

Analysis: More twists in the federal pay debate

By Howard Risher November 2, 2010

The dispute over how well federal workers are paid zigzags on. An early-October opinion poll by *The Washington Post* shows the public apparently has been influenced by the news media and possibly by the reports the Cato Institute and Heritage Foundation released this summer. Three-fourths of the *Post's* respondents think federal workers "get better pay and benefits than people doing similar work outside the government."

But analyses by the Office of Personnel Management continue to show that federal employees are underpaid. OPM's compensation team leader reported to the Federal Salary Council on Oct. 29 that the gap actually widened during the past year and now stands at 24 percent. That is a statistical estimate because many federal employees do not have counterparts in nonfederal organizations.

The fact is, the data relevant to this comparison have not been assembled for almost 20 years. So the public can be reacting only to the vague generalizations that have dominated this debate now for months. Both sides have claimed they have completed analyses confirming [their argument](#), but actual data for actual workers "doing similar work" have not been produced.

Generalizations do not lead to sound policies. And if there are to be federal budget cuts -- and it certainly is not my intention to oppose closing the budget deficit -- the slices should be made with a scalpel, not an ax.

Arcane Payroll Facts

The current federal budget shows that direct compensation -- cash -- for executive branch employees will be \$170 billion, or 5 percent of total fiscal 2011 expenditures. The portion that goes to compensation has not increased recently. The critics who voice plans to freeze or cut salaries or to furlough workers already have stated they would exempt the Defense, Homeland Security and Veterans Affairs departments. The remaining payroll, based on OPM data, is roughly \$50 billion for Cabinet-level agencies and another \$16 billion for the smaller agencies, including the Federal Deposit Insurance Corporation, General Services Administration, Securities and Exchange Commission, and Social Security Administration. The judicial and legislative branches together add another \$5.5 billion. The

military and uniformed personnel payroll is \$104 billion more.

The cost of benefits for current civilian employees adds \$64 billion, and military benefits account for \$53 billion. Benefits for retired civilians come in at \$78.5 billion and those for retired military personnel add \$59.5 billion (both include retiree health benefits).

Furthermore, what might be termed the hidden "payroll" cost includes the salaries and benefits of all the personnel working on federal contracts. No one, it seems, knows the total number of federal workers, or their aggregated compensation.

So policymakers will have to decide where true savings can be realized.

Overpaid Federal Workers?

This debate started with the Cato and Heritage reports contending federal workers are overpaid. Both relied on government data. But neither released data specific to the "get better pay and benefits than people doing similar work" issue.

Cato reported the average federal worker was paid \$81,258 in 2009. But according to the OPM's FedScope database, the average salary was only \$71,575 in June 2009. A year later, the average was \$73,770. The FedScope data do not include bonus dollars, but for this purpose, the figures are close enough.

Averages, of course, hide a lot of critical information. Every federal employee is paid more or less than the average. For example, federal agencies employ 15,500 "medical officers" paid an average of \$185,000. There are also 23,700 lawyers paid an average of \$131,000. I agree that's too many and far too much, but these two categories pull up the average. The Environmental Protection Agency, NASA and Nuclear Regulatory Commission employ 1,850 nuclear engineers who are paid \$122,000 each. Clearly, government has its share of high-demand, high-pay occupations.

Can the salaries of these individuals be cut, or frozen? Of course, but most of them would find other, probably better-paying jobs. Many would be hired and return to federal work on a contractor's payroll. In the 1980s, the National Institutes of Health was pressured to limit the pay of its world-class doctors and scientists. It was shown that they likely would accept jobs at research universities where federal grants would pay their salary, as well as the salaries of support staff and fund the purchase of equipment and even new buildings for their research labs. Congress later backed away from imposing pay limits.

The federal government employs roughly 300,000 executives, managers and supervisors, according to one estimate. Their salaries would appear high relative to the pay in literally millions of small businesses (the United States has almost 4 million businesses with fewer than 10 employees), as well as numerous state and local public employers. Political pressure historically has restrained the highest pay levels, and the resulting "compression" controls what lower level managers can be paid.

Adding in the complication of how federal salaries differ across the states, we note the averages are typically in the \$55,000 to \$65,000 range for General Schedule employees (Federal Wage System pay levels lower the averages). My own visits to federal offices in the Philadelphia suburbs have not uncovered any obviously highly paid employees. The office décor in such places is far less fancy than that of the consulting offices where I have worked. I doubt Cato or Heritage would argue these employees are overpaid.

Benefits Expenditures

There is, however, a significant discrepancy in the benefit cost data Cato and Heritage report. It is not clear why they differ from the federal budget data. Cato reported the total compensation -- the combination of salary, bonus awards and benefits -- as \$123,045 in 2009 -- or 51 percent more than the average salary.

For that year, the executive branch expenditure for benefits, as shown in the current budget, was 36.7 percent and essentially the same in 2010. When that percentage is added to the base salary, the total compensation is \$98,455 -- or 20 percent below the Cato figure.

The U.S. Postal Service's benefits were higher, as were the military's benefits. The budget shows the

cost of benefits for the entire government was 42 percent of aggregate salaries. Those numbers do not include the additional expenditures for retirees. It would be misleading to include those expenditures in a comparison of total compensation for today's public and private workforces.

The useful comparison is the most recent 2010 Bureau of Labor Statistics estimate, which shows private sector benefit costs are 41.5 percent of base pay. I should point out corporate employers get a tax deduction for all employee compensation expenditures, which reduces their actual cost. The tax deductions, as well as legislation, make it important for businesses to fund benefits as they accrue.

The most recent actuarial comparison is a Congressional Budget Office study from 1998. It is a solid analysis, but is based on only 800 large companies. The analysis shows that when private sector benefits are compared with those provided under the Federal Employees Retirement System, the difference is negligible. (The actuarial cost of benefits depends on salary, age and years of service.) A lot has happened since 1998, however.

It is accurate to state that federal benefits are better than those the "typical" private sector employer offers. Many employers do not offer health insurance or retirement plans. But large companies such as those in the CBO study all have comprehensive benefit packages. They also extend advantageous opportunities to employees to invest in company stock -- those benefits do not show up in the CBO or BLS data. Realistically, it's those companies that are competing most for talent against the federal agencies.

Beyond the Numbers

Significantly, the *Post's* poll downplayed two other questions. First, while 52 percent of respondents thought federal workers are overpaid, 33 percent thought the pay is the "right amount." Second, a solid 75 percent thought "federal agencies SHOULD offer pay and benefits that are about the same as those provided in comparable private sector jobs."

If the poll had asked whether federal employees should be paid for their performance, I am confident the response would have been solidly in the affirmative. Performance pay is effectively universal in the private sector.

I interpret the *Post's* poll results as a clear statement of a policy that would be broadly accepted. It is not possible, however, to develop salary management practices consistent with that policy as long as the GS system remains as it is. If the recent surveys of voter sentiment are accurate, the public should support efforts to replace it. The *Post's* poll, however, does not suggest a desire for significant cuts in the federal workforce.

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