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## Are Federal Workers Overpaid?

Both sides in great pay debate are misleading the public.

December 1, 2010



### Summary

President Barack Obama's recent announcement to freeze the pay of federal civilian workers did little to ice the debate over whether federal workers are overpaid or underpaid. Republican leaders and conservative think tanks claim federal workers are overpaid. They say the average federal worker is paid twice as much as those in the private sector. The federal Office of Personnel Management and unions that represent federal workers say on average they are paid 24 percent *less* than those in the private sector.

Both sides are armed with official government statistics, but neither side is right.

Senator-elect Rand Paul of Kentucky, for example, said recently: "The average federal employee makes \$120,000 a year. The average private employee makes \$60,000 a year." This has become a GOP talking point and the basis for the House Republicans' call for a hiring freeze in the "Pledge to America." But it's misleading.

The analysis is based on data from the Bureau of Economic Analysis and crudely done by dividing total compensation (salary and benefits) by the number of current federal civilian employees. Comparing such averages is quite misleading, for two reasons:

- First, BEA says the figure is inflated by including compensation that is actually paid to benefit retirees, not just for current workers. The figure is at least several thousand dollars too high, by our calculations.
- Second, the average federal civilian worker is better educated, more experienced and more likely to have management or professional responsibilities than the average private worker.

Officially, the Office of Personnel Management says federal civilian workers on average are paid 24 percent less than private workers — a figure based on surveys conducted by the Bureau of Labor Statistics and often cited by unions and their Democratic allies. But this is misleading, too. The BLS surveys don't include the cost of benefits — which both sides agree are more generous for federal workers. Experts also say there are other flaws in OPM's methodology that prevent a true apples-to-apples comparison.

The last time the federal government undertook an in-depth analysis to compare federal and private-

sector pay was in 1990. Howard Risher, the managing consultant on that 1990 report, says the data doesn't exist today to support either side in the great pay debate. Risher recently wrote in *Government Executive* magazine that "we truly don't know" which side is right because "neither has detailed job-to-job comparisons to support their arguments."

## Analysis

In recent months, Republicans have suggested spending cuts in a few specific areas in order to reduce the federal deficit — which was **\$1.3 trillion** in the 2010 fiscal year that ended Sept. 30. That's down only slightly from \$1.4 trillion in 2009, when the deficit, as a percentage of the gross domestic product, reached its highest level since 1945.

One often-mentioned GOP budget-cutting proposal targets federal employees. The House Republicans' "**Pledge to America**," for example calls for "a net hiring freeze on non-security federal employees." Similarly, Paul, House Minority Leader John Boehner of Ohio and others have talked about cutting or freezing federal pay.

### How Much Does the Average Federal Worker Make?

In stating their case, Paul and Boehner compared federal workers with private-sector workers and concluded that federal workers are overpaid. One of the most frequently cited claims is that federal workers make twice as much as private-sector workers. From ABC's "**This Week**" on Nov. 7:

**Christiane Amanpour:** Give me one specific cut, Senator-elect. . . .

**Paul:** I would freeze federal hiring. I would maybe reduce federal employees by 10 percent. I'd probably reduce their wages by 10 percent. The average federal employee makes \$120,000 a year. The average private employee makes \$60,000 a year. Let's get them more in line, and let's find savings. Let's hire no new federal workers.

Three days later, Boehner **echoed** Paul's comments:

**Boehner, Nov. 10:** There ought to be a freeze on the hiring of new federal employees and frankly we ought to freeze the pay. It's gotten to a point where the average federal worker makes twice as much as the average private sector worker.

These statements are supported by an **Aug. 10, 2010 analysis** published by the libertarian Cato Institute and an Aug. 10, 2010 **story** in *USA Today*. Both based their reports on data from the Bureau of Economic Analysis. But they exaggerate the pay gap between private and federal workers. Listening to Senator-elect Paul and Speaker-in-waiting Boehner, one might be led to think that the average federal employee earns an annual salary of \$120,000. But the figure — which Cato and *USA Today* gave as \$123,049 — is for *total* compensation, including the cost of health insurance, pensions, and other benefits.

These reports say the average salary for civilian federal employees was \$81,258 in 2009 — about 61 percent higher than the \$50,462 paid to the average private sector worker, but not double. The reports also say that the federal government paid \$41,791 in benefits for every federal civilian worker — far more than the \$10,589 spent on benefits for the average private-sector worker, although as we will show later that figure is inflated. (These numbers were arrived at by dividing **full-time equivalent employees** for private industries (line 3) and federal government (line 89, civilian) by their **total compensation** or their **total wage and salary**. The statistics on federal employees exclude the military as well as postal

workers.)

### Apples-to-Oranges

But any compensation comparison between the average federal civilian employee and average private-sector employee oversimplifies the debate, glossing over the important differences in occupation, skill level, age, and education that determine salaries. The BEA has posted an [FAQ](#) on federal pay, providing a number of reasons why the average compensation for federal civilian employees is higher than the average compensation for private-sector employees:

- Federal civilian workers are more educated.
- The federal government has a higher proportion of white-collar jobs.
- “Lower-skilled (and lower-paid) positions have been contracted out to private industries” in recent years, raising the average pay of federal civilian employees.
- Federal civilian workers receive better pension and health insurance benefits on average than private-sector employees, some of whom receive no benefits.

Furthermore, the \$123,049 average compensation figure for federal workers is greatly inflated — and several thousand dollars too high. The BEA tells us that total compensation includes an unknown amount for retirees’ health and life insurance benefits. More importantly, it includes billions of dollars that Congress appropriates each year to pay “unfunded liabilities” for retirees and current workers covered by the old [Civil Service Retirement System](#) before it was replaced for newly hired workers starting Jan. 1, 1987. These payments for former workers obviously don’t benefit current workers, and should not be included in their average total compensation.

BEA doesn’t produce an average figure — the \$123,049 comes from Cato and others working from gross BEA totals. But we calculate that the average lies somewhere between \$116,158 and \$109,268 when money paid to benefit the retirement system for former workers is removed. (The range is actually lower than that, but BEA cannot provide us with the amount spent on retirees’ life and health insurance plans.)

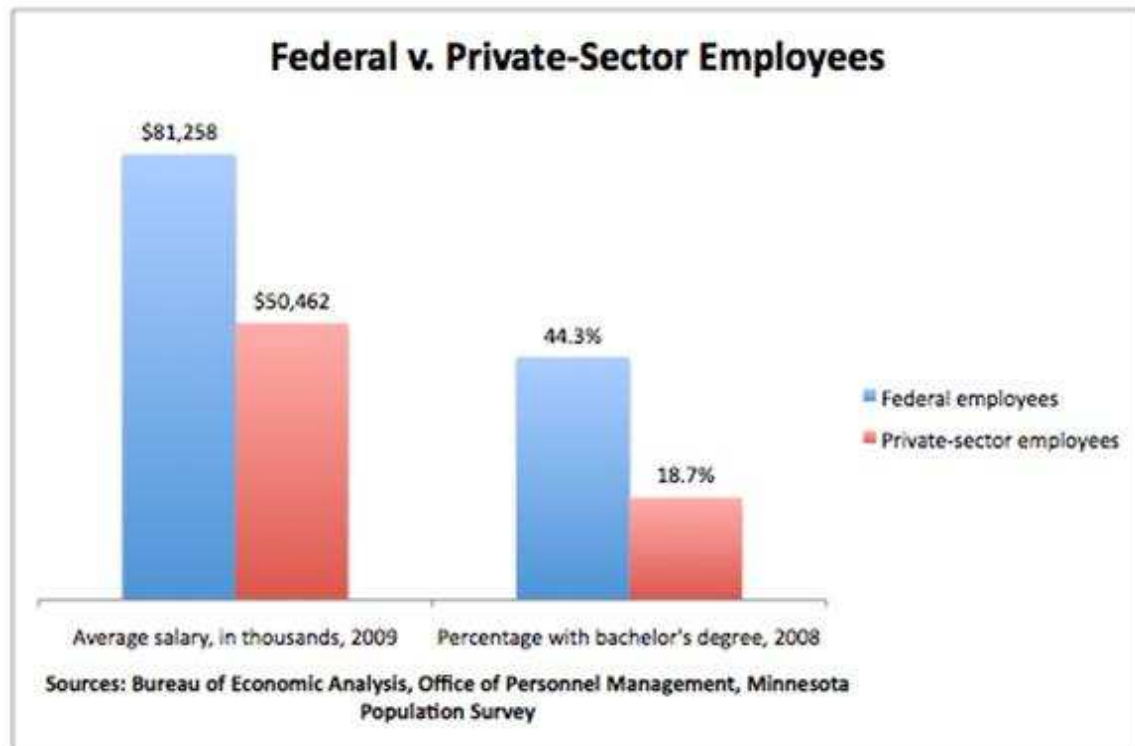
We arrived at our range by first figuring how much Congress paid last year for all CSRS unfunded liabilities (see footnote). It amounted to \$26.9 billion, or 11.2 percent of the gross figure that BEA gives for total compensation. But well over half that money covers workers who have retired since 1987. Some very senior current workers are still covered by the CSRS, so some of that money does benefit them. But we were unable to determine the exact percentage. Assuming (very conservatively) that half the money was for those older current workers, the average total compensation would be \$116,158. Assuming that none of it benefits current workers, the figure would be \$109,268. Somewhere in between lies the true figure, which is thousands less than the number used by Republicans and other critics of federal pay.

We’ve also reviewed numerous reports that illustrate the folly of trying to compare federal and private workers using the BEA data.

The Office of Personnel Management reports that [44.3 percent](#) of federal civilian workers held a bachelor’s degree in 2008. That’s more than double the percentage of private sector employees who have a bachelor’s. The Minnesota Population Center at the University of Minnesota provided us with [comparable data](#) for private-sector employees: 18.7 percent held a BA in 2008.

In a [2007 report](#) titled “Characteristics and Pay of Federal Employees,” the nonpartisan Congressional Budget Office said “44 percent of federal workers were in management, professional, and related occupations, compared with 32 percent of private-sector workers,” citing the U.S. Census Bureau’s 2005 Current Population Survey. (See page 5.) The CPS data also reported that the average federal civilian

worker was 45 years old — five years older than the average private sector employee.



The CBO report also found that “since 1975, the average age, tenure, and educational attainment of federal employees have all increased.” The trend toward a more professional and educated federal workforce is continuing. Blue-collar employees made up 21 percent of the federal workforce in 1985, according to a 2001 CBO [report](#) called "Changes in Federal Civilian Employment." That number declined to 9.9 percent by 2010, according to the Office of Personnel Management’s Central Personnel Data File. (We arrived at this number using [FedScope](#), a database tool on the OPM website.)

Education has followed a similar path. According to the 2007 CBO report, the percentage of full-time federal civilian employees who hold a bachelor’s degree rose from 30 percent in 1975 to 49 percent in 2005. The Minnesota Population Center at the University of Minnesota provided us with [comparable data](#) about the education levels of private-sector employees: 17.2 percent had a bachelor’s degree in 2005, up from 1.4 percent in 1975.

### Apples-to-Apples

The last "in-depth comparative analysis of federal pay was conducted was in 1990," according to the managing consultant on that report. In an [August article](#) for Government Executive, Howard Risher — a compensation management consultant — said the report found federal workers were paid less for comparable work and resulted in passage of the Federal Employees Pay Comparability Act of 1990 (FEPCA) to help close the gap. Among other things, the FEPCA provides a [two-part annual pay adjustment](#) for federal workers: an "across-the-board" pay increase and a second so-called "locality pay increase" specifically designed to close the gap between federal and private workers doing the same work in the same geographic area.

Risher wrote:

**Risher, Aug. 19, 2010:** We determined the pay gap was real and varied by job category and metropolitan area. This conclusion was consistent with previous analyses. I met with federal executive groups in several cities and learned agencies were experiencing serious problems hiring qualified employees. FEPCA was fully warranted. Congress and the White House agreed the gap should be closed over a period of years. But the schedule laid out in the law was never followed.

To determine the annual adjustment in locality pay, OPM produces a report every year that summarizes a comparison of federal pay — just salaries, not total compensation — with pay levels in non-federal "establishments" based on geographic location and job responsibilities. In the 2009 report, OPM found that federal workers were paid on average 22.13 percent *less* ([Table 4](#)) than their private-sector counterparts. The gap increased to **24 percent** this year, the *Washington Post* recently reported.

The National Federation of Federal Employees [touts](#) the OPM locality report as proof that federal civilian workers are underpaid.

But, as we said, that does not include benefits — which everyone agrees on average are better for federal workers. In a [telephone press briefing](#) in August, [Sheldon Friedman](#), the chairman of OPM's Federal Prevailing Rate Advisory Committee, said the data doesn't exist to compare benefits. However, he added: "Certainly it is true on average the benefits in the federal government are superior to the average for the private sector workforce, but that workforce include many millions who probably have no benefits whatsoever."

The larger problem, however, is that OPM is using data unsuited for a comparative pay analysis.

Asked about the 24 percent pay gap, Risher told us: "Trying to summarize the comparison of federal and non-federal pay levels as a single percentage is neither valid nor useful."

But it is not entirely OPM's fault. To determine the pay gap, OPM is required by the 1990 federal law to use survey data from the Bureau of Labor Statistics. Initially, OPM used the BLS' survey of so-called benchmark jobs — that is, jobs with similar duties and responsibilities that require similar skills and education in the same competitive market. Benchmark surveys are commonly used in every other sector. But BLS stopped conducting such surveys in the mid-1990s and switched to a new system called the National Compensation Survey. Risher said the NCS is not job-specific and covers broad geographic areas that "extend far beyond the relevant labor markets."

Risher said the Cato report and a more in-depth [analysis](#) by the conservative Heritage Foundation suffer from the same problem: the data sets they are using are not designed for the kind of analysis they are trying to conduct. (The Heritage Foundation based its report, which was published July 7, 2010, on data from the Current Population Survey.)

"Which side is correct? The fact is we truly don't know," Risher wrote in August. "Both sides rely on analytical methods that even the most astute economists would have trouble understanding. And neither has detailed job-to-job comparisons to support their arguments."

### Pay Freeze

In [announcing](#) a two-year pay freeze for federal civilian workers on Nov. 29, President Barack Obama did not wade into the debate over whether federal workers are overpaid or underpaid. He said he was doing it to reduce federal spending — saving **\$5 billion** over two years.



But in October, Obama [told](#) a group of African-American journalists that "high-skilled workers in government are slightly underpaid. Lower-skilled workers are slightly overpaid relative to the private sector." And there is evidence to support that conclusion.

For example, secretaries and administrative assistants in the federal government earned an average salary last year of \$40,019 — nearly \$10,000 more than the \$30,845 average salary paid in the private sector. That's according to the CPS's Annual Social and Economic supplement, which provides information on occupation and average wage and salary for federal and private sector employees. The data can be found using [DataFerrett](#) on the Census Bureau website. (Word of caution: The annual supplement is based on surveys of more than 75,000 households, and the [sampling error](#) can be very high for some professions depending on the number of people surveyed with those jobs. The sample size was fairly large for secretaries. A total of 1,724 secretaries were surveyed: 1,657 from the private-sector and 67 from the federal government. As a result, the standard error for private-sector secretaries was \$1,165.16 and \$6,798.62 for federal secretaries.)

By the same token, Cabinet secretaries earn a fraction of what corporate CEOs are paid. J. Wayne Leonard — the chief executive officer of [Entergy](#), a Louisiana-based energy company that has [15,000 employees](#) and generated [\\$10.7 billion](#) in revenues last year — received a salary of \$1.34 million and a total compensation package of \$27.3 million last year, according to [Forbes](#) magazine. But Department of Energy Secretary [Steven Chu](#) — a co-winner of the Nobel Prize for Physics in 1997 who oversees a department of 14,945 employees and a [\\$28.4 billion](#) budget — earns a salary of [\\$199,700](#), the same as other Cabinet secretaries.

Former Federal Salary Council member Charles Fay told [Government Executive](#) magazine earlier this year that typically, federal workers at the top of the wage scale make less than their private-sector counterparts, while the reverse is true for those with entry-level jobs:

**Government Executive, April 1, 2010:** In reality, the question of whether or not federal employees are overpaid doesn't have a simple answer, according to Charles Fay, a professor at Rutgers University and former Federal Salary Council member. Those in entry-level jobs in the government might earn more than entry-level jobs in private practice, he notes, while the opposite is true for those in management and specialized fields requiring years of experience. "The higher you go, the more they're underpaid," Fay says. "The lower they go, the more they're overpaid."

*Footnote: We called the BEA to determine how much of the total compensation for federal civilian workers consisted of unfunded pension liability payments. We were directed to OPM's budget ([page 1190](#), identification code 90.00), which shows a \$31.4 billion payment for unfunded pension liabilities in 2009. But BEA says that includes about \$4.5 billion for employees of "federal enterprises" — such as the United States Postal Service — who are not included in the BEA total compensation data. So, we subtracted \$4.5 billion from the total \$31.4 billion payment, leaving us with an unfunded pension liability payment of \$26.9 billion, or 11.2 percent of total compensation.*

— by Michael Morse and Eugene Kiely

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