A 1975 report of the General Accounting Office, a 1976 staff report of the President's Panel on Federal Compensation, and the recently released report of the third quadrennial Commission on Executive, Legislative, and Judicial Salaries cite numerous cases in the executive departments and the judiciary where the current salary levels have:

- o made it difficult to fill top level positions from outside the government, particularly in scientific, medical, legal, and education fields; and
- o resulted in loss of senior personnel through resignation and early retirement. 1/

While it is relatively easy to identify individual cases attributable to inadequate compensation, it is difficult to assess the overall extent and impact of these cases. Quantifiable data, particularly regarding supergrades, is very limited.

1/ Comptroller General, op. cit., p. 18-22; President's Panel, op. cit., p. 63-65; and The Report of the Commission, op. cit., p. 2-4.

Recruitment

The third quadrennial Commission concluded that most top level executives and judges "are prepared to accept some diminution in income to come into the Government" since salary is not considered a primary factor in reaching their decision. Other factors such as prestige, challenge of public service, and potential career enhancement upon leaving government service appear dominant. This is not to say that salaries do not have some influence on decisions to accept or reject an offer of a federal position--particularly for the candidate with a high salary in his current job. 2/

For officials at the supergrade level, the executive branch relies primarily (80 percent) on internal advancement and career development rather than recruitment from outside the government. There has been a sharp reduction since 1970 in the already small proportion of supergrade vacancies filled from the outside--declining from 16.8 percent in 1970 to 10.2 percent in 1975. 3/ There are many factors that may have contributed to this trend, and the extent to which compensation was a factor cannot be determined.

Retention

For top level executives, the third quadrennial Commission's report indicates that an increase in compensation should be large enough "to retain these people for a reasonable time." A consultant to the

2/ Respondents to a survey of 528 incumbents and departees from senior positions in the federal government accepted an average reduction in salary of 23 percent for joining the executive branch, 33 percent for the judicial, and 2 percent for the legislative. The Report of the Commission, op. cit., Background Studies, p. 2.

3/ Data from U.S. Civil Service Commission, Bureau of Executive Manpower.

Commission concluded that in the executive and judicial branches, "the decision to depart federal service was associated with a process of economic erosion." Data on individuals leaving the government indicated that those leaving the executive and judicial branches averaged a salary gain of more than 84 percent, and those leaving the legislative branch realized a 34 percent increase. 4/

For supergrade employees, retention patterns present a mixed picture.

The overall experience level of the supergrade work force has not declined. Since 1969, the average age and years of service for supergrades has remained at 52 and 23 years respectively. The proportion of supergrades age 55 and over has remained at 40 percent since 1969, while those with 30 or more years of service has actually increased from 22 percent in 1969 to 30 percent today.

The resignation rate of supergrades has increased about 20 percent between 1971 (1.9 percent) and 1975 (2.3 percent) although the rate has fallen since the peak year in 1973 (3.3 percent). The resignation rate for career executives with full tenure has increased by two-thirds (.6 percent in 1971 to 1.0 percent in 1975). Many factors have undoubtedly contributed to these trends, including salary.

Early retirement (age 55 to 59 with 30 years of service) of supergrade employees earning the legal maximum occurs at a higher rate than for all employees. 5/

4/ The Report of the Commission, op. cit., Recommendations, p. 2-3; and Background Studies, p. 2-8.

5/ The quadrennial Commission's report notes that only 19.5 percent of all eligible employees retired during the year beginning in November 1974, compared to 46.6 percent for supergrades earning \$36,000, the legal maximum at the time. Interpretation of this data should be tempered by two observations. First, even in the 1974-75 peak years, more than 50 percent of all supergrades eligible to retire early chose to continue working; and second, the average age and years of service of new supergrade retirees have remained fairly stable since 1969.

POSSIBLE COURSES OF CONGRESSIONAL ACTION

There are numerous possibilities for Congress to consider in reviewing the President's recommendations for increasing executive, legislative, and judicial salaries. Three alternative courses are discussed--others are possible, including no increase at all:

- Option 1: Follow past Congressional practice by linking salary increases to the average annual General Schedule adjustment;
- Option 2: Adopt the recommendations of the third quadrennial Commission on Executive, Legislative, and Judicial Salaries (or similar proposals); or
- Option 3: Adopt the recommendations of the President's Panel on Federal Compensation by allowing the "supergrade" salaries to increase to the rates specified in the General Schedule.

Past Congressional Practice

If the salary recommendations to be included in the President's budget are disapproved by the Congress and no further legislative action is taken, the salaries of officials within the purview of the third quadrennial review are estimated to increase by at least 10.57 percent in October 1976 due to the 1975 and 1976 GS-comparability adjustments. Salaries of supergrade employees would increase by at least 5.48 percent. 6/

6/ Assumes President's recommendations would be disapproved and no further legislation enacted either to provide alternative increases or to extend the fiscal year 1977 ban on payment of the GS-comparability increase. Estimated increase of 10.57 percent includes 4.83 percent for October 1976 compounded by estimated 5.48 percent for October 1977.

This course of action would provide a relatively minor adjustment and would have little effect in resolving the salary compression of the 8,200 supergrade executives who do not receive the full General Schedule rates.

Commission on Executive, Legislative, and Judicial Salaries

For officials directly under its purview, the third quadrennial Commission recommended salary increases averaging 32.2 percent. Pay for supergrade executives would increase by an average of 16.7 percent. Salary compression would be eliminated for those in grade GS-15 or equivalent. For those in the supergrades, the compression would be reduced by 70 percent (8,100 employees to 2,500). Other key components of the Commission's recommendations include:

- o Supplemental compensation would be increased by: (a) permitting officials at Executive Levels 1-V to defer contributions to the pension fund until the fifth anniversary following their appointment; (b) providing reimbursement of relocation costs for newly elected Members of Congress and newly appointed executives; and (c) paying an annual allowance of up to \$5,000 for members of Congress who maintain a residence in both their home district and Washington, D.C.
- o Pay relationships among officials under the purview of the Commission would be altered by providing relatively greater increases for the judiciary and for executives at the lower levels of the executive schedule than for Cabinet officers.
- o A code of public conduct would be established for top officials in all three branches of government including:
 - disclosure of financial affairs
 - conflict of interest provisions on investments

- restrictions on outside earned income
- appropriate and accountable expense allowances
- restrictions on post-service employment.

President's Panel on Federal Compensation

The Panel on Federal Compensation, which reported to the President in December 1975, recommended that: (a) the salaries of executives in the supergrades be increased to the full amount specified in the General Schedule, and (b) the salaries of other top officials within the purview of the third quadrennial Commission be increased accordingly. Under this approach, officials coming under the quadrennial review would receive estimated salary increases averaging 30.6 percent; increases for supergrade executives would average 56.2 percent. Salary compression would be eliminated.

COST COMPARISONS

The difference in the total annual cost of the three alternative courses for increasing executive, legislative, and judicial salaries ranges from \$61 million per year for following past Congressional practice to \$150 million for adopting the recommendations of the President's Panel on Federal Compensation. Table 12 displays the costs of the major options.

TABLE 12. COMPONENTS OF ANNUAL COST INCREASE, DOLLARS IN MILLIONS

	Direct Salary	Benefits <u>a/</u>	Total
<u>Option 1: Past Congressional Action</u>			
Quadrennial Review Executives	\$10.4	.9	11.3
Supergrades	19.4	1.7	21.1
Subtotal	29.8	2.6	32.4
GS-15 and Equivalent <u>b/</u>	26.2	2.3	28.5
Total	56.0	4.9	60.9
<u>Option 2: Commission on Executive, Legislative, and Judicial Salaries</u>			
Quadrennial Review Executives	31.7	7.6 <u>c/</u>	39.3
Supergrades	58.9	5.1	64.0
Subtotal	90.6	12.7	103.3
GS-15 and Equivalent <u>b/</u>	24.8	2.2	27.0
Total	115.4	14.9	130.3
<u>Option 3: President's Panel on Federal Compensation</u>			
Quadrennial Review Executives	49.5	4.3	53.8
Supergrades	64.2	5.6	69.8
Subtotal	113.7	9.9	123.6
GS-15 and Equivalent <u>b/</u>	24.8	2.1	27.0
Total	138.5	12.0	150.5

a/ Retirement and other benefits affected by pay adjustments are based on fiscal year 1976 estimate (for all employees) of 8.7 percent. Estimates exclude amortization cost for increased liability of retirement funds.

b/ Cost for employees in grade GS-15 (step 7 and above) where salaries are affected by linkage to the Executive Schedule.

c/ Includes \$4.8 million for proposal to pay relocation costs and provide allowance for dual residences.

If the costs for GS-15 and equivalents are excluded, the incremental annual cost for executive salary increases (quadrennial review officials and supergrades) ranges from \$30 million to \$114 million. The average cost increases range from 6.6 percent for extending the General Schedule pay adjustment (option 1) to 25.2 percent for allowing the supergrade salaries to increase to the rates specified in the General Schedule (option 3). Under any of the three options, the executive branch officials account for at least two-thirds of the total cost increases.

TABLE 13. ANNUAL IMPACT OF ALTERNATIVE COURSES TO INCREASE EXECUTIVE SALARIES, DOLLARS IN MILLIONS

	Executive Branch	Legislative Branch	Judicial Branch	Total
Payroll Base	\$348.5	\$56.3	\$46.8	\$451.6
Option 1: Past Congressional Practice	20.9 (6.0%)	4.4 (7.6%)	4.6 (9.8%)	29.8 (6.6%)
Option 2: Commission on Executive, Legislative, and Judicial Salaries	62.1 (17.8%)	12.3 (21.8%)	16.2 (34.6%)	90.6 (20.1%)
Option 3: President's Panel on Federal Compensation	75.0 (21.5%)	17.7 (31.4%)	21.0 (44.9%)	113.7 (25.2%)

APPENDIX

1974 Compensation Comparison for Supergrades
(Mean Salaries: Rounded to nearest \$100)

	Comparability Rate Extrapolated From General Schedule	CSC Study of Non-Federal Jobs		Increase Over Extrapolated Rate			
		Salary Alone	Including Bonus	Salary Alone	%	Including Bonus	%
<u>GS-16</u>	<u>\$35,500</u>	<u>\$45,200</u>	<u>\$48,000</u>	<u>\$ 9,700</u>	<u>%27.3</u>	<u>\$12,500</u>	<u>%35.2</u>
Personnel Director	"	47,300	55,600	11,800	33.2	20,100	56.6
Attorney	"	43,600	47,400	8,100	22.8	11,900	33.5
Chief Accountant	"	38,600	43,800	3,100	8.7	8,300	23.4
Engineer	"	46,700	48,100	11,200	31.5	12,600	35.5
EDP Program Manager	"	37,800	40,200	2,300	6.5	4,700	13.2
Plant Manager	"	48,200	49,500	12,700	35.8	14,000	39.4
Commercial Manager	"	40,000	43,200	4,500	12.7	7,700	21.7
Economist	"	43,000	51,900	7,500	21.1	16,400	46.2
<u>GS-17</u>	<u>\$43,600</u>	<u>\$56,400</u>	<u>\$62,300</u>	<u>\$12,800</u>	<u>%29.4</u>	<u>\$18,700</u>	<u>%42.9</u>
Personnel Director	"	60,200	76,800	16,600	38.1	33,200	76.1
Attorney	"	57,800	64,600	14,200	32.6	21,000	48.2
Chief Accountant	"	55,900	65,900	12,300	28.2	22,300	51.1
Engineer	"	58,500	60,700	14,900	34.2	17,100	39.2
EDP Program Manager	"	48,800	54,600	5,200	11.9	11,000	25.2
Plant Manager	"	49,600	52,000	6,000	13.8	8,400	19.3
Economist	"	51,500	63,300	7,900	18.1	19,700	45.2
<u>GS-18</u>	<u>\$46,300</u>	<u>\$71,100</u>	<u>\$77,800</u>	<u>\$24,800</u>	<u>%53.6</u>	<u>\$31,500</u>	<u>%68.0</u>
Personnel Director	"	93,700	93,700	47,400	102.4	47,400	102.4
Attorney	"	68,400	78,700	22,100	47.7	32,400	70.0
Chief Accountant	"	57,500	65,800	11,200	24.2	19,500	42.1
Engineer	"	70,500	74,300	24,200	52.3	28,000	60.5
EDP Program Manager	"	51,000	62,000	4,700	10.2	15,700	33.9
Plant Manager	"	77,000	77,000	30,700	66.3	30,700	66.3
Economist	"	89,000	154,000	42,700	92.2	107,700	232.6
Average Supergrade	<u>\$38,000</u>	<u>\$49,500</u>	<u>\$53,300</u>	<u>\$11,500</u>	<u>%30.3</u>	<u>\$15,300</u>	<u>%40.3</u>

Compiled by the Congressional Budget Office from data in U.S. Civil Service Commission, Staff Report: Study of Private Enterprise Pay Rates for Positions Equivalent to GS-14/18, June 1974, attachment 9, page 2.

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