

Lack of data hinders pay gap comparison

By [STEPHEN LOSEY](#) | Last Updated: November 12, 2011

Federal salaries fell further behind private-sector pay in 2011, the Federal Salary Council says — prompting radically different responses from experts and advocates on both sides of the pay debate.

Critics in Congress, Washington think tanks and even some outside experts question the report's accuracy and usefulness, even as union leaders praise the report as proof that the Obama administration's pay freeze is unfair to federal workers.

The critics were loudest about the Nov. 4 report, which concluded that General Schedule salaries fell 2.25 percentage points further behind private wages last year — and now earn an astounding 26.3 percent less than private-sector workers.

"How, in the middle of a recession when the only sector downsizing and cutting salaries is the private sector, does the government claim a growing pay gap?" asked Fred Piccolo, chief of staff for Rep. Dennis Ross, R-Fla., chairman of the House subcommittee that oversees federal workforce issues.

Ross maintains the government overpays its employees. But it's not just the usual suspects questioning this report — along with Republican lawmakers, the Cato Institute and Heritage Foundation, some outside pay experts are also questioning the report's logic and methodology.

"The council's stuff has completely lost credibility," charged Howard Risher, who was the managing consultant for the studies that led to the 1990 Federal Employees Pay Comparability Act (FEPCA). "Their methodology is beyond comprehension. Who knows whether they're right?"

A year ago, Office of Personnel Management Director John Berry acknowledged the methodology has "a credibility problem" and pledged to form a committee to examine it. But nothing came of that promise.

Risher said one of the biggest problems with the government's pay gap calculations is its heavy reliance on statistically modeled data. Only 26 percent of the data used to calculate the pay gap came from actual salaries of private sector and state and local government employees collected by the Labor Department's Bureau of Labor Statistics, OPM said.

The other 74 percent of the data was modeled. That's even higher than last year, when 72 percent of the statistical data was modeled.

OPM uses modeled data to estimate salaries for nonfederal jobs that were not captured in the BLS survey. OPM takes actual salary data of a job that was measured by BLS and conducts regression analyses to estimate what that job's salary would be in another location or level of responsibility for which it doesn't have actual data.

In some geographic areas, the BLS data was so spotty that as much as 89 percent of the salary data was modeled.

"They can't find real jobs" to compare federal salaries to? Risher asked. "Give me a break. This is a statistician's nightmare. There is not an employer in this country that would accept that data."

An OPM official defended modeling as an accepted practice among statisticians. But Risher said relying so heavily on these manufactured statistics is "appalling."

That doesn't mean, however, that Risher buys into some private studies that suggest federal employees are vastly overcompensated. He disputed a Heritage Foundation study that concluded feds are paid 22 percent more than private-sector workers, when skill levels are taken into account.

"You can blast both of them, frankly," Risher said.

The Federal Salary Council's working group said that overall private-sector pay in the U.S. increased by 1.6 percent between March 2010 and March 2011. But after taking out service industry and other low-paying jobs that do not correspond to the General Schedule, OPM said, the increase in equivalent private-sector jobs was likely greater — but it did not say how much greater.

OPM said it took into account increases in pay due to step increases and promotions, which have continued despite the freeze on federal pay tables, but did not say how much the federal payroll increased in 2011. About 761,000 federal employees — more than half the GS population — are in line to receive raises through step increases this year, and thousands more got raises due to promotions.

OPM said that step increases — which this year amounted to roughly 1.5 percent of the overall GS payroll — are usually canceled out by turnover in the federal ranks, as departing feds are replaced by younger, lower-paid employees.

A call for market-based pay

John Palguta, vice president for policy at the Partnership for Public Service, said the ongoing pay gap dispute points to a deeper problem with how the government classifies and pays its employees.

The GS system gives all employees in the same grade the same pay raise each year. So a GS-13 engineer and a GS-13 human resources specialist who started at the same time and work in the same locality receive exactly the same pay raise — regardless of market conditions that might mean engineers are in high demand with skyrocketing salaries, while wages for HR specialists may have stagnated.

Palguta thinks the government should move to a more market-based pay system.

"It's time to overhaul the federal government's compensation system entirely, and really shoot to making it a market-based system," Palguta said. "We should be looking at, what are competitors paying for comparable talent? What are they paying HR people in the San Francisco area, versus accountants, versus lawyers, versus geophysicists?"

The Labor Department collects some occupation-specific salary data as part of its National Compensation Survey. But those salaries are repeatedly averaged together, and the government doesn't compare job-to-job salaries. Palguta suspects that highly skilled federal workers such as engineers and attorneys are probably underpaid, while many less-skilled workers are probably overpaid. But such distinctions are lost when salaries are averaged again and again, and job-to-job comparisons are not done, he said.

"We're way overdue to update the 1949 law" that established the General Schedule, Palguta said. "The difficulty is getting agreement on 'what would a market-based approach look like?'"

Palguta said the federal government is handcuffed to the pay gap methodology laid out in FEPCA, which requires the government to calculate one overall pay gap for each locality.

"I have no indication they [OPM] got the math wrong," Palguta said. "It's a screwy system. They do what they're asked to do. I don't know of any major private-sector employer that [sets pay] the way the government does pay setting."

At the request of Rep. Darrell Issa, R-Calif., the Government Accountability Office in April began reviewing the multiple studies on federal pay to find out why they come to such divergent conclusions. GAO's report is due next spring.

But several Republican presidential candidates, such as Mitt Romney, have seized on reports of overpaid federal workers and said rates must be corrected. Risher is dismayed that federal pay is becoming a partisan issue, and fears that will make it less likely that reform will take place.

"The government is losing by having this political football stuff," Risher said.

But it's easy to see why the issue has broken out that way. Conservative critics see the issue one way, and labor leaders see it quite another.

Federal unions — including some with leaders who sit on the Federal Salary Council — touted the pay gap findings.

"The growing pay gap is not surprising, since the federal workforce is in the midst of a two-year pay freeze," said Colleen Kelley, president of the National Treasury Employees Union and member of the Federal Salary Council. "The report underscores strongly that federal workers already have made significant personal sacrifices to deficit reduction, pushing their income even further behind that of their counterparts in the private sector."

How OPM calculates the pay gap

The Bureau of Labor Statistics and the Office of Personnel Management each year go through a complex process to estimate the average gap between federal General Schedule salaries and salaries for equivalent jobs in the private sector and state and local governments:

- The Bureau of Labor Statistics — for its National Compensation Survey of nonfederal salaries — selects a sample of metropolitan, micropolitan and smaller outlying areas, then selects 30,000 employers within those areas. BLS re-selects one-fifth of its sample each year, so there's a complete turnover every five years. Eighty-five percent of the employers are private-sector, and the rest are state and local governments.
- BLS randomly selects jobs at those employers and classifies sampled jobs into occupational categories based on their duties and responsibilities. BLS ends up surveying about 800 different jobs. BLS measures whether someone is full- or part-time, paid based on their time worked or with commissions or other incentives, whether they are union or nonunion, and how many supervisory responsibilities they have.
- BLS provides the data on those 800 jobs to OPM, but OPM only uses data on the roughly 250 jobs that have equivalents in the General Schedule. OPM then starts boiling the nonfederal salary data down to a single average salary for each locality.
- Nonfederal salary rates are averaged within job categories — professional, administrative, technical, clerical or protective officer, known as the PATCO categories — at the equivalent GS grade level. Each salary is weighted by the number of full-time, permanent, year-round employees in the matching GS grade. When that's done, OPM has the average nonfederal salary for each category in each GS grade.
- OPM then averages the nonfederal salaries of all five PATCO categories within each GS grade, which then yields one average nonfederal rate for each equivalent federal grade. Again, the numbers are weighted by federal population.
- The nonfederal salaries comparable to all 15 grades, again weighted by federal population, are averaged into a single, overall nonfederal average salary for each locality.

- OPM compares that non-federal salary average to the weighted GS salary average in each locality. The percentage difference between those two figures is the pay gap for that locality.
- OPM averages the weighted pay gaps for all localities to determine the overall pay gap.

Source: Office of Personnel Management.