

# Bloomberg GOVERNMENT

## Cato: Feds Earn 78 Percent More Than Private Sector

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Federal employees in 2014 earned 78 percent more, on average, than private sector workers when benefits are included as part of compensation, according to a report issued Oct. 5 by the Cato Institute.

In 2014, the nation's 2.1 million federal civilian workers earned an average annual salary of \$84,153, compared with an average of \$56,350 for the nation's 111 million private sector workers, the report said, citing data from the federal Bureau of Economic Analysis. Including benefits such as health care and pensions, "total federal compensation averaged \$119,934, or 78 percent more than the private-sector average of \$67,246," the report said.

"The federal government has become an elite island of secure and high-paid employment, separated from the ocean of average Americans competing in the economy," Chris Edwards, director of tax policy studies at the institute, wrote in the report.

Tony Reardon, president of the National Treasury Employees Union, criticized the comparisons contained in the report as "meaningless."

### Variety of Reasons Cited for Rising Pay

A 2010 Cato Institute report also concluded that federal employees are paid substantially more than their private sector counterparts (115 DLR A-7, 6/17/10).

"Rising federal compensation stems from legislated increases in general pay, increases in locality pay, expansions in benefits, and growth in the number of high-paid jobs as bureaucracies become more top-heavy," Edwards wrote in the new report.

"Compensation growth is also fueled by routine adjustments that move federal workers into higher salary brackets regardless of performance, and by federal jobs that are redefined upward into higher pay ranges," he said.

The president and Congress each year determine the amount of the following calendar year's across-the-board pay increase for federal workers, although President Barack Obama and Congress didn't provide such increases during calendar years 2011 through 2013.

Locality pay is determined each year by the president, who can set aside a portion of the across-the-board pay increase to be distributed in different amounts to federal workers in various areas of the country. The president also has the option of not providing locality pay, which happened in calendar years 2014 and 2015.

In addition to the across-the-board increases provided to federal employees, federal workers in good standing who aren't at the top of their pay grades receive step increases that advance their salaries. Federal employees also can earn higher salaries through merit increases and promotions, which were provided even during the recent three-year freeze on across-the-board pay increases.

The freeze on across-the-board federal pay increases from 2011 to 2013 “saved billions of dollars,” Edwards wrote in the report.

“To find further savings, policymakers should turn their attention to the generous benefits received by federal workers. They should also reduce the overall size of the federal workforce by terminating and privatizing programs,” he said.

#### Federal Pay Generates Lots of Opinions

Edwards acknowledged in the report that there is a wide range of opinion on the topic of whether federal employees are paid more than private sector workers.

“A 2012 Congressional Budget Office (CBO) study found that, for comparable workers, federal wages were similar to private wages overall, with just a small two percent advantage for federal workers,” he wrote.

“However, the CBO also found large differences based on education levels. Among less-educated workers, the federal government pays better, but among highly educated workers, the private sector pays better,” Edwards wrote.

The 2012 CBO report found that federal employees on average earn 2 percent more in wages than comparable private sector employees but 16 percent more in total compensation, including wages and benefits (20 DLR A-6, 1/31/12).

Looking only at wages, the CBO report said federal workers with bachelor's degrees earned about the same as their private sector counterparts, federal workers with no more than a high school education earned about 21 percent more, and federal workers with a professional degree or doctorate earned about 23 percent less than their private sector counterparts.

When benefits also are taken into account, the cost of total compensation averaged 15 percent more for federal workers with a bachelor's degree than for similar workers in the private sector, the CBO said. Among people with a high school diploma or less, the report said, total compensation costs averaged 36 percent more for federal employees. By contrast, it said, among people with a professional degree or doctorate, total compensation costs were 18 percent lower for federal employees than for similar private sector employees, on average.

## Federal Unions See Bogus Study

Jacque Simon, public policy director for the American Federation of Government Employees, told Bloomberg BNA Oct. 8 that she considers the report to be “pure propaganda.”

About 26 percent of private sector workers earn less than \$10 per hour, making a comparison between average salaries in the private and federal sectors “a very unenlightening way to talk about federal pay,” she said.

Simon added that between 45 percent and 55 percent of private sector employees don't have pension benefits, again making comparisons between averages in the two sectors misleading. Other private sector workers have only a defined contribution pension benefit, meaning that they are responsible—sometimes with an employer match—for funding their own pensions.

Private sector employees who do have defined benefit pensions—about 18 percent of the total, according to Simon—generally pay less toward their retirements and earn more upon retirement than federal workers, she said.

The Federal Employees Retirement System, which was established in 1986, includes both a defined benefit and a defined contribution component. The Civil Service Retirement System, which preceded FERS and still covers some long-time federal employees, doesn't include a defined contribution component.

The AFGE, an AFL-CIO affiliate, represents a total of about 670,000 federal and District of Columbia government employees.

The NTEU's Reardon also criticized the Cato report in an Oct. 8 statement to Bloomberg BNA.

“By comparing specific jobs against entire economic sectors, Cato produces numbers that grab headlines but are meaningless,” Reardon said.

The NTEU, an independent union, represents about 150,000 federal workers.

The Cato Institute, a Washington, D.C.-based nonprofit, describes itself as “a public policy research organization ... dedicated to the principles of individual liberty, limited government, free markets and peace.”