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Latest pay study doesn't pass the smell test

By **STEPHEN LOSEY** | Last Updated: **November 7, 2010**

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The Office of Personnel Management claims the pay advantage enjoyed by private-sector workers over federal employees grew to 24 percent in 2010, two percentage points higher than in 2009.

The National Treasury Employees Union said these figures, culled from information gathered by the Bureau of Labor Statistics, undercuts the conservative argument that federal workers are significantly overpaid.

"There is a great deal of misinformation being advanced, largely for partisan political purposes, that federal employees are overpaid," NTEU President Colleen Kelley said. "In fact, the opposite is true."

Or is it?

For every study that argues private-sector wages are better, there are at least two others that say the opposite is true.

Even OPM Director John Berry has acknowledged that the government's current pay gap methodology lacks credibility. He's put together a team of economists and statisticians from OPM, the Office of Management and Budget and the Labor Department to come up with a more transparent and effective way to determine how federal pay stacks up to private-sector pay.

The pay gap figures were released at an Oct. 29 meeting of the Federal Salary Council. The council will use that data to help set locality pay raises for 2012.

The Cato Institute and Heritage Foundation think tanks argue that with the economy remaining sluggish, millions of Americans out of work, and private-sector salaries stifled nationwide, it's ludicrous to suggest federal employees are falling behind the private sector.

"To come up with results showing an increase doesn't make sense," said Chris Edwards, the Cato Institute's director of tax policy studies. "It conflicts with the broader patterns. Clearly, private wages have stagnated, but we know federal workers continue to get raises."

Conservative lawmakers have made federal pay and the size of the federal work force symbols of government excess at the expense of the taxpayer, a particularly sensitive topic in a down economy in which private-sector unemployment is high, wages stagnant and recovery hardly on the horizon. Now that Republicans have reclaimed the House of Representatives, Edwards said he expects they will hold hearings on federal compensation and dig into the government's pay gap methodology.

Experts agree that the time has come to abolish the current method of determining the federal pay gap — which has been heavily criticized for its complexity and lack of transparency — and replace it with a new methodology.

"We need to rethink how we determine competitive pay, so that we can do a better job in determining what the market is by occupation and by geographic area," said John Palguta, vice president for policy at the Partnership for Public Service, a nonprofit organization that promotes government service. "The federal government should be able to be competitive for the talent it needs and not overpay, but certainly not underpay as well."

The 1990 Federal Employees Pay Comparability Act requires the government to give federal employees a large enough raise each year to reduce the pay gap in each locality area to 5 percent. If followed, that would require some astounding pay raises.

In 2012, for example, that would require Washington-area feds to receive a 66.6 percent raise, based on OPM's statistical analysis. But every year — even during the surplus years of the late 1990s — the government has used a loophole to avoid such large raises.

Palguta said that's a sign that deep down, the government doesn't believe its own pay gap figures.

Occupational distinctions lost



For every study that argues private-sector wages are better, there are at least two others that say the opposite is true. (Agence France-Presse)



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Palguta said that the current methodology masks a significant problem with federal pay and classification: Highly skilled federal workers such as engineers and attorneys are probably underpaid when compared with private-sector counterparts, and less-skilled workers are probably overpaid.

Palguta said that because the government's pay gap methodology relies heavily on averages within broader occupational categories, those distinctions are lost. And many lower-skilled jobs over the last several decades have crept up to higher General Schedule grades, further inflating their salaries, he said.

"When you average all that salary data together, regardless of occupation, you lose that sensitivity," Palguta said. "That's one of the major limitations in the current methodology."

The solution, Palguta said, is to analyze data from different occupations separately — and not average them together with other occupations — so the government has more granular data on how federal salaries for, say, information technology staffers changed in comparison to the private sector. That could let the government make more finely tuned adjustments, occupation by occupation.

But that would require blowing up the current GS system and creating a new method of classifying employees, Palguta said.

"To really resolve the federal pay debate, Congress is going to have to revisit the 1949 GS pay structure, because it's just too inflexible," Palguta said. "Maybe it worked well in 1949, but it was a very different work environment. You didn't have a lot of knowledge workers, and you had a lot of clerical workers. It doesn't work in 2010."

Palguta suggested replacing the GS system's 15 grades with pay bands that allow the government flexibility to adjust salaries of different occupations. For example, if the government's surveys found engineers were underpaid compared with the private sector, the pay band would allow it to adjust their salaries, while holding steady salaries for other workers who are paid similar rates to the private sector.

'Estimates based on estimates'

Howard Risher, a consultant on federal pay and performance issues, said another problem with the government's current pay gap method is that it heavily relies on modeled data.

The President's Pay Agent, an interagency council of top agency and labor leaders that advises the White House on pay issues, said that 72 percent of the private-sector data used in its most recent survey was statistically modeled.

"It's estimates based on estimates," Risher said. "You can't go back and audit it because so many pieces go into it, plus the fact that nobody understands it. I'm surprised, frankly, that they could come to that conclusion" that federal employees fell further behind private-sector workers.

Risher said the government needs to broaden the pool of economists and experts examining the pay gap methodology to possibly include union representatives, academics, private-sector pay experts, and conservative economists like the Heritage Foundation's James Sherk to come up with a definitive pay gap method.

Risher wants experts from both the left and the right to be involved in developing the method for comparing salaries to ensure it has legitimacy — and the new method has to be transparent.

Edwards called for the government to bring in an outside auditor such as PricewaterhouseCoopers to audit its methodology.

"There's been no public, detailed study on exactly how they get these results," Edwards said. "It's a big black box."

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ErasmusF wrote:

This article is a great example of a reporter who is intellectually unqualified to cover a story. Just because there are two studies saying Feds are overpaid to every one saying they're not doesn't mean those two studies are done well. And yes, John Berry did say there was a "credibility gap" in the numbers, but no one has any real idea what he meant by that since OPM's numbers are undoubtedly more accurate than Cato's and Heritage (why we keep talking about these folks like they are credible researchers, I cannot fathom). Cato's numbers can be dismissed with simple math and their results have an issue with Simpson's Paradox (google it). If the government wants this done right, they need to involve industrial/organizational psychologists rather than relying on economists.

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