ARE FEDERAL WORKERS UNDERPAID?

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE,
U.S. POSTAL SERVICE AND LABOR POLICY

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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ARE FEDERAL WORKERS UNDERPAID?

WEDNESDAY, MARCH 9, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:35 p.m., in room 2154, Rayburn House Office Building, Hon. Dennis Ross (chairman of the subcommittee) presiding.

Present: Representatives Ross, Amash, Jordan, Chaffetz, Mack, Walberg, Lynch, Norton, Connolly, and Davis.

Staff present: Ali Ahmad, deputy press secretary; Michael R. Bebeau, assistant clerk; Molly Boyl, parliamentarian; Benjamin Stroud Cole, policy advisor and investigative analyst; Howard A. Denis, senior counsel; Adam P. Fromm, director of Member liaison and floor operations; Jennifer Hemingway, senior professional staff member; Christopher Hixon, deputy chief counsel, oversight; Ryan Little, manager of floor operations; Justin LoFranco, press assistant; James Robertson, professional staff member; Kevin Corbin, minority staff assistant; Jill Crissman, minority professional staff member; Carla Hultberg, minority chief clerk; and Mark Stephenson, minority senior policy advisor/legislative director.

Mr. ROSS. Good afternoon and welcome to the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy.

Today, we have two panels that will be testifying before us. I do want to note, though, that we probably will have to take a break in between 2 and 3 for two votes. So we'll have to take a temporary recess for about 30 minutes at that time and then reconvene for the specific purpose of continuing our testimony. Hopefully, we will be able to get through the first panel before we have to go do our votes.

With that, I will call the committee to order; and, as is custom with the full committee and the subcommittees, I will read the mission statement of the Oversight Committee.

We exist to secure two fundamental principles: First, Americans have a right to know that the money Washington takes from them is well spent; and, second, Americans deserve an efficient, effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect those rights. Our solemn responsibility is to hold the government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This the mission of the Oversight and Government Reform Committee.

Today, we are here to discuss whether Federal employees are adequately compensated. I'll begin with my opening statement and then defer to the Ranking Member Lynch for his.

According to the Office of Personnel Management, the average salary for Federal employees was $74,311 in 2010. The average private sector worker earned $50,462, according to an August 10, 2010, analysis conducted by the Cato Institute. The Federal Government also pays an average of 36 percent of employees' base health insurance and pension benefits, in addition to generous paid leave. Taken together, Federal employees, on average, earned $101,628 in total compensation in 2010, nearly four times more than the average private sector worker.

The members of this subcommittee recognize that our talented work force performs critically essential functions and missions throughout the government on behalf of our Nation. We appreciate their service. Federal employees should be compensated fairly. Yet current Federal salaries and benefits are not in line with the marketplace when compared to the private work force compensation. In a time when our economy is in a recession, the contrast between the government and private sector pay is troubling. The Federal Government has no incentive or obligation to reduce salaries in order to be competitive to stay in business. It can simply borrow more money or raise taxes.

With Federal spending and unemployment at or near record highs, this hearing presents an opportunity for lawmakers of this committee to hear important testimony from our distinguished panelists on how best to address the growing pay disparity between the Federal civilian work force and the private sector work force.

Over the past decade, compensation of private sector employees has not kept pace with that of Federal employees. Moreover, Federal workers receive generous benefits, vacation, health insurance, pension plans, retirement savings, and disability pay. These benefits greatly exceed those that are normally provided to the private sector work force.

Last November, President Obama announced a 2-year pay freeze for Federal employees. Unfortunately, the pay freeze did not impact salary increases driven primarily by the passage of time or bonuses, meaning President Obama's pay freeze wasn't really a freeze.

Additionally, according to the Bureau of Labor Statistics, the Federal Government grew by 157,000 people from December 2008 to 2010, while private sector lost 8.8 million jobs. The unemployment rate hovers around 9 percent. The President's budget requests an additional 15,000 new Federal workers for the fiscal year 2012. Our taxpayers can no longer be asked to foot the bill for these Federal employees, while watching their own salaries remain flat and their benefits erode. Congress has an obligation to consider all policy reforms that overhaul Federal compensation, reduce costs, and better align with the private sector.

I thank the witnesses all for appearing today, and I look forward to your testimony.

I now recognize the distinguished ranking member from Massachusetts, Mr. Lynch, for his opening statement.

Mr. LYNCH. Thank you, Mr. Chairman. I thank the witnesses for their attendance here. Good afternoon, members of the committee.

The topic of today's hearing regarding Federal employees compensation requires us, I think, periodically to review the way we are paying our Federal employees, reviewing the pay levels and benefits that they receive. But, recently, this topic has generated much debate.

As stewards of the people, we should conduct robust oversight into the Office of Personnel Management's pay-setting practices, and we owe the U.S. taxpayer full transparency in this area, as well as assurance that the salaries and benefits provided to our Federal workers are reasonable and appropriate.

I note that the debate over Federal employee benefits predated the 1883 enactment of the Pendleton Act overhauling the patronage system, and I'm quite confident this debate will outlive the service of our committee.

Like all Americans, Federal employees are not immune from our Nation's economic and fiscal challenges; and they understand the sacrifices called for in the 2-year pay freeze enacted this past December by Congress and the President.

However, we need to be careful not to get caught up in the oversimplistic data comparisons between private sector and Federal jobs. A recent New York Times article pointed out that when comparing private and public sector occupations the clearest pattern to emerge is an education divide. The most reliable factor in predicting compensation levels is actually the level of education; and when comparing private and public sector occupations, the clearest pattern to emerge is an education divide, a divide that has grown more pronounced in recent decades.

Today's Federal civilian work force is highly educated, with over half of all Federal employees working in the nine highest-paying professional occupations in the country. It is also a work force marked by a declining number of blue collar workers, dropping from over 30 percent to just under 9 percent of the work force in the last 40 years. So the Federal employees are a more professional level of employee. We have contracted out most of the blue collar jobs, the lower-paying jobs, which is why you get a discrepancy when comparing Federal employees to the general public.

In light of the 2-year pay freeze which is squeezing the pockets of Federal workers who are also facing ever-escalating health care costs today, I'm reintroducing my bill to inject cost transparency into the Federal Employees Health Benefit Program contracts between health plans and pharmacy benefit managers. This bill will lower Federal employees' out-of-pocket spending and the program's operational costs, resulting in a win-win for both Federal employees and taxpayers.

I look forward to hearing from the distinguished witnesses assembled here today as your expertise and guidance on compensation issues enables us to better forge a high-performing civil service that is prepared to meet the challenges of the 21st century. Thank you.

Mr. ROSS. Thank you, Mr. Lynch.

Members may have 7 days to submit opening statements and extraneous materials for the record.

We'll now welcome our first panel, the Honorable John Berry, who is the Director of the U.S. Office of Personnel Management.

Mr. Berry, pursuant to committee rules, all witnesses must be sworn in before their testimony, before they testify. Please rise and raise your right hand.

[Witness sworn.]

Mr. ROSS. Let the record reflect the witness answered in the affirmative.

Mr. Berry, please limit your opening statement to 5 minutes. We do have your testimony, and we're grateful for that, and we're very grateful for you to be here. You may begin.

STATEMENT OF JOHN BERRY, DIRECTOR, U.S. OFFICE OF PERSONNEL MANAGEMENT

Mr. BERRY. Thank you Chairman Ross, Ranking Member Lynch, and members of the subcommittee. It's an honor to be with you here today, and I appreciate the opportunity.

I believe that the members of this subcommittee and I, and all Federal employees, share the goal of making government more efficient while improving services; and I look forward to working together with you to accomplish that.

President Obama said it best last week when he said, "I don't think it does any good when public employees are denigrated or vilified or their rights are infringed upon. We need to attract the best and the brightest to public service. Our times demand it."

Our need for great workers could not be more clear. Federal employees hold lives in their hands and oversee large sums of taxpayer dollars. We need talented and innovative people at the Department of Defense supporting our warfighters. We need great doctors and nurses at our veterans hospital doing lifesaving work. And we need tough men and women at the Departments of Justice and Homeland Security to protect us from another terrorist attack.

And it is just a fact, Mr. Chairman, in order to get these workers we must provide pay and benefits on par with other large companies for whom we compete with talent. We cannot and should not be the employer of last resort.

Despite the complex challenges we face, the Federal civilian work force is virtually as small today as it has been throughout the modern era. In 1953, there was one Federal worker for every 78 residents. Today, 2009, it was one for every 147.

President Obama has frozen annual pay adjustments for 2 years. The raw comparisons of average pay between Federal and private sector employees often can ignore important differences between skill levels, complexity of work, scope of responsibility, size of organization, location, experience level, as well as exposure to personal danger. Even comparisons that purport to compare employees in the same occupations can sometimes be misleading.

For example, some claim that Federal attorneys make more than private sector attorneys. In fact, while more than half of our general attorneys in the Federal Government earn less than $90,000 in their first year of service, the median first-year salary for comparable attorneys in the private sector is $145,000.

As another example, Federal cooks may seem overpaid until you consider that many of them work in our prison system where they supervise inmates in a very dangerous environment.

The Federal Government, like most large employers, also provides an array of benefits. While we need to do this to be competitive, note that these benefits are not free to our employees. Employees share in the cost of those benefits and, in many cases, pay 100 percent of the cost. For health benefits, enrollees share 30 percent of the premium costs. For dental and vision, they pay 100 percent of the cost. For life insurance, they pay 66 percent for the basic premium but 100 percent for any coverage beyond that. For long-term care, they pay 100 percent.

I'd also like to note that Congress and President Reagan reformed our benefits, our retirement benefits, 25 years ago, and this has avoided the struggles that State and local governments are now going through. Those reforms guarantee that our FERS retirement system is financially sound and fully funded at 100 percent.

Bottom line, this administration is committed to providing the superior service the American people expect and deserve. Managers and employees who aren't doing that should be held accountable and ultimately fired if they don't improve. There should be no place in the Federal Government for non-performers to hide.

Our pay system is not perfect. I have said before, it is six decades old and could use a re-examination. We are required by law to reduce all of the comparisons to one average number. This is imperfect and does not reflect the complexity of the work force.

But, even so, we must reject misleading uses of data that perpetuate the myth that Federal employees are, as a whole, overcompensated. They are not. Our wages and our benefits are fair, and they are competitive. Any reforms we undertake must meet the following principles that our existing GS system does well: transparency, equal pay for equal work, no political influence, and the ability to recruit and retain the work force we need. This is how it must be if we are to recruit and retain the best workers and carry out our critical life-saving and life-enhancing missions. Falling behind is unacceptable.

Thank you, Mr. Chairman. I'm happy to answer any questions.

[The prepared statement of Mr. Berry follows:]

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
THE HONORABLE JOHN BERRY
DIRECTOR
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

on

ARE FEDERAL WORKERS UNDERPAID?

MARCH 9, 2011

Chairman Ross, Ranking Member Lynch, and Members of the Subcommittee:

Thank you for the opportunity to testify before you today about the Federal workforce and Federal employee pay. As you know, recently there has been attention in Congress and in the media about the compensation of Federal employees and how it compares to the compensation of the private sector. Many of the comparisons being made are misleading and mask important differences that may undermine the efforts of dedicated hardworking men and women who serve their country.

President Obama said it best last week: "I don't think it does… any good when public employees are denigrated or vilified or their rights are infringed upon. We need to attract the best and the brightest to public service. These times demand it."

As this Administration's chief people officer, my goal is simple: hire the best. We strive to get the American workers we need for the American people we serve – and protect. That's why reforming our hiring process and hiring more veterans have been two of my first and highest priorities.

Over the past two years, we have been able to move from a complicated essay based application process to accepting resumes and cover letters. We have reduced job announcements to a reasonable length and put them in plain language. We are contacting employees at four points in the process and we are working on reducing the time to hire. And last year, when government

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Director
U.S. Office of Personnel Management

March 9, 2011
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agencies hired fewer people overall, through the veterans hiring initiative, we hired 2,000 more veterans than in the previous year.[1]

We have been fortunate throughout our history to have talented and hardworking individuals willing to forgo more lucrative careers and step forward for public service. It is the mission of the Office of Personnel Management (OPM) to recruit, retain and honor that world-class workforce to serve the American people. In order to do this, we must provide pay and benefits on par with other large companies for whom we compete for talent. We cannot and should not be the employer of last resort.

Federal employees hold lives in their hands and oversee large sums of taxpayer money. We need talented and innovative people at the Department of Defense supporting our war fighters. We need great doctors, nurses, and scientists at our Veterans Hospitals and the National Institutes of Health doing life saving work. We need creative and tough men and women at the Departments of Justice and Homeland Security to protect us from another terrorist attack. These are highly-skilled jobs and the people who fill them cost money.

Despite the complex challenges we face, the Federal civilian workforce is virtually as small today as it has been in the modern era. In 1953, there was one Federal worker for every 78 residents. In 2009, it was one for every 147. We have also dramatically shifted to a much higher-skilled workforce. Forty years ago, approximately one-third of the Federal workforce was blue collar, now it's approximately one-tenth.[2] Back then, most white collar employees were clerks; today the white collar workforce is highly specialized, and needs skills, experience, and judgment in order to serve and support a knowledge-based economy.

Federal Pay and Benefits

PAY

President Obama has frozen annual pay adjustments for two years. Before that, the adjustments moved in virtual lock step with the private sector labor market, regardless of who controlled Congress or the White House.[3] However, such comparisons are complicated by the fact that Federal and private sector workers do very different types of work. Raw comparisons of average pay between Federal and private sector employees mask important differences in the skill levels, complexity of work, scope of responsibility, size of organization, location, experience level, and

[1] From OPM Enterprise Human Resources Integration – Statistical Data Mart (EHRI-SDM).
[2] From OPM Central Personnel Data File (CPDF).
[3] See President's FY 2011 Budget, Analytical Perspectives, Chart 10-2, p. 100.

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special requirements, as well as exposure to personal danger. For example, data from the Current Population Survey (CPS) shows that half of Federal workers work in the nine highest-paying occupations groups such as judges, engineers, scientists, and nuclear plant inspectors. In comparison, less than a third of private sector workers worked in those same nine highest-paying groups. In contrast, a fifth of private sector workers work in the four lowest-paying occupation groups (excluding law enforcement, which does not have a good private sector counterpart), as cooks, janitors, service workers, and manufacturing workers. Fewer than one in thirteen Federal workers work in those four lowest-paying groups.

Even comparisons that purport to compare employees in the same occupations are misleading. For example, some claim that Federal attorneys make more than private sector attorneys.[4] In fact, while more than half of General Attorneys in the Federal Government earn less than $90,000 in their first year of service, the median first year salary for comparable attorneys in the private sector is $145,000.[5] The methodology is weak since jobs that have the same titles and some similar duties are not necessarily comparable. For example, one-third of Federally employed cooks work for the Department of Justice in prisons, where they also supervise inmates in a clearly dangerous environment.[6] We must pay more to fill these critical jobs with qualified individuals.

As noted in the President's Pay Agent Report and discussed in other venues, there is a need to consider reforms of the white-collar Federal pay system. We have serious concerns about a process that requires a single percentage adjustment in the pay of all white-collar civilian Federal employees in each locality pay area without regard to the differing labor markets for major occupational groups. In addition, we believe the underlying model and methodology for estimating pay gaps should be reexamined to ensure that Federal sector and non-Federal sector pay comparisons are as accurate as possible.

For every level of every job in every geographic area, we must make the best comparisons we can to determine a competitive wage to offer to get the people we need.

[4] Sherk, James. "Inflated Federal Pay: How Americans are Overtaxed to Overpay the Civil Service." (July 7, 2010)
[5] For private sector median salaries, see "Some Associate Salaries Retreat from Their High But Remain Far Ahead of Salaries for Public Service Attorneys". NALP, http://www.nalp.org/assoc_pi_sal2010, (September 9, 2010). Data on Federal civilian General Attorney salary is from OPM's FedScope Database.
[6] From OPM Central Personnel Data File (CPDF).

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Director
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BENEFITS

To compete for the talent we need, the Federal government, like most large employers, also provides an array of benefits for employees and their families. To do that, we must offer incentives competitive with those offered in the private sector. These benefits are not free to employees. Employees share in the cost of the benefits, in many cases paying 100 percent of the cost.

In the Federal Employees Health Benefits Program (FEHBP), enrollees share 30 percent of the premium costs.[7] For optional dental and vision benefits, they pay 100 percent.[8] For the Federal Employees Group Life Insurance Program (FEGLI), employees pay 66 percent of the basic premium, and the full cost of any additional coverage. For the Federal Long Term Care Insurance Program, (FLTCIP) enrollees pay the entire premium cost. For these 100% employee paid programs, we only negotiate a group rate.

Our current retirement benefits are competitive. The struggles States and local governments are going through with pensions right now, we reformed 25 years ago. Since 1983, all new employees have enrolled in the Federal Employees Retirement System (FERS). FERS uses the three-legged stool model: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan (TSP). The basic benefit is a "defined benefit", which is fully paid for as envisioned by the bipartisan Federal pension reform President Reagan signed into law in 1986.[9] Social Security is the same as for every other American. And the final leg is the Thrift Savings Plan (TSP), a defined contribution plan in which employees may contribute and receive a limited match from the Government. They have investment choices, much like private sector 401(k) plans.

Hire the Best, Respect the Workforce, Expect the Best, and Honor Service

Bottom Line: This Administration is committed to providing the superior service the American people expect and deserve. Managers and employees who aren't doing that should be held accountable, and ultimately fired if they do not improve. There should be no place in the Federal government for non-performers to hide.

[7] For most employees, the Government contribution equals the lesser of: a) 72 percent of the overall weighted average; or b) 75 percent of the total premium for the plan an employee selects. The amount the employee pays is the balance (http://www.opm.gov/insure/new_employ/index.asp?AnswerID=3). In applying this formula to all plan premiums, the result is a 70% average employer contribution, 30% employee contribution.

[8] This refers to FEDVIP, the Federal Employees Dental and Vision Insurance Program (http://www.opm.gov/insure/archive/07/guides/fedvip.asp).

[9] Most employees covered by FERS make contributions equal to 0.8 percent of basic pay, And in order to qualify for retirement benefits, an employee must meet minimum age and service requirements. The amount of the employee's annuity depends on the highest average annual pay during any three consecutive years ("High-3") and length of service.

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Our pay system is not perfect. I have said before that the system is six decades old and could use a reexamination. As for comparability, it is not perfect either. We are required by law to reduce the comparisons of all the Federal and non-Federal occupations and geographic regions down to one number. This does not reflect the complexity of the world we live in.

But even if the system is not perfect, we must reject misleading uses of data that perpetuate the myth that Federal employees are as a whole overcompensated. As a whole, the wages that the Federal Government pays its employees are fair and the benefits it offers are competitive. Any reforms we undertake must meet the following principles that the existing GS system does well: transparency, equal pay for equal work, no political influence, ability to recruit and retain a well-qualified workforce.

This is how it must be if we are to recruit and retain the best workers to carry out our critical life-saving and life enhancing missions. Falling behind is unacceptable.

I have had the privilege of working with career civil servants for over a quarter century. They are good, hard working people. The vast majority of them are doing good work for the American people—whether it is as a rocket scientist, VA nurse, park ranger, cancer researcher, prison guard, or any other position. Remember – 85 percent of Federal employees work outside Washington. They live and work in your communities, in every State, every Congressional district, serving their neighbors and making their fellow Americans safer and freer.

The great majority who work hard and provide good service to the American people should be recognized and applauded. The most recent employee survey showed that 97 percent of respondents answered positively to the statement "when needed I am willing to put in the extra effort to get a job done." I challenge you to find another organization with that level of commitment to its mission. It is time for 30-plus years of denigration to end. In this time when so many families are struggling to make ends meet, we should acknowledge that Federal employees are making sacrifices too, not only by accepting a freeze in their pay, but also by standing committed to public service and our nation.

Again, I thank you for the opportunity to be here, and I'll be happy to answer any questions that you may have.

Mr. ROSS. Thank you, Mr. Berry. I will yield myself 5 minutes for questions.

Mr. Berry, I note that in the President's January 2011, Pay Agent report it showed a 22 percent difference between Federal employee pay and private sector pay, and I was wondering, did that include benefits, that assessment, that report?

Mr. BERRY. No, that is focused specifically just on the pay.

Mr. ROSS. And, subsequent to you testifying, we'll have another panel. Mr. Biggs will testify that a Federal pay premium of 14 percent, and when combined with benefits premium of 33 percent, total Federal salary and benefits are nearly 25 percent above those of similar private sector employees; and Mr. Sherk will testify that Federal employees earn a total compensation of 30 to 40 percent greater comparable than private sector workers. Do you agree with their findings?

Mr. BERRY. Absolutely not.

Mr. ROSS. And why not? Because, in one sense, we're talking about strictly compensation. In the other, we're talking about compensation and benefits.

Mr. BERRY. If we just—if we'll stay for compensation for a second, Mr. Chairman—and I agree, I'm happy to look at them together. But for the purposes of this discussion, it's easier if we can keep them separate for a moment.

Their comparisons are based on gross averages. As Congressman Lynch mentioned, the Federal work force is now a very skilled, white collar, high sophisticated work force. It used to be 40 years ago over a third of our work force was blue collar. Less than 10 percent is today. And so we need to compare the Federal Government with like to like.

What the Bureau of Labor Statistics does and the Department of Commerce is they go into literally every locality, every one of your States in the country, and they will compare entry-level, mid-level, and senior-level career for each position.

So they'll look at an engineer, for example. They will find a job in the private sector that is almost duplicative. And the private sector doesn't use the GS system, so you could imagine this is very exhaustive. It's expensive. It takes a lot of work.

The work that you're going to hear from in the next panel, they don't have the resources to do that. The Bureau of Labor Statistics does that on an annual basis for us, and that's the data we're comparing. So we're getting real comparison of like jobs to like jobs.

The averages you're going to hear about from that panel are looking at the total labor force of the civilian market. The primary jobs in the private sector are retail clerks and service workers, waiters and waitresses. We don't have those in the Federal Government and those that we do are generally provided on a contract basis with the private sector. So that average, you can see, pulls down the private sector number. But when you compare engineer to engineer, lawyer to lawyer, doctor to doctor, nurse to nurse, what it shows consistently for 20 years is that Federal employees lag the private sector.

Mr. ROSS. But wouldn't you also agree, because I don't believe OPM considers the job security as a criteria when determining the value of a job. Is that correct?

Mr. BERRY. No, sir. Obviously, working in the Federal Government, our mission is long term in nature.

Mr. ROSS. And it should be for any employment. I mean, people go into employment for careers and not to change jobs through a revolving door. And I guess my question is, is that when you look at fiscal year 2010, the quit rate for GS employees was 1½ percent and the layoff rate was 0.37 percent. And do you have any opinion as to how that would compare to the private sector?

Mr. BERRY. Our attrition rates pretty much track the private sector. You know, I have heard some misinformation from some folks talking about that the Federal Government doesn't have a retention problem. Let me just give you doctors and nurses. In 2005, we hired 5,300 of them. As of today, we have lost 2,300, for a quit rate of over 43 percent. I have a retention problem. And that is primarily based—when we are talking to employees as they leave, one of the biggest and leading concerns is the fact that they're underpaid.

Mr. ROSS. But, again, speaking as a whole Federal work force, we're only looking at a 1½ percent quit rate. I mean, so I wouldn't consider that to be so much of a problem. If it was 40 percent as a total of the entire work force, then I would consider it a problem.

But let me ask you, you talked about highly skilled occupations, engineers and lawyers, being paid below the market. Are there any circumstances or instances where Federal employees are paid above the market?

Mr. BERRY. Absolutely. Yes, sir. The average—when I say—I do not mean to represent when I say the 22 percent pay gap that the Department of Labor references doesn't apply to each and every job reaching every employee. That is a gross average, which means some employees are paid more, some are paid less, some are paid the same. Clearly, to get that number of the gap, the clear majority are paid less. There are some that are paid more.

Mr. ROSS. Real quickly. I've just got a couple of seconds. How many days of paid leave are Federal employees entitled to? Do you know?

Mr. BERRY. We can give you—it varies based on years of service, Mr. Chairman, so if I could I'll just provide that to you for the record.

Mr. ROSS. OK. Thank you.

Mr. BERRY. So you'll have it exactly.

[The information referred to follows:]

[NOTE.—No insert/information provided.]

Mr. ROSS. I see my time's up.

I'll now recognize the distinguished gentleman and ranking member from Massachusetts, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Welcome, Director Berry. I want to thank you for the good work you're doing over there.

One of the things I just want to start out by pointing out is I notice behind me there's a chart here, employment changes, that the Federal Government added 157,000 jobs. I just want to—now, this is 2008 through 2010. Now, you would think that meant that employment at the Federal—in the Federal sector actually went up. During—I went back, and I got the numbers because I was surprised by that number, and I went back and actually calculated the number of separations, the number of people who left the Federal Government. We had almost 207,000 leave in 2010, 90,000 in 2009—just over 90,000—and 219,000 in 2008, for a total separation of 616,359 employees. So while they're saying there's 157,000 new first-time employees, there's also been a reduction of 616,000 employees who left. And I think that also speaks to the argument of job security. If 616,000 employees—and these were deaths, firings, these were quits, these were retirements, all combined. So it does, I think, provide a little wider picture.

Director Berry, much is said of the general schedule's lack of performance management, mainly its inability to appropriately reward individual performance. I think it was because of some of those concerns back in 2009 we experimented with an alternate pay system at the Department of Defense called the National Security Personnel System. We spent hundreds of millions of dollars implementing the new system and, oddly enough, we had 0.8 percent of people who usually are rejected for step increases under the old system, and under this new system, this pay-for-performance system, 0.2—0.2 percent were rejected for the step increases. So with the new system, on pay for performance that's been suggested as being an alternative here, we had less people get disciplined or rejected for their step increases.

So I'm just curious. It seems like the managers were doing the same thing under the new system as they did under the old system, and I'm just curious if that's a—if you think that's a viable alternative here.

Mr. BERRY. Well, Mr. Lynch, I think you hit on two points that I think it's important for the committee to keep in its sights, if you will, as you move forward on this path.

First is, you know, the Congress repealed NSPS, and so the Defense Department has been moving employees back into the GS system. If you think that their pay-for-performance system, NSPS, is going to save the taxpayer dollars, what we found is that 20 percent of the work force, in moving back, is on retained pay, meaning that they are making more than they would have made had they been in the GS schedule. And so, therefore, they're going to stay frozen until the GS schedule catches up with them. Now, that's a big number.

The second point is—it goes to something I've learned in the 2 years on the job here in working on this, and I've spent a lot of time looking at pay, performance, and the combination thereof and learning from the NSPS story. And I have concluded that it is more important to focus on the performance side of the equation first and get that right.

Good performance is based on three key things that we do to a certain extent in the Federal Government, but I would not sit here and tell you we do well. We need to do it a lot better. And that is, align organizational mission and goals right down through the SES down to the individual employee's performance and then have managers, employees regularly having conversations, just like they do in the private sector. Are we on track or off track? And if we're off track, laying out the plan to be back on, and if they are not back on, they're gotten rid of.

That's a good performance system. We can do that.

And so what I'm going to do, and what we just did yesterday through the Chief Human Capital Officers Council, is we've created a working group made up and shared by two career senior executives so it won't have political interference or bias and they will report in on what can we do as the Federal Government to tighten and strengthen our performance system. I think if we get that right then we can have the discussion about pay, and we can avoid repeating the same mistakes that were made under NSPS.

Mr. LYNCH. That's great. Thank you, Mr. Director.

Thank you, Mr. Chairman. I yield back.

Mr. ROSS. Thank you, Mr. Lynch.

I recognize the distinguished gentleman from Utah for 5 minutes, and then we'll probably recess to go vote.

Mr. CHAFFETZ. Thank you for being here.

I want to make sure we get the numbers. My understanding is since the time Barack Obama took office until now there is a net increase of Federal employees, which excludes the uniform military, census and postal, the net increase is 157,000 additional Federal workers, yes?

Mr. BERRY. There is an increase, Mr. Chaffetz; and about 75 percent of those would be comprised in VA hospitals, Homeland Security, Justice Department.

Mr. CHAFFETZ. But the net increase, the net increase of Federal employees is roughly 157,000 additional Federal workers.

Mr. BERRY. Yes, sir.

Mr. CHAFFETZ. And you did announce in October that you plan to hire an additional 125,000. Not all 125,000 would be a net increase, but roughly 40,000 to 50,000 would be a net increase in current employment levels in the Federal Government.

Mr. BERRY. I think that number, Mr. Chaffetz, has been overtaken by the President's budget that was submitted which shows that number staying flat for 3 years.

Mr. CHAFFETZ. My understanding of the President's budget is that he's actually increased the compensation level in his budget by 2½ percent, or roughly $6 billion, this year over last year.

Mr. BERRY. Well——

Mr. CHAFFETZ. Why the increase? Why the additional $6 billion? If there's a pay freeze and you're not going to need very many new employees, why a $6 billion increase in that line item?

Mr. BERRY. I would need to understand better exactly what line you're referencing in the budget.

Mr. CHAFFETZ. It went from $236,175,000 to $242 billion between 2011 and 2012 based on the executive branch, excluding the U.S. Postal Service.

Mr. BERRY. There is a natural growth, sir, of promotions, for example. The President's pay freeze does not prevent people from being promoted based on performance.

Mr. CHAFFETZ. So the reality on a pay freeze is the net did not save the American taxpayers money. In fact, it doesn't keep them equal. In fact, that number is actually growing, is it not, because of bonuses and step increases and other things?

Mr. BERRY. No, the pay freeze, sir, is a cost-of-living adjustment that is a definite savings. It saves over $28 billion in 5 years and $60 billion in 10 years.

Mr. CHAFFETZ. The reality is it will cost the taxpayers more. Taxpayers will pay more for Federal employees, as a whole, this year as opposed to the year before.

Mr. BERRY. Had the President not frozen pay that same number would be $28 billion higher.

Mr. CHAFFETZ. What I'm saying is accurate, right?

I guess what is concerning to many of us is, when the President and you, in your very first line say, "President Obama has frozen annual pay adjustments for 2 years," it gives the impression that we're not going to spend more money on personnel. But the reality is we're going to spend billions and billions more because of bonuses and step increases and other things. At the same time, you're hiring additional people. So for the Federal work force that is working hard, they're somewhat offended because their pay is frozen. Meanwhile, you're out hiring additional people.

Mr. BERRY. Mr. Chaffetz, in the President's pay freeze he also directed OPM and the Office of Management and Budget to report back to him on a program that will address and deal with bonuses and the reward and incentive program for Federal employees. The Office of Management and Budget and I will be doing that in short order, and we will look forward to discussing that with you more. But I think you will see that those numbers will change.

Mr. CHAFFETZ. My understanding is, in 2009, based on a letter that you gave to this committee on February 16th, it said that 779,000 people in the Federal Government actually got awards, which is a combination of bonuses and other things. In fact, over 63 percent of the Federal workers actually got, "awards." Why so many people are getting so many awards at a time when people are losing their jobs?

Mr. BERRY. You have to understand with a 2.1 million size work force the average number in that GS of those awards is below a thousand dollars.

Mr. CHAFFETZ. But 63 percent of them.

Mr. BERRY. These are not the Wall Street bonuses that people are used to when they think of a bonus. These are recognizing outstanding performance.

Mr. CHAFFETZ. That's offensive to a lot of people. Sixty-three percent of Federal workers got a bonus, got an award, and there are lot of people out there losing their job. They have their own businesses. They don't understand when the President stands up and says, oh, we're going to have a pay freeze; and then you're handing out bonuses to get around it. It doesn't make sense.

How much money are you going to give away in bonuses this next year?

Mr. BERRY. It works out to be between 1 and 2 percent of payroll, sir, that is used in bonuses for the GS schedule.

Mr. CHAFFETZ. What is the dollar amount of that?

Mr. BERRY. I'll have to get you the exact number for the record, sir.

[The information referred to follows:]

[NOTE.—No insert/information provided.]

Mr. CHAFFETZ. My understanding, according to Federaltimes.com, which put out a report on December 6, 2010, it said that more than three-quarters of the 1.4 million General Schedule employees will get at least one pay raise between 2011 and 2012.

Mr. BERRY. One of the things that I—you know, and I will take—it's a legitimate concern to be addressed. And one of the things we can take back to this working group that we've established, the CHCO council, is that a fair number?

Mr. CHAFFETZ. Do you dispute that number?

Mr. BERRY. I trust you, Mr. Chaffetz. I would presume that you're reading from a legitimate document.

Mr. CHAFFETZ. Well, thank you. The answer is yes.

I yield back.

Mr. ROSS. Thank you. The gentleman's time has expired.

What we'll do is we'll take a recess to continue our votes, and we'll reconvene 5 minutes after our last vote. It should be within about a half hour. Thank you.

[Recess.]

Mr. ROSS. Good afternoon and welcome back. We'll reconvene the subcommittee. And, again, I appreciate everybody's indulgence. That should be the last vote series of the day, so we can go forward with Mr. Berry and then with our second panel.

At this time I would like to recognize the distinguished gentlewoman from Washington, DC, Ms. Norton, for 5 minutes.

Ms. NORTON. Thank you very much, Mr. Chairman.

This hearing provides the opportunity, if we will use it, to clarify a number of matters.

I want to thank you, Mr. Berry, because just in your first sentence you have told the American people something that almost none of them know, and that is the very high-quality, upper-technology knowledge level of the work force. I will guarantee you that there was almost no information.

When we hear what Federal employees, that generic term means that you're talking about judges, engineers, scientists, nuclear plant inspectors, as less than a third of private sector workers could fall into this category. The apples-to-bananas comparisons have grown tiresome.

What was particularly interesting to me was the extraordinary reduction in the Federal work force since the end of World War II, where you say one Federal worker for every 78 residents in 1953; in 2009, one for every 147. How much of this represents productivity of Federal workers? How do you account for that kind of reduction per capita?

Mr. BERRY. Congresswoman, I think certainly productivity is a big piece of that and our technology. One of the reasons the work force has gotten more sophisticated is they had to do more with less, and so they needed to have people who could handle the technology.

Just managing Federal contracts, for example, to ensure that there's not fraud for the taxpayers, you need highly skilled people. These are billions and billions of dollars they are accounting for and keeping track of.

But take Medicare, for example. Twenty percent of the Federal budget is Medicare, and it's administered by—I think the number is sort of like 0.002 of the Federal workforce. So the efficiency rate, you know, in terms of the productivity and being able to deliver those payments accurately, it is a combination, I would argue, of highly skilled workforce and technology and productivity improvement.

Ms. NORTON. Now, one of the things that both Democratic and Republican presidents have done over the past decades is to do more and more contracting out, as if that were the answer to all of our woes. I note that the Obama administration seems to be going in the opposite direction, expecting to save $40 billion annually by reducing the number of contracted-out workers. Do these contracted-out workers save us or cost us? Why have we been doing it?

Mr. BERRY. It's a little on both sides of the ledger. There's no—I don't want to fall into the same trap of sort of a gross average answer. Some cost us more over time. Some cost us and have true savings, so it's both.

Ms. NORTON. Do you know what—I tell you one thing. If there's overtime, you keep track of it in the Federal workforce. You keep track of the productivity of your Federal workers. What do you do about the contracting worker?

Mr. BERRY. Well, we don't track that. The Office of Management and Budget, Ms. Norton, would be the appropriate folks to get you that data, and the various agencies would track that data, but, unfortunately I don't have that.

Ms. NORTON. Well, it's very difficult for us to understand a Federal workforce that has more contracted workers than Federal employees when the focus is on Federal employees, and most of the workers, including workers that work alongside Federal employees, are contracting employees. Now, why would a contracting employee be working alongside a Federal employee?

Mr. BERRY. I can give you a good example in my agency, and it goes to what the Office of Management and the Budget has asked all of us to do, is to look at what are essential government functions that the government should be doing and what could be done by the private sector.

We—OPM does 90 percent of the background investigations for security clearances throughout the government. We do all of the Department of Defense background investigations. We do that with about 2,000 government workers, but about——

Ms. NORTON. Could I ask you one question before my time runs out?

Mr. BERRY. Sorry.

Ms. NORTON. Collective bargaining in the Federal sector, our workers do not bargain for pay or benefits, is that so?

Mr. BERRY. No, they cannot.

Ms. NORTON. So what do they cost us? Is there any reason why anybody would want to pull back on collective bargaining in the Federal sector?

Mr. BERRY. We—the administration are strong supporters of the partnership of approach. We believe that sort of workers and managers working together can produce better service to the taxpayers, and we're working in that direction.

Ms. NORTON. Thank you very much, Mr. Berry.

Mr. ROSS. Thank you.

Now we'll recognize the distinguished chairman of the Oversight Committee, the gentleman from California, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman, and thank you for holding this important hearing.

It's very good to see you again.

Let me run through a couple of items, just as somebody who came out of the electronics industry and allied with the auto industry. You know, we do have about a tenth as many people making about eight times more cars, plus or minus some ratios. So doing twice as much over a period of 70 years, or 60 plus years, I'm not sure should be the standard for the Federal work force.

However, I certainly think that the Federal work force—and I would give you this—if they failed to give us efficiencies, it's as much this side of the dais at fault as it is your side or anyone else in the administration.

We are at a time, though, when we're trying to produce real savings. Mr. Chaffetz, before the break, talked to you about step increases. If you cannot support step increases today from a standpoint of their long-term effects, can you work with us to look for a way to have step increases frozen, even if there's a catch-up provision later, but, for the specific year's budgeting, a freeze so that the President's freeze will, in fact, be a freeze not just for those who don't have step increases but for everybody? And we're talking only step increases here, not any of the other merit related that I know Mr. Chaffetz also was asking about. Is that something you could support if we worked together on it?

Mr. BERRY. Mr. Chairman, I think at this point in time the answer would be no. We're happy—I'm happy to go back and take that back and discuss that with the Office of Management and Budget to see if there'd be any opening there. But I believe what you're talking about is within-grade increases; am I correct?

Mr. ISSA. Within grade. That's what we call step. And that's really where $500 million between now and the end of the year will occur—or between 3 weeks ago and the end of the year would occur—in automatic—you're simply still vertical. You could actually be disabled, but as long as you're still on the payroll you're going to get these increases totaling about $500 million this year alone; and then, of course, it continues up.

Mr. BERRY. My concern with that, Mr. Chairman, would be we're talking about the retention rate.

Mr. ISSA. OK. So I'm going to cut you short for a moment. Your view is, we freeze for real, we have a retention problem.

Mr. BERRY. If you can imagine, the within grades allow a natural progression and, you know, especially for——

Mr. ISSA. My time is short.

The President announced a freeze. There is no freeze because with step increases people are getting pay increases automatically. They are getting pay increases automatically this year. They will make more money.

People on this side of the dais will make the same money this year they made last year and the year before because we have a freeze going on. We did not vote ourselves a pay raise. The President announced a pay raise—a pay freeze. The truth is, there will be pay raises through this process, and you support that from the standpoint of retention. And that's—a simple answer like that is fine. I'm not asking you to be on our side of that particular issue or even the President's side.

Let me go to a couple more that I think are important.

You mentioned Medicare. I would mention, as proud as I am that you do Medicare with so few people, that Medicare has a 10 percent fraud rate. It is the worst in health care. That is by our own IG, and it's by the stimulus oversight chairman and so on that this is, in fact, the most fraud-ridden program. And we're talking not about necessarily bad doctors. In some cases, we're talking about organizations who pretend to be doctors and the system doesn't catch them.

So the last point I want to ask a specific question on is, we just finished, just in your seat a couple of days ago, the GAO report being presented to us shows $100 billion in savings by consolidation, elimination of duplicative programs. Many of those are within the purview of the administration. They weren't created by a unique act of Congress.

Have you looked at whether or not the Federal work force can be more efficient, take advantage of some of that $100 billion, simply by some consolidation within the recommendations of that report? And if you haven't read the report, would you commit to read it?

Mr. BERRY. Oh, absolutely. I'm aware of report, Mr. Chairman, and I think—in fact, I have just a summary, sort of a one-page summary of the highest risk items that they mention. And what I would note is that three-quarters of those items have a human capital connection. And whether or not we are successful in addressing these issues are going to be incumbent on us, whether we have good people in the jobs to handle these issues. And so recruiting and retaining an outstanding work force——

Mr. ISSA. I see you've circled back to the same answer, and I appreciate that.

Earlier, you commented that the AEI and Heritage reports did not include an adjustment or a recognition of education experience and so on. In fact, I reviewed them; and they do. So would you look at them again and commit, for the record, to give us an answer on why you think there are flaws in their process?

Because this committee's at a point of going back to the GAO and doing one more study to try to find out whether or not these organizations are correct in their assessments. Because if they're correct in their assessments, clearly we're probably paying some people too little and we're clearly paying, according to them, some people quite a bit more than would be necessary to recruit and retain.

So if you'd give us your comments within, let's say, 2 weeks, that would allow us to make a decision going forward on action from here.

Mr. BERRY. Yes, sir. Mr. Chairman, I'll be happy to do that.

[The information referred to follows:]

[NOTE.—No insert/information provided.]

Mr. ISSA. Thank you. I yield back.

Mr. ROSS. Thank you, Mr. Chairman.

We'll now recognize the distinguished gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. Berry, it's good to see you again; and thank you for being here.

Let me, first of all, commend you for some movement that I have seen in promotions, especially as it relates to women and other members of minority groups; and I appreciate that movement that I have observed.

Let me ask you exactly what was the President doing when he initiated a freeze? What was he accomplishing?

Mr. BERRY. I think it's an important point, Congressman, that you've hit on, because it goes to some of the back and forth that we've had at the hearing here today, is the employment cost index reflects the cost of labor increase that is determined by what is happening in the private sector.

The department, what we do is we get that data, and the law provides that Federal employees would get that, minus half a percent. That is not built into the budget every year. It has to be added or projected in terms of budgets, and it is an overarching number because it affects every employee of the Federal Government. All 2.1 million get that adjustment.

The within grades that we were talking about here, not every employee gets that on an annual basis. Those are experience based. So you need—some people get them every year; some people get them every 3 years. So there are some people who don't get any for a 2-year period, and those numbers are not additive to the budget. They're built into the agency's baseline. There are always people leaving and coming, and as senior people leave, higher salary waged folks leave, younger folks come in at lower pay, and so that balances out within the agency budget.

And so the reason why I would have argument with the numbers that were being thrown around is that those are within the overall budget, and what the President has done is to direct those downward. The President has a 5-year domestic spending freeze, which will take our budget to what it was when Eisenhower was in the White House.

Now, that is, you know, a $400 billion savings. That's the way to approach reducing the Federal Government, not by across-the-board cuts, not by freezing within grades, but by dealing with the budget numbers that are real. That's what the taxpayers want. That's what the President is trying to deliver.

Mr. DAVIS. And at the end of the day you've experienced some cost savings and you've reduced budget and you've accomplished something.

Let me go to another area. Many people that I encounter take the position or they believe that somehow or another the public work force is not as efficient, not as productive, and ultimately not worth as much as private sector employees; and almost no matter what kind of information you give to them, they still maintain that feeling. Have you ever encountered any studies, any reports, any information that would validate that kind of thinking?

Mr. BERRY. There aren't any, sir. In fact, I can give you sort of two things that I think address your point.

The first is my own experience. I've been in Washington, DC, since 1985 and sat in the chairs where many of your staff are sitting today and would regularly hear members of the Reagan administration and the Bush administration come in and variance or under testimony was what do you think of Federal employees? And to a person, to a person, every one of them said, I have been so impressed with the quality, the integrity, the work ethic, the dedication, and the skill that I've encountered. And, in fact, many of them will list it as the biggest surprise they encounter in Washington.

Now, I was with Clay Johnson last Friday night. He says the exact same thing. So I think anecdotally people who are around Federal employees, who see what they do, come away very impressed.

But the other thing, if I could just very quickly, is we survey our employees every year with questions. The most recent employee survey showed that 97 percent of respondents answered positively to the question, when needed, I am willing to put in extra effort to get the job done. Whether it means staying late, whether it means working over a weekend, whatever, I will work to get it done. It matters to America.

Our Federal employees are committed. They understand the criticality of their mission. They are defending us from terrorists. They are protecting our interests. And I'm here to tell you, I have never seen a study that would question their work ethic.

Mr. DAVIS. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROSS. Thank you.

Mr. Cummings, the distinguished ranking member of the Oversight Committee. Mr. Cummings. Thank you.

Mr. CUMMINGS. Thank you.

One of my concerns is that, Mr. Berry, is that—Director Berry, is that so often Federal employees are getting a bad rap. We all up here work with Federal employees every day, and we see what they go through. On this side of the aisle, every single one of our employees had to take a 5 percent cut. Their salaries weren't frozen. They took a cut. In a time when milk is going up, gas is going up, rent is going up, they took a cut. And a lot of times I think we forget that public employees carry out very important functions until they're not present. And we take so much for granted; and part of the reason why we take so much for granted, Director Berry, is because they are dependable.

And you said something a little bit earlier, and I want you to elaborate on this. I look at the people who work for me—work with me, rather—and I look at their education levels and I know without a doubt that they could be making a whole lot more money than working on this hill. I know that they could be working a lot less hours, some of them working till 2 and 3 a.m. And they don't get a whole lot of money. And I know that they get certain benefits, but you've gone over those benefits.

And I just want you to go back—because I'm tired of these public employees being beaten up on. It pains me tremendously. And so I just want you to go back——

And you said something about education. Because I see—and, by the way, when you talk about education, a lot of them are struggling trying to pay back loans because they wanted to be the best that they could be. They wanted to take advantage of opportunity. They wanted to come. And then, after they got an education, they didn't go to Wall Street. They didn't go looking for the big bonuses. They came because they wanted to serve the public; and they have shed blood, sweat, and tears, simply trying to lift us up to make this Congress better, to make sure our airports are safe, even cleaning the airport bathrooms, cleaning these places, cafeterias. So talk about that education thing again, because I think we lose sight of that.

Everywhere else, by the way, you get elevated because you get an education. A lot of these folks have an education and they just stay level, pretty much level funded. And now I know over the next 2 years the President has said they're going to be level funded.

But, anyway, talk to me about that.

Mr. BERRY. Well, Mr. Cummings, the President is, as are all Americans, grateful for the sacrifice that Federal employees are enduring. The pay freeze for 2 years is a real sacrifice. As you mentioned, especially those who have families, who have to deal with the inflationary costs and pressures on a family, the cost of milk, the cost of gas, they still have to commute. And they still have to deal with those costs. And the President is clearly aware of their sacrifice and is grateful for it and recognized that they were the first ones asked to step up to the plate to help the country address the deficit.

Mr. CUMMINGS. And, by the way, let me just interject something. When I had to ask the employees, when I took over this committee, the Democratic side, I had to ask every single employee, I asked them, would you take at least a 5 percent cut? And listen to me, Director, not one of them, not one objected. And I asked them why. You know, I said, I know you're going to have tough times. They said, because we want to serve the public.

And I think we have to be very careful in these conversations that we have because we need to encourage the best and the brightest to come to government. We don't want to be caught up in a culture of mediocrity. We want the best.

But, anyway, I cut you off. What were you saying?

Mr. BERRY. Well, Mr. Cummings, I think it goes to what you were saying also about our benefit comparisons. And you're going to hear a lot that somehow our benefits are out of whack with the private sector. I would argue they're very much in line, especially when you account for that we don't have profit sharing or we don't have stock options in the Federal Government. And so most of my work force is comparable with the large companies in the private sector, so it is not fair to compare Federal employees to the entire civilian labor force. I don't have retail clerks. I don't have short order cooks. I don't have waitresses. God bless all of those, and they should be paid as they should be paid.

But to say the Federal employees should be paid based on that is not appropriate. You need to compare like to like, apples to apples. The Fortune 500 companies are a much better comparison when you're looking at who we are competing for in terms of recruitment and retention.

But going to your original question, sir, you asked—the current data from the current population survey shows that half of Federal workers work in the nine highest-paying occupations such as judges, engineers, scientists, nuclear plant inspectors. By comparison, only a third of the private sector, the civilian labor force, work in those nine categories.

And then look at the opposite end of that spectrum. In contrast to a fifth of private sector workers in the four lowest-paying occupations, the ones that have high turnover, only 1 in 13 of Federal employees are in that category.

So when you look at these gross averages, you can see how—you know, for example, that comparison there, it is looking at the total civilian labor force, not at like to like. And, as you see, what you mentioned when you come into education, or comparing these things, we need to reflect that the Federal work force is a highly skilled, highly challenged work force.

Mr. CUMMINGS. Thank you very much. I see my time has expired. Thank you, Mr. Chairman.

Mr. ROSS. Yes, sir. Thank you, Mr. Cummings.

I now yield to the distinguished gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. I thank the chairman.

And if I could pick up where Mr. Cummings was just leaving off, Mr. Berry, if I understand your testimony, what you're saying is that the skill set mix of the public sector, Federal work force, is quite different than the private sector skill set of the work force at large in the country.

Mr. BERRY. Of the total civilian labor force, absolutely, Mr. Connolly. That's my core point. And we really need to compare—we're running, if you will, a company of 2 million employees that is dealing with challenges that rival anything—really doesn't have a comparison in the private sector, because it's bigger than the Fortune 500, if you will. But to compare it to the total civilian labor force, I can see why, politically, that might be a popular thing to do if you had a certain ideological perspective, but it unfairly compares wages, and it is not an apple-to-apple comparison.

Mr. CONNOLLY. With respect to the size of the Federal work force, is the current Federal work force significantly larger than it was when President George H.W. Bush was in the White House in 1991?

Mr. BERRY. Mr. Connolly and Mr. Ross, I can leave this or give this to you for the record. This is from GAO, so I did not make up these numbers, but it shows you the civilian labor force from 1950 to the present. It is this red line. As you can see, it is pretty flat. Federal expenditures are the blue line, Federal outlays. So outlays have gone up, absolutely, over that time period, but the work force has remained largely stable. And so these are GAO numbers.

Mr. CONNOLLY. In absolute numbers?

Mr. BERRY. Yes. Yes, sir.

Mr. CONNOLLY. So, despite the sign behind Mr. Lynch's head, which I'm sure the ranking member would prefer not be put there, I hope our Republican friends remember this when we're back in the majority. There will be all kinds of signs. You may not like them. Or we could be civil to one another and actually respect the fact that the ranking member sits there and there shouldn't be a sign behind his head that he doesn't want. But that would be a different issue.

Where were we, Mr. Berry? Oh, yes, so, despite the hysterics, actually, work force hasn't grown that much, but the missions have. Is that correct, Mr. Berry?

Mr. BERRY. There's no question.

Mr. CONNOLLY. Can you think of some missions that have expanded since 1991 even though the work force has not?

Mr. BERRY. Absolutely. And in fact the majority of that increase is in what would either be in——

Mr. CONNOLLY. Mr. Berry, I'm going to ask you not to point to a sign that we're going to pretend does not exist.

All right, go ahead.

Mr. BERRY. It would be either Homeland Security, dealing with the very issue you're talking about since 9/11. We have obviously had to stand up a significant counterterrorism force in the country. Both parties are in agreement that is something we need to do. We need to protect our borders well. Both parties agree to that. So we need to be careful and we need to protect our vets when they come home with serious injuries, and we need more nurses and doctors to care for them.

Mr. CONNOLLY. So let me understand. For example, since President H.W. Bush, George H.W. Bush, was in the White House in 1991 and the work force he had, which is roughly the work force we have, we created a whole new agency of Federal Government, Homeland Security; is that correct?

Mr. BERRY. Yes, sir.

Mr. CONNOLLY. In response to the terrorist attacks of 9/11; is that correct?

Mr. BERRY. Yes, sir.

Mr. CONNOLLY. We beefed up FEMA after its utter collapse and fecklessness in responding to Hurricane Katrina New Orleans and the Gulf Coast; is that correct?

Mr. BERRY. I would have to check my budget numbers to answer that one, sir.

Mr. CONNOLLY. I think the answer is yes.

Of course, since President H.W. Bush was in the White House, we are fighting two wars right now, Iraq and Afghanistan; is that correct?

Mr. BERRY. Yes, sir.

Mr. CONNOLLY. And all of the attendant costs associated with that, including, as you say, caring for the wounded veteran when he or she returns home.

Mr. BERRY. And increasing the hand-off in Iraq. There is a standup, an increase, as Mr. Lynch knows, who has been there many times. As the military mission is drawing down, the State Department employees are drawing up. So there is an increase of people going into a very highly dangerous area, serving their country and putting their lives at risk. That's a civilian increase. And so we need to recognize that, and that number is folded into this number as well.

Mr. CONNOLLY. Good point, and I'm going to end on that.

So, in other words, there are civilian Federal employees putting their lives at risk next to uniformed military in both Iraq and Afghanistan; is that correct, Mr. Berry?

Mr. BERRY. Absolutely. And Mr. Lynch has invited me—and I look forward to being able to attend with him—to one of his visits to Iraq or Afghanistan where we can honor the service of both our military and our civilian work force that both put their lives at great danger to serve our country.

Mr. CONNOLLY. Thank you. Thank you.

I see my time is up. Thank you, Mr. Chairman.

[The prepared statement of Hon. Gerald E. Connolly follows:]

Statement of Congressman Gerald E. Connolly

"Are Federal Workers Underpaid"

Subcommittee on Federal Workforce and the Postal Service

March 9th, 2011

Thank you, Chairman Ross for holding this hearing on the federal workforce. Fully half of the federal workforce will be eligible for retirement in the next five years, which means recruitment and retention of the next generation of civil servants will be a daunting challenge. To meet that challenge, we must fulfill two objectives: First, restore the stature of the civil service following demagogic attacks by some interest groups and politicians. Second, maintain pay and benefits that are competitive with the private sector. This hearing is about the latter, which is appropriate in light of the current pay freeze for federal employees and legislative proposals to dock pay even further.

Residents of the National Capital Region know federal employees generally are paid less than their private sector counterparts. That is one of the reasons many feds leave our workforce to work for private sector government contractors. Our anecdotal experience in this region corresponds to the best available data we have about the workforce as a whole. The Bureau of Labor Statistics has studied compensation for job categories in the federal workforce and the private sector and concluded that federal employees earn, on average, 24% less than their private sector counterparts for similar work. Recent research from the Economic Policy Institute, which I will enter for the record, shows that state and local employees also earn less than their private sector counterparts.

Yet the fact that federal employees get paid less for comparable work hasn't prevented demagoguery about federal employee pay, and some continue to repeat that falsehood that federal employees earn twice as much as private sector workers. This inaccurate statistic compares the relatively highly-educated, well-trained workforce against the entire private sector workforce, which has a much higher proportion of less skilled, less educated workers. More than 44% of federal employees have at least a bachelor's degree, compared to only 18.7% in the private sector. It is absurd to say that federal employees are overpaid when the average scientist at the National Institutes of Health or lawyer with the Department of Justice earns more (including retirement benefits) than our neighbors who are working at Wal-Mart or McDonalds. Moreover, claims that federal employees are overpaid ignores their valuable experience: 60% of civil servants have more than 15 years of federal experience.

Even organizations that have an anti-government agenda have finally acknowledged the need to compare pay for similar work. At a recent briefing hosted by the American Enterprise Institute (AEI) and the Heritage Foundation, Andrew Biggs and James Sherk acknowledged that highly-skilled, well-educated federal employees earn less than their private sector counterparts. These employees are essential for the efficiency of our federal government: They are finding cures for diseases at NIH, tracking down national security threats at the CIA, and protecting federal cybersecurity at DHS and other agencies.

I hope that we can use this hearing to bury, finally, those false claims that federal employees are overpaid. We cannot afford to let politics get in the way of rational personnel policy for the federal government. With the impending retirement of the Baby Boomers, the federal workforce faces a demographic challenge that cannot be met if Congress cuts federal pay and benefits while using the federal workforce as a punching bag. Instead, I look forward to working with all members of this subcommittee to institute the personnel policies that will allow us to recruit and retain a federal workforce that will continue to provide essential services, that are both high quality and efficient, for the public we serve.

For record:

Debunking the Myth of the Over-compensated Public Employee
Jeffrey H. Keefe
September 15, 2010
(http://epi.3cdn.net/8808ae41b085032c0b_8um6bh5ty.pdf)

Mr. ROSS. Thank you, Mr. Connolly.

That being the last of our questioners, we'll recess now. Thank you, Mr. Berry, very much for being here; and we'll take a few minutes to have our clerks prepare for the next panel.

Mr. BERRY. Thank you, sir. It is an honor.

Mr. ROSS. Thank you.

Welcome to our second panel. We'll now begin the second part of our hearing today.

Today we have with us Mr. James Sherk, who is a senior policy analyst in labor economics at the Heritage Foundation. We also have Dr. Andrew Biggs, a resident scholar at the American Enterprise Institute. Mr. Max Stier is the president and CEO for the Partnership for Public Service; and Ms. Colleen Kelley is the national president of the National Treasury Employees Union.

If you all wouldn't mind, please stand to be sworn in. Pursuant to committee rules, all witnesses must be sworn in.

Please raise your right hands.

[Witnesses sworn.]

Mr. ROSS. Thank you. Let the record reflect that all witnesses answered in the affirmative. Please be seated.

I will now recognize each of you for 5 minutes to summarize your testimony. The transcript, of course, has been submitted for the record.

Mr. Sherk, we will start off with you. You have 5 minutes, thank you.

STATEMENTS OF JAMES SHERK, SENIOR POLICY ANALYST IN LABOR ECONOMICS, THE HERITAGE FOUNDATION; ANDREW BIGGS, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE; MAX STIER, PRESIDENT AND CEO, PARTNERSHIP FOR PUBLIC SERVICE; AND COLLEEN KELLEY, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

STATEMENT OF JAMES SHERK

Mr. SHERK. Chairman Ross, Ranking Member Lynch, and members of the subcommittee, thank you for inviting me to testify.

My name is James Sherk, and I'm a senior policy analyst at the Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing an official position of The Heritage Foundation.

I want to explain to you this afternoon that the Federal pay system is broken. As a consequence of its failings, the average Federal employee earns significantly more than they would in the private sector.

There are three features of the Federal pay system that Congress should be aware of. The first feature is that it does a poor job of approximating market pay. The General Schedule places heavy emphasis on internal equity so the job's similar level of work receive the same pay. An engineer, an IT specialist, and a budget analyst at the same GS grade all receive the same pay.

The law requires the President's Pay Agent to set Federal pay by determining what level of work a private sector job entails and what General Schedule grade that would translate into. The Pay

Agent then sets the Federal pay by averaging pay across different jobs it determines belongs in each grade. This effectively superimposes the General Schedule system onto private sector payrolls. However, private sector employers do not base pay on anything remotely resembling the General Schedule. Market forces such as relative supply and demand for different skills, specialties, and occupations determine private pay.

Employees in different occupations performing similar, "levels of work," often earn very different salaries. As a result, Federal pay often looks nothing like market rates in both directions. Some Federal employees have wildly inflated salaries, 40 to 50 percent above what they would earn in the private sector. Other Federal employees do not receive a cash wage premium at all and may receive slightly below market rates. Typically, highly skilled workers such as scientists and lawyers do not receive premium wages in the government.

The second feature of the Federal pay system that Congress should understand is that, on average, it overpays Federal employees. My research using data from Bureau of Labor Statistics shows that, after you account for education, experience, and occupations so that you can make an apples-to-apples comparison, once do you that the average Federal employee makes 22 percent more an hour than they would if they were in the private sector. Including the value of their benefits raises the Federal compensation premium to between 30 and 40 percent. The average Federal employee earns more than they would then if they were in the private sector, and paying this premium will cost taxpayers almost $50 billion this year.

Many other economists with views that span the political spectrum have come to this view. Dr. Alan Krueger served as the Chief Economist at the Treasury Department in the Obama administration. He found that—and I'm quoting him—"The Federal Government appears to consistently pay higher wages than the private sector for comparable employees. Economists do not debate whether the Federal Government overpays its employees. The research consistently shows that they are."

It is important to emphasize, however, that this average Federal premium is only part of the total variation between Federal and market pay. It is simultaneously true that many Federal employees are not overpaid and that the Federal Government pays private sector employees more on average.

The only major study to disagree with this conclusion is the President's Pay Agent Report, which uses the flawed methodology I described. No administration has ever found the results of the Pay Agent Report credible or acted on them. The Pay Agent itself frequently expresses concerns with the methodology that the law requires it to use.

This is for good reason. If Federal employees were underpaid, then the Federal Government would have severe retention problems. Just the opposite occurs. Federal employees quit their jobs just one-third as often as private sector workers. This happens because they know they are getting a better deal in the Federal Government than they could get in the private sector.

The third feature of the Federal pay system that Congress should understand is that it rewards time served, not performance. Woody Allen once observed that 90 percent of life is just showing up. For Federal employees, 75 percent of life is just showing up. Less than one-quarter of the money spent on Federal pay increases is meaningfully tied to performance. The rest is either automatic or essentially automatic.

Employees on the General Schedule start at the first step of their assigned job grade. As long as they receive a 3 out of 5 performance rating, they automatically receive step increases until they advance to step 10. Managers who wish to give ratings below 3, however, bear the burden of proving that the employee performs poorly. The system assumes the Federal employees are adequate and gives them raises. Consequently, Federal managers rarely use performance ratings below 3; and, like I said, most Federal employees receive step increases. It is social promotion for adults.

Unsurprisingly then with this system, Federal employees receive raises and promotions more rapidly than private sector workers do. My research shows that this is one of the major reasons Federal employees receive above-market pay.

Thank you, and I appreciate the opportunity to talk to you about the Federal pay system and how its flaws inflate Federal compensation.

[The prepared statement of Mr. Sherk follows:]

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CONGRESSIONAL TESTIMONY

The Federal Pay System: Inflated Compensation, Ignored Performance

Testimony before the Committee on Oversight and Government Reform United States House of Representatives

March 9, 2011

James Sherk
Senior Policy Analyst in Labor Economics
The Heritage Foundation

My name is James Sherk. I am a senior policy analyst in labor economics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

The Federal pay system unnecessarily inflates federal pay. My research shows that on average federal employees earn hourly wages 22 percent higher than otherwise comparable private-sector workers. Numerous studies by researchers whose personal views span the political spectrum come to similar conclusions.

The only significant study that finds that federal employees are underpaid is the President's Pay Agent Report. However, even the Office of Personnel Management has serious concerns with this study's methodology and believes that this finding lacks credibility.

If the federal government underpaid its workers it would have severe retention problems. Instead, the opposite occurs. Federal employees are considerably less likely than private-sector workers to quit their jobs. Federal employees demonstrate that they earn above-market pay through their actions.

Federal employees also receive premium benefits. They receive both a defined-benefit and defined-contribution pension plan, can retire with full benefits at 56, and receive significantly more paid leave than their private-sector counterparts. Accounting for the value of these benefits raises the federal compensation premium to between 30 percent and 40 percent above similar private-sector workers. All told, the federal compensation premium will cost taxpayers $47 billion this year.

A major factor inflating federal pay is the fact that the federal government promotes employees faster than private-sector employers. My research found that most of the federal pay premium resulted from federal employees receiving raises more rapidly than their private-sector counterparts.

This is a consequence of the General Schedule, which primarily bases pay on time served rather than performance. Federal employees who put in a minimal amount of effort automatically earn within-grade increases in pay. Over three-quarters of federal pay increases are based on time served, not performance. This systematically inflates federal pay.

The federal pay premium is a government-wide average: not all federal employees are overpaid. The federal pay system lumps workers of different occupations, skills, and specialties into one level of work to determine pay for that General Schedule grade. Private-sector employers do not do this. Consequently, federal pay diverges wildly from private-sector norms. Some federal employees receive a 40 percent to 50 percent pay premium while others do not get inflated pay. In fact, a few federal employees actually earn cash wages slightly below market rates. Highly skilled employees are particularly likely to earn at or below market rates in the federal government.

Consequently, the federal government should not uniformly freeze federal pay. Instead, the government should contract out as much work as possible to the competitive private sector. Those jobs that cannot be done by private-sector workers should be moved to a performance-pay system with pay tied to market rates and market signals of demand. This would reduce costs for taxpayers without penalizing those federal employees who do not enjoy premium pay.

No Market Forces in Government

Market forces drive private-sector workers' pay toward their productivity. A company that pays its workers more than they contribute will soon go out of business. A company that pays its workers less than their productivity risks the possibility of competitors hiring its employees away. In most circumstances, private-sector companies cannot systematically over or underpay their employees.

These market forces do not exist in government. The government earns no profits and does not go out of business. Competition for workers limits the government's ability to pay below market rates. Nothing, however, prevents the federal government from paying its employees more than they would earn in the private sector.

Inflated Federal Pay

The federal government does exactly that. The average federal employee earns hourly wages 57 percent above average private-sector wages.[1]

Defenders of the federal pay system respond by arguing that the average federal employee is more experienced and highly skilled than the average private-sector worker. They contend this is an apples-to-oranges comparison.

They are correct. The average federal employee performs more skilled work and should earn more than the average private-sector worker.[2] The fact that federal employees earn more on average than private-sector workers does not by itself prove that the federal government overpays them.

Economists have developed statistical techniques to account for differences in skills, experience, and other variables. This allows economists to make an apples-to-apples comparison of pay between different groups—such as federal and private-sector workers.

I conducted such an analysis using data from the Current Population Survey. My research shows that, after controlling for differences in education, experience,

[1]James Sherk, "Inflated Federal Pay: How Americans Are Overtaxed To Overpay The Civil Service," Heritage Foundation *Center for Data Analysis Report* No. CDA10-05, July 7, 2010, p. 4, at *http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-are-overtaxed-to-overpay-the-civil-service.*
[2]*Ibid.*

occupation, and other observable characteristics, federal employees earn hourly wages 22 percent higher than that of comparable private-sector workers.[3] Accounting for federal employees greater skills reduces—but does not eliminate—the federal pay premium. Employees in the federal government earn more than they would in the private sector.

Many Studies Confirm

This is not an isolated finding. Many economists have examined this question. Their studies almost uniformly come to this same conclusion.[4] *The Handbook of Labor Economics* summarizes the research on this subject: "Studies for the United States and United Kingdom have generally found a positive wage premium for public sector employees ... there is evidence for the United States that the public sector wage premium is higher for federal government employees than for state of local government employees."[5]

The personal views of these researchers span the political spectrum. Their research leads them to the same conclusion. Alan Krueger, President Obama's choice as Chief Economist in the Treasury Department, conducted an influential study on the federal pay premium. He concluded that "the federal government appears to consistently pay higher wages than the private sector for comparable employees."[6]

Pay Agent Report

The only major study to disagree with this conclusion is the President's Pay Agent report. This report uses a different methodology than labor economists use to analyze pay differences. The accepted economic model for comparing pay differences is the "human capital" model. This model assumes that workers' productive characteristics, such as experience and education—their human capital—affect their pay. Human capital studies compare workers across occupations and industries while controlling for their observable characteristics.

The President's Pay Agent does not compare workers at all. Instead, the law requires it to compare positions. The Bureau of Labor Statistics evaluates jobs in the

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[3] *Ibid.*, p. 6.

[4] See, for example, Steven Venti, "Wages in the Federal and Private Sectors," in D. Wide, ed., *Public Sector Payrolls* (Chicago: University of Chicago Press, 1987), pp.147–182; Joseph Gyourko and Joseph Tracy, "An Analysis of Public- and Private-Sector Wages Allowing for Endogenous Choices of Both Government and Union Status," *Journal of Labor Economics*, Vol. 6, No. 2 (1988), pp. 229–253; and William Moore and John Raisian, "Government Wage Differentials Revisited," *Journal of Labor Research*, Vol. 12, No. 1 (1991), pp. 13–33.

[5] Robert Gregory and Jeff Borland, "Recent Developments in Public Sector Labor Markets," in O. Ashenfelter and D. Card, ed., *Handbook of Labor Economics*, 1st Ed., Vol. 3 (1999). chap. 53, p. 3594. Elsevier.

[6] Alan B. Krueger, "Are Public Sector Workers Paid More Than Their Alternative Wage? Evidence from Longitudinal Data and Job Queues," in NBER Chapters, *When Public Sector Workers Unionize* (Cambridge, MA: National Bureau of Economic Research, Inc., 1988), pp. 217–242, at *http://www.nber.org/chapters/c7910.pdf* (March 4, 2011).

private sector and the federal government on the basis of their qualifications required, level of difficulty, and amount of responsibility. It uses these surveys to determine the "level of work" involved in the job, and what grade a job of that level of work would translate to in the General Schedule. The Pay Agent report then compares pay between the private sector and those federal jobs this method deems equivalent. The Pay Agent consistently finds that federal employees earn 20 percent to 25 percent less than comparable private-sector workers.

No Administration has ever found this methodology credible. No Administration has ever proposed closing the reported "pay gap." The Pay Agent report itself frequently expresses concerns with the methodology the law requires it to use. As the 2008 Pay Agent report stated, "We continue to have major methodological concerns about the underlying model for estimating pay gaps."[7]

The Office of Personnel Management identifies three factors that undermine the creditability of the Pay Agent's report. First, the current methodology collapses the factors influencing pay into just two-dimensions: the level of work and a locality-based adjustment. In the private sector many factors, including occupations, skills, and specialties, determine labor market demand and pay. The current methodology does not reflect the reality of differences in pay between occupations that involve the same "level of work." Second, it takes a long time to conduct and analyze the surveys that underlie the pay agent's report. As a result there is little correlation between current market pay and federal pay adjustments. Third, the statute requires the Pay Agent to calculate a single locality pay adjustment that spans all General Schedule grades and occupations. This averages differences in relative demand across positions to produce a figure that approximates nothing well.[8]

Low Federal Turnover

The Pay Agent report finds that federal workers are underpaid while economists find they are overpaid. Workers' decisions shed light on who is correct. If federal employees were substantially underpaid then the federal government would have severe retention problems. Just the opposite occurs: federal employees rarely quit. Federal employees voluntarily leave their jobs just one-third as often as private-sector workers.[9] Even that figure understates the situation—many federal employees who quit do so to take another job in the federal government. Federal employees demonstrate by their actions that they get a better deal than they could in the private sector. The President's Pay Agent is right to have concerns with its methodology.

Premium Benefits at Taxpayer Expense

Federal compensation includes both pay and benefits. In addition to inflated pay, federal employees receive substantially better benefits than most private-sector workers.

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[7]The President's Pay Agent, "Memorandum to the President: Annual Report on General Schedule Locality-Based Comparability Payments," December 2, 2008, at *http://www.opm.gov/oca/payagent/2008/2008PayAgentReport.pdf* (March 4, 2011).

[8]United States Office of Personnel Management, "A Fresh State for Federal Pay: The Case for Modernization," White Paper, April 2002, pp. 14–15.

[9]U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey.

Federal employees receive both a generous defined-contribution pension and a defined-benefit pension. Federal employees with 30 years of service can retire with full pension benefits at 56. Federal retirees receive retiree health coverage, something rarely offered in the private sector. Federal employees also receive more paid leave than private-sector workers. A federal employee with five years on the job is entitled to 20 days of paid vacation, all ten federal holidays, and 13 days of paid sick leave.[10] The typical private-sector worker with that tenure receives 10 days of paid sick leave, 15 days of paid vacation, and 9 paid holidays.[11]

Accounting for the value of such benefits, the average federal employee receives a total compensation package worth 30 percent to 40 percent more than a comparable private-sector worker. Taxpayers bear this cost. Reducing federal compensation to market rates would cut $47 billion from the deficit in 2011.[12]

Automatic Promotions

What factors inflate federal pay? My research found that much of the unexplained federal wage premium came from greater returns to experience.[13] In other words, federal employees receive raises and promotions more rapidly than do private-sector workers.

This is a consequence of the General Schedule, which primarily bases raises and promotions on time served—not employee performance. Federal employees on the General Schedule start at the first step of their assigned job grade. As long as they receive a 3 out of 5 rating in their performance evaluation they will automatically receive "within grade" or "step" increases in pay every one, two, or three years until they reach step 10 of their job grade. If their position has a career ladder then they will automatically advance grades in the General Schedule as well.

The system assumes that federal employees perform competently. A manager who wishes to give an employee a lower rating bears the burden of proving that the employee underperforms. The federal government gives employees many procedural tools to defend themselves against low performance rankings. Consequently federal managers rarely use performance ratings below 3.[14]

Workers in the General Schedule have little monetary incentive to put in anything more than a minimally acceptable level of effort. As long as they do this, the law guarantees them frequent pay increases. Additional effort has little effect on their pay. Federal managers may award "quality step increases," but these are a small component of federal pay. Less than one-quarter of the money spent on annual federal pay increases is

[10]Sherk, "Inflated Federal Pay," pp. 9–12.
[11]WorldatWork, "Paid Time Off: Programs and Practices," May 2010, at *http://www.worldatwork.org/waw/adimLink?id=38913* (March 4, 2011).
[12]*Ibid.*, pp. 12–15.
[13]*Ibid.*, Appendix D.
[14]Silvia Montoya and John Graham, "Modernizing the Federal Government: Paying for Performance," Pardee RAND Graduate School *Occasional Paper*, 2007, p. 21.

meaningfully tied to employee performance.[15] The federal pay system gives automatic raises to almost all federal employees, but does not reward those who truly exert themselves. This inflates federal pay without motivating performance.

Not All Pay Inflated

The federal government pays, on average, above-market compensation. However, this is only an average. The President's Pay Agent does a very poor job of measuring market pay. The President's Pay Agent attempts to determine what level of work a private-sector job entails and what General Schedule grade that would translate to in the private sector. The Pay Agent then averages pay across the jobs it determines belong in each General Schedule grade. This effectively imposes the General Schedule system onto private-sector payrolls.[16]

In actuality, private-sector employers do not base pay on anything resembling the General Schedule. Market forces, such as relative supply and demand for different skills, specialties, and occupations determine private-sector pay rates. Employees in different occupations performing similar "levels of work" often earn very different salaries. Additionally, private-sector employers reward performance and productivity, not time served.

These differences between private pay systems and the General Schedule cause federal pay to vary—both higher and lower—wildly from market rates. Some federal employees experience a pay penalty. Other federal employees receive cash wages 40 percent to 50 percent above what similar private-sector workers earn.[17] The same research that shows that federal employees enjoy higher average pay also shows that this premium is a small part of the differences in individual jobs between federal pay and market rates.[18]

Generally speaking, highly skilled and specialized employees are less likely to receive significantly inflated pay in the federal government. My research finds that software engineers, lawyers, physical scientists, and economists do not receive statistically higher pay in the federal government.[19] It is simultaneously true that the federal government pays higher average compensation than the private sector and that many federal employees are not overpaid.

Conclusion

The federal pay system is broken. Economic research consistently shows that federal employees earn more than they would in the private sector. My research shows that federal employees earn total compensation 30 percent to 40 percent greater than

[15]United States Office of Personnel Management, "A Fresh State for Federal Pay," p. 22.
[16]*Ibid.*, p. 48.
[17]Sherk, "Inflated Federal Pay," Table 6.
[18]Dale Belman and John Heywood, "Public Sector Wage Comparability: The Role of Earnings Dispersion," *Public Finance Review*, Vol. 32, No. 6 (2004), pp. 567–587.
[19]Sherk, "Inflated Federal Pay," Table 6.

comparable private-sector workers. Reducing their compensation to market rates would save taxpayers $47 billion in 2011. The only major study to show federal employees are underpaid is the President's Pay Agent report, which questions the accuracy of its own methodology.

Federal employees themselves demonstrate that the Pay Agent is incorrect: They quit their jobs far less frequently than do private-sector workers. This would not happen if they felt mistreated and underpaid.

The problems with the federal pay system extend beyond inflated pay. The federal government financially rewards its employees for time served, not for performance. High performing federal workers do little better than their mediocre peers. As long as federal employees put in minimally acceptable levels of effort they receive automatic raises. The government gives its workers little incentive to work.

However, not all federal workers receive above-market pay. The flaws with the Pay Agent's methodology cause federal pay to diverge wildly from market rates. Many skilled federal employees do not earn inflated pay. Consequently, Congress should not look to pay freezes or across-the-board cuts to bring federal pay in line. This would unfairly penalize those federal employees who are not overpaid while still leaving others with premium wages. Instead, Congress should scrap the General Schedule and move to a pay for performance system with pay more closely tied to market rates. Congress should also contract out as much federal work as possible to the competitive private sector. These steps would equitably bring the wages of federal workers in line with those of the private-sector workers whose taxes fund their salaries.

Mr. ROSS. Thank you, Mr. Sherk.

Dr. Biggs, you're recognized for 5 minutes.

STATEMENT OF ANDREW BIGGS

Mr. BIGGS. Chairman Ross, Ranking Member Lynch, and members of the committee, thank you for inviting me to testify with regard to Federal employment compensation.

My testimony today is based upon joint research with Jason Richwine of The Heritage Foundation, and a copy of our working paper has been enclosed with my testimony.

We limit our analysis to one question: Do Federal employees on average receive greater compensation than these individuals could receive in the private sector? Our answer, which is consistent with several decades of economic research, yes.

To begin, you're doubtless aware of the President's Pay Agent, which reports that Federal jobs pay over 20 percent less than comparable private sector positions. You should also be aware of why most economists are skeptical of the Pay Agent approach. The most important reason is simply that the Pay Agent's approach compares apples and oranges.

While the Pay Agent claims to compare similar Federal and private sector jobs, it does not compare similar workers. That is, it does not account for the fact that the Federal Government hires workers at higher pay grades and promotes them faster than does the private sector. For instance, a person working as a senior accountant in the Federal Government may have the experience and education of only a junior accountant in the private sector.

A 1984 Congressional Budget Office study concluded that the average Federal worker resides two-thirds of the pay grade above the similar private sector employee. A 1997 academic study found a larger gap of three-quarters of a pay grade. A 2002 study using BLS occupational data showed, "That Federal workers have significantly fewer years of education and experience than private sector workers in the same level of responsibility in an occupation." Once this study accounted for differences in experience and education, the supposed pay penalty disappeared.

So how do economists study public-private pay differences? Labor economists begin by controlling for how individual workers differ with regard to earnings-related factors such as experience, education, geographic location, and so forth.

Let me reiterate here that, despite what we heard throughout Director Berry's testimony and in some of the questions, the study I've conducted and that Mr. Sherk has conducted do control for differences in education between Federal employees and private sector employees. They do control for that. By controlling for these differences, you can isolate the effects on pay of working in the Federal or the private sector.

Using Census data from 2006 through 2010, we found that Federal employees received average salaries 14 percent higher than similar workers employed by large private sector firms. This is actually a conservative comparison, since large firms offer the best salaries and benefits. If we compare to all private sector workers, the Federal salary premium rises to 22 percent.

Some argue, however, that this method ignores relevant differences between workers. For instance, our educational data tells us only if you have a certain degree, not your GPA or the quality of the school you attended.

As an alternative, we followed individual workers' salaries over time, tracking how their pay changed as they moved into or out of the government. Workers who switched between the Federal and private sectors earned 8 percent more when employed by the Federal Government, and this is just the initial premium upon switching. Whether we examine different workers at the same point in time or follow the same workers over time, it is clear that most Federal employees would earn lower salaries in the private sector.

Benefits are an important component of overall compensation, but comprehensive data on Federal benefits must be assembled by hand. Using OMB and OPM data, we calculated the value of a wide range of Federal benefits, from pensions and health coverage to vacation time and employee awards. On average, Federal employees receive total benefits equal to around 66 percent of their salaries. In large private sector firms, benefits average 50 percent of salaries. In other words, Federal workers receive a benefit premium of around 33 percent over similar private sector employees. Combined Federal salaries and benefits are roughly 25 percent above what similar private sector employees would receive.

Economists since Adam Smith have noted that positions with greater job security should pay lower salaries, just as safe investments like bonds pay lower returns than stocks. The BLS reports that in any given year Federal workers are less than one-third as likely as private sector employees to be fired or laid off.

We estimated the value of job security using the tools of financial economics to calculate the pay reduction a private sector worker would willingly accept to have the increased job security of Federal employees. Using conservative assumptions, we find that Federal workers' job security is equivalent to an extra 11 percent of pay. When salaries, benefits, and job security are properly valued, the total Federal compensation package is worth upwards of 39 percent more than is paid to similar private sector workers. The total Federal pay premium could top $60 billion per year.

Identifying the pay premium is far easier than fixing it. Simple pay freezes or furloughs are blunt instruments that will not get to the heart of the issue. Federal pay must be made to reflect market conditions not with a one-time adjustment but with fundamental reforms that work consistently into the future.

Thank you.

[The prepared statement of Mr. Biggs follows:]

American Enterprise Institute
for Public Policy Research

Statement before the United States House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service
and Labor Policy

"Are Federal Workers Underpaid"

Andrew G. Biggs

Resident Scholar

American Enterprise Institute

March 9, 2010

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Chairman Ross, Ranking Member Lynch and Members of the Committee. Thank you for offering me the opportunity to testify with regard to federal employee compensation.

My name is Andrew Biggs and I am a resident scholar at the American Enterprise Institute. However, the views I express today are my own and do not represent those of AEI or any other institution.

My testimony today is based upon joint research with Jason Richwine of the Heritage Foundation. A copy of our working paper has been enclosed with my testimony.[1]

We limit our analysis to one question: Do federal employees on average receive greater compensation than these individuals could receive in the private sector? Our answer, which is consistent with several decades of economic research, is yes. We will briefly outline federal pay with regard to salaries, benefits, and job security.

Before beginning, however, it is important to note what this analysis does *not* say: it does comment on the productivity of federal employees or whether the jobs they perform are worthwhile, nor does it comment on whether the number of federal employees is larger or smaller than is needed to perform the assigned tasks. It does not comment on the work or dedication of federal government employees.

It merely asks an empirical question: whether federal employees receive higher or lower pay than those employees could themselves garner in alternate employment in the private sector.

Salaries

Some have argued that federal employees receive total compensation that is twice the level of the average private worker. This is true but misleading, as it ignores crucial differences between the federal and private workforces. Federal employees on average are more educated and experienced than private sector workers and so in a competitive market *should* receive higher pay. The question is, how *much* higher?

[1] Biggs, A. and Richwine J. "Comparing Federal and Private Sector Compensation." AEI Economic Policy Working Paper 2011-02. March 4, 2011. http://www.aei.org/paper/100203

Labor economists' standard method for making apples-to-apples wage comparisons is regression analysis, which allows economists to control for the "human capital" – that is, the earnings-related skills and personal characteristics – of workers in each sector. The Congressional Budget Office has termed the human capital approach "the dominant theory of wage determination in the field of economics,"[2] and for good reason. Similar methods have been utilized for studies of the union pay premium and pay discrimination by race or gender. This basic approach is familiar to and accepted by nearly every trained economist.

By controlling for experience, education, geographic location and other factors, economists can isolate the effects of federal employment on salaries. In the past, many studies have been conducted on federal pay. These studies, which are summarized in the 1999 Handbook of Labor Economics, generally find a federal salary premium of 10 to 20 percent over otherwise similar private sector employees.

We updated this work using data from the 2006 through 2010 editions of the Census Bureau's Current Population Survey. We compare federal employees only to workers at large private sector firms, which offer the best salaries and benefits. We find a federal pay premium of 14 percent over similar private sector employees.

The federal pay premium is largest for workers with less education and those with long job tenure. For instance, federal employees with only a high school degree receive a salary premium of over 22 percent while those with graduate degrees receive a salary premium of only 3 percent.

However, it is possible that this standard human capital method ignores certain relevant differences between workers. For instance, CPS educational data tell us only if an individual has a certain degree, not the quality of the college he or she attended. Similarly, perhaps federal workers are more highly motivated than private employees, an attribute that survey data cannot capture.

As an alternative, we used data from the Survey of Income and Program Participation (SIPP) which allowed us to follow individual workers' salaries over time, tracking how their own pay changed as they changed jobs. This method does not require us to control for individual

[2] Congressional Budget Office. "Comparing the Pay of Federal and Nonfederal Law Enforcement Officers." August, 2005.

differences between workers; rather it compares pay for the *same* worker when that worker held federal and private sector jobs. Workers who found a new job in the federal government received salaries 8 percent higher in their first year than those who found new jobs in the private sector. This finding confirms our prior results, which show a small pay premium for new federal employees, rising as job tenure increases.

Estimates from the President's Pay Agent

You may be aware of reports from the President's Pay Agent – not an actual person, but a function headed by the Secretary of Labor and directors of the Office of Management and Budget and Office of Personnel Management – which indicate that federal jobs pay roughly 25 percent *less* than similar private jobs. The Pay Agent's method assigns a General Schedule level to a variety of private sector jobs within a broad set of occupational categories. The salaries of these private sector positions are then compared to similar federal jobs. The Pay Agent's method tends to find that private sector jobs pay more than federal jobs with the same assigned GS level.

How do these results match up with the economic approach that finds federal workers to receive higher pay? The Pay Agent approach differs from the economic method in that the Pay Agent compares pay for jobs while economists compare pay for people. As the Congressional Budget Office has pointed out, [3] the jobs-based approach suffers from three significant weaknesses:

First, the inherently subjective nature of determining the precise GS level that should be assigned to a given private sector job. How do we truly know, for instance, that a given private position is equivalent to a GS-8 and not a GS-9?

Second, the omission of fringe benefits and other relevant employment characteristics such as job security and flexibility, which can significantly affect the market wage demanded for a given job; and

Third, the failure to account for differences in the experience and education of federal and private sector employees occupying the same job positions. A number of studies dating back to

[3] Congressional Budget Office. "Comparing the Pay of Federal and Nonfederal Law Enforcement Officers." August, 2005.

1984 have found that the federal government places workers in positions higher than these workers could hold in the private sector. A 2002 study of BLS occupational data found that "Federal workers have significantly fewer years of education and experience than private sector workers in the same level of responsibility in an occupation." [4] For instance, a senior accountant in the federal government might qualify only as a junior accountant in the private sector. As a result, lower salaries for federal jobs do *not* necessarily imply lower salaries for federal workers. This is why most economists reject the government's method in favor of person-to-person analysis.

Benefits

Fringe benefits are an important aspect of total compensation. We cannot make accurate public-private pay comparisons without accurately measuring the benefits that employees receive today and can expect to receive in the future.

The Office of Personnel Management reports that federal employees receive benefits equal to 36 percent of salaries, while the Bureau of Labor Statistics finds that benefits to private employees in large firms equal 49 percent of pay. This would seem to make federal benefits appear less generous.

But two issues stand out. First, OPM's benefit figures exclude the value of paid time off, overtime, and several other benefits. Paid time off alone is a large factor. According OPM data, federal employees on average use around 41 days of paid leave per year, 9 days more than in the private sector. Correcting for these omissions, federal benefits equal about 61 percent of salaries.

And second, OPM's pension figures are based on what employers contribute today, not what employees will receive in retirement. Due to different accounting conventions, employers with defined benefit pension contribute significantly less per dollar of future retirement benefits than do employers with defined contribution 401(k) plans. Without controlling for these different funding conventions we will understate defined benefit pension compensation, which is particularly important in the public sector.

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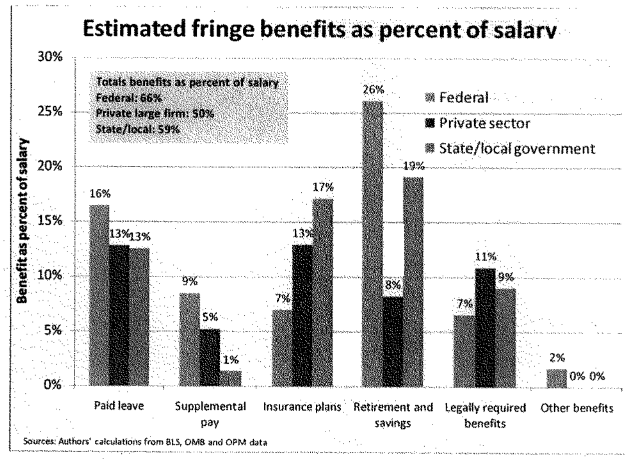
[4] Famulari, M. "What's in a Name? Title Inflation in the US Federal Government." Working paper. 2002. Revision requested by *Industrial and Labor Relations Review*.



Adjusting for these factors, federal employees receive total benefits equal to 66 percent of salaries while private sector benefits equal 50 percent of salaries. (For context, state and local government employees receive benefits equal to an average of 59 percent of salaries, though BLS figures do not include often-generous retiree health benefits paid at the state/local level.) When a federal salary premium of 14 percent is combined with a benefit premium of 33 percent, total federal salaries and benefits are roughly 25 percent above those similar private sector employees would receive.

Job security

Economists since Adam Smith have noted that positions with greater job security *should* pay lower salaries, just as safe investments like bonds pay lower returns than stocks. The BLS Job Openings and Labor Turnover Survey (JOLTS) reports that in any given year, federal workers are less than one-third as likely as private sector employees to be fired or laid off.

We estimate the value of job security, using the tools of financial economics to calculate the pay reduction a private sector worker would willingly accept to have the low discharge rates of federal employees. These calculations involve assumptions regarding the duration of unemployment, the level of unemployment benefits collected while unemployed, and the compensation of the new job the individual may find. We find that federal workers' job security is equivalent to an extra 29 percent of pay if we assume that federal employees, were they to work in the private sector, would be similar to other private sector workers in the probability and duration of unemployment. Assuming, more conservatively, that federal employees, perhaps due to their greater education, would be half as likely as other private workers to be discharged from private employment, the job security pay premium equals 11 percent of compensation.

When salaries, benefits, and job security are properly valued, the total federal compensation package is worth upwards of 39 percent more than is paid to similar private sector workers. The total federal pay premium approaches $60 billion per year.

What to do?

Identifying the pay premium is far easier than fixing it. Simple pay freezes or furloughs are blunt instruments that will not get to the heart of the issue, as they do not address the often significant differences in the generosity of pay among different federal employees. Increased flexibility to raise salaries when demand for a given job is low and reduce salaries when demand for a position is high is one way to allow market information to flow into federal salary decisions. Likewise, it makes sense for certain federal benefits – in particular, retirement contributions and paid time off – to be brought more in line with private sector standards. But more broadly, federal pay must be made to reflect market conditions, not with a one-time adjustment but with fundamental reforms that work consistently into the future.

See Comparing Federal and Private Sector Compensation AEI Working Paper at http://www.aei.org/paper/100203

Mr. ROSS. Thank you, Dr. Biggs.

Mr. Stier, you are recognized for 5 minutes.

STATEMENT OF MAX STIER

Mr. STIER. Thank you very much, Chairman Ross, Ranking Member Lynch, and members of the subcommittee. It is a pleasure being here, and I appreciate the opportunity to testify.

I respectfully suggest that we're asking the wrong question here. It is not whether Federal workers are underpaid or overpaid, but rather how do we move the system to a more market sensitive system? John O'Leary at Harvard said it is a Goldilocks truth. In any group of public servants you are going to find some that are underpaid, some that are overpaid, and some that are paid just right. Our challenge is to make sure that our government has the best talent for the best price.

I would propose then we have seven core principals that you look at in thinking about where we go from here:

First, No. 1, obviously, we need a pay system based on the market for needed talent. We need to make sure that, again, we have competitive salaries set not just by geography but also by occupation and the relevant factors that have been set already.

Second, we need to account for benefits cautiously. So, yes, benefits do matter, but I don't think you can look, for example, at job security and see that as an across the board benefit. If you are trying to hire the very critical cybersecurity talent coming out of school today, the fact that a job may have more security isn't going to be really relevant for them. In fact, that may be a turnoff. You have to understand your talent, you've got to understand what appeals to them, and you've got to be specific to the jobs, the talents that you actually need.

Third, we need to get better data. Right now, we are looking at, again, across-the-board comparisons. If you look by geography, we're not looking at the very concrete specific surveys that most companies do when they are trying to analyze what they ought to pay for the talent that they need, and in government we need to do a lot better in order to get that information.

Fourth, we also need to look at the quality of the hires we are looking at. This is actually a balance here. You think about what you're paying, but you have to think about what you're paying for. And, right now, in government we don't do a very good job of understanding what quality talent is and how to retain it. And unless we have those quality measurements then in fact we're not going to ever be able to design the right system. So we're not going to know whether we're getting the right value for the money that is being spent. So we need to make sure that agencies are recruiting the right talent and we know what right talent looks like.

No. 5, we need to make sure that we reform the Federal classification system. The pay system, the classification system are intertwined. The classification system wasn't designed for the world that we live in today, and we need to make sure that's aligned with today's job market.

An example, a GS–11 is someone who performs work, "of marked difficulty and responsibility," while a GS–12 is someone who performs work of, "a very high order of difficulty and responsibility."

It doesn't make any sense. If you're a GS–12, engineer, HR professional, budget analyst, whatever it may be, you get paid the same. A lot of internal equity, but what that means is that you're really not actually matching the market for talent.

No. 6, we need to make sure we have good work force planning. We need to make sure that we actually know what talent we need. Today, we don't actually have a governmentwide plan on the human capital that we need to make sure the government runs right, and we need that. In fact, we're not forecasting enterprise-wide the sorts of skills that we need to be able to succeed in the world we're going into; and that's a component piece of what we ought to be looking at here.

And then, No. 7, we need real flexibility. If you look at the government today, you in fact have a lot of agencies that have already been given different authority to create different systems. For example, the VA, they were finding that they couldn't actually recruit the doctors and nurses that they need, so they were given authority. Financial regulatory institutions. You have a diverse set of agencies all trying to do different things. We need to make sure that whatever is done with this system that it permits for the flexibility to allow for the different needs of these organizations to recruit the talent that they need.

What about going forward here? I propose that there are four key recommendations:

No. 1, this has to be a collective effort. We need the best minds. We need to make sure everyone is at the table. That includes employee groups. It includes, obviously, the best minds that know about compensation that can help design the right thing.

Second, we need to design from where we are today. This is not a blank paper exercise. We have to design something that takes us from where we are today to where we need to go; and that may mean there are populations, for example, that may be viewed as being overpaid. Well, how do you make sure that they are treated fairly in the process of moving them to the new system? That's an extra challenge.

No. 3, we need to build off of what's worked. We've had experiments in government before. We've had demonstration project authority for 30 years. There are organizations that have tried different things. I had mentioned earlier the agencies that have already been given different authority, whether it's financial organizations or many, many others, GAO being another example; and we have to be looking at what's worked with them.

And then, finally, we need to take a step back and understand what success looks like. We need accountability on our end to make sure that we're actually driving toward the right outcomes. And, again, that ought to be getting the right talent at the most cost-effective fashion.

So Steve Colby said it best. He said, the main thing is to keep the main thing the main thing. And that ought to be——

Again, outcome is for the American people which requires the best talent at the most cost-effective mechanism and price. So we have to avoid the distraction, I believe, of thinking underpaid, overpaid, and focus on that key issue.

I appreciate the opportunity to be before you and hope I can answer some questions later.

[The prepared statement of Mr. Stier follows:]

PARTNERSHIP FOR PUBLIC SERVICE

Written Testimony of Max Stier
President and CEO
Partnership for Public Service

Prepared for

The House Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

Hearing Entitled,
"Are Federal Workers Underpaid?"

March 9, 2011

Chairman Ross, Ranking Member Lynch, and Members of the Subcommittee, thank you for the opportunity to appear before you today. I am Max Stier, President and CEO of the Partnership for Public Service, a nonpartisan, nonprofit organization dedicated to revitalizing the federal civil service and transforming the way government works. I appreciate your invitation to testify on the issue of federal employee pay. How we treat our federal workers and, in particular, the pay and compensation system we use to recruit, motivate, and retain those workers is of tremendous importance to the federal government's ability to function effectively in delivering the benefits and services the American public wants and needs.

Federal employee pay is currently a hotly debated topic with not only conflicting opinions but also, it seems, conflicting data underlying those opinions. We've all seen the reports and opinion pieces that are adamant in their position that federal employees are paid more highly than their private sector counterparts. And, we've seen others that are equally adamant that federal employees are significantly underpaid.

Part of the disagreement stems from differences over what is being compared and how it is compared. Are we comparing like jobs with equal levels of authority, responsibility, and impact? Are we taking into consideration potential differences in the skills, qualifications, and experience of the individuals in those jobs? And then there is the value each side places on federal employee benefits and how those benefits are taken into account when comparing private and public sector pay - including such intangible benefits as job security. The reality of federal pay, however, was perhaps best captured by John O'Leary at the Ash Center of the Harvard Kennedy School in what he called "the Goldilocks truth: Among any group of public employees, some are underpaid, others overpaid, and still others are paid just about right."

One area in which there does seem to be at least more agreement, however, is that the current multiple approaches to setting federal pay and the 1949-era General Schedule (GS) system do not serve well either federal employees or the American public. The GS system is inflexible and it is clearly not market-sensitive. We agree with the 2002 Office of Personnel Management (OPM) White Paper, "A Fresh Start for Federal Pay: The Case for Modernization," which concludes that:

"All the reform efforts of the last 50 years...have left the General Schedule system intact. However, as the President and the Congress work to pursue good government policies and practices that improve management and accountability, OPM believes the time may have come for substantive reform that brings the era of the General Schedule to a close."

Congressional intent with regard to federal pay comparability is clear (5 USC Section 5301(3)) in specifying that "Federal pay rates be comparable with non-federal rates for the same levels of work within the same local pay area." In essence, Congress has called for federal pay to be market-sensitive. However, the fact of the matter is that the GS pay system is not responsive to changes in what other major non-federal employers pay to attract and hire the talent they need for specific jobs and occupations. Under the GS pay system, for example, a GS-12 level engineer, budget analyst, HR specialist, attorney, or IT specialist in the San Francisco area are all paid the same regardless of the fact that non-federal employers in that area may pay very different salaries for people in those occupations.

If we rephrase the question posed by the title of this hearing and ask – are federal workers being paid at a rate comparable to their private sector counterparts – the answer, too frequently, is no. I respectfully submit that the real question that needs to be addressed by Congress and the Administration is not whether the laws governing federal pay should be changed but rather how should they be changed. While reaching consensus on the details of new pay legislation will be quite challenging, we suggest starting with the goal of reaching general agreement on the outcomes to be achieved and the core principles to be followed. Here is what the Partnership recommends in that regard.

The Right Goal for the Federal Pay Setting Process:

At the end of the day, the federal pay system should allow the federal government to attract, motivate, and retain highly-qualified workers to carry out the many missions of the federal government. And it should do it as cost-effectively as possible.

We should want the federal government to employ some of the best medical and health professionals in the country to care for the nation's war fighters and to staff the Centers for Disease Control, the National Institutes of Health, the Public Health Service, and the Indian Health Service. We need to attract individuals who are among the most capable in the country at carrying out the difficult, demanding, and often dangerous jobs involved in keeping the American public safe, for example, the customs and border protection officers and border patrol agencies in the Department of Homeland Security; the criminal investigators in the FBI and Drug Enforcement Administration; and correctional officers in the Bureau of prisons. We need the best scientists and engineers available to lead efforts against bioterrorism and to oversee development of new weapons systems by private sector contractors for the Department of Defense; we should want to attract some of the best legal minds to the Departments of Justice and State, among others. And yes, we should want the federal pay system to allow the federal government to hire and retain individuals who excel at tasks such as air traffic control, tax examination, meat and poultry inspection; and examining and adjudicating claims for veterans benefits, social security, Medicare and Medicaid benefits, and the list goes on.

Whether one wants a bigger or smaller government, an enhanced or a reduced role for government, there should be little disagreement that once we decide as a nation what we want the government to do, it should be able to do those things effectively and efficiently. In order to do this, the country needs talented and motivated people in government and it needs an approach to pay and compensation that enables it to attract, motivate, and retain those employees. Pay reform in government is clearly needed.

I appreciate having this opportunity to outline seven recommended principles to guide federal pay reform, followed by some suggestions for achieving success where previous attempts have failed.

I. Seven Core Principles to Guide Pay Reform

1. **Set federal pay based on the market for the talent needed.**

   The federal government should not and need not pay more for talent than relevant non-federal employers but neither should it lag so far behind that it becomes an employer of last resort for individuals who are among the most capable of doing a particular job. As noted, current law already calls for federal pay to be comparable to that paid by private sector employers when filling comparable jobs and that is the right standard. The problem is that the current GS pay system is not flexible enough for us to meet that standard. For example, in 2010, the average private sector salary for a recent college graduate with a four-year degree was \$48,661. In Washington, DC the GS-system sets the federal starting salary for that graduate at \$34,075 or – for candidates with evidence of superior academic achievement - \$42,209. For those jobs in government which also require a professional certification or license, the gap can be even higher.

   At the upper end of the pay schedule, even jobs as demanding as the Secretaries of Defense, Justice, State, and Treasury pay less than \$200,000 a year. We are not suggesting, of course, that pay for top government officials approach anything close to the much higher salaries paid to private sector executives and CEO's. We are merely noting that the intent of current law regarding market-sensitive pay is frequently not achieved. Any change to the current GS pay system must strive for at least greater market-sensitivity than is currently the case.

   Market-sensitive pay setting should take into account not only geographic differences driven by cost of living considerations but it should also take into account the differences in pay for different occupations and skill sets that are driven by labor-market supply and demand. Finally, in rethinking the federal approach to pay setting, one should also remember that sometimes the federal government actually sets the market for some jobs that are clearly vital but for which there may be few private-sector counterparts.

Negotiating treaties and agreements with foreign governments, for example, is something that is inherently governmental and it is also clearly in the best interests of the country for the government to be able to attract some of the best minds and most skilled negotiators to that task and to the foreign affairs field generally.

2. Take federal employee benefits into account – carefully.

A number of commentators on the federal pay issue have correctly suggested that we should not ignore the cost – or the value - of federal employee benefits when considering any changes to the federal system. We agree. We must also urge caution in how those benefits are taken into account. Done incorrectly, it can work against the aforementioned overarching goal for federal pay setting. For example, the retirement system for federal employees hired after December 31, 1983 is the Federal Employees Retirement System (FERS). It's a three tied system consisting of Social Security Benefits and a 401K type plan (Thrift Savings Plan) similar to that available to many private sector employees. The third tier is a defined benefit plan that is increasingly less common. It's been suggested that since the value of the federal retirement system for those who make a full career in the federal government may be greater than that for many private sector employees, that should allow for lower starting salaries in the government compared to the private sector. What that approach overlooks is that job applicants place different values on job benefits vs. salary. For example, a new college graduate, especially one of the many graduates with student loans to pay off, isn't thinking about retirement when looking for their first job – they are more focused on the size of the pay check. A few thousand dollars a year difference in starting salary offers is enough to make a top candidate decide they simply can't afford to take a job in public service.

Similarly, some have expressed a view that the greater "job security" that public service might provide is a benefit that could justify setting federal salaries below those of comparable private sector jobs. First, we're not sure how one accurately measures "job security" – federal employees do get fired for cause or are removed on occasion through no fault of their own (e.g., when a military installation closes). More to the point, however, is that the type of new hires most needed in the government are individuals who are confident, talented, and motivated – and are unlikely to be thinking of job security when deciding which employer to pursue. For example, many of the heavily recruited young professionals with IT or cyber-security skills expect to change jobs and sectors several times throughout their careers. In fact, if a job applicant is motivated primarily by a belief that if they can get a government job from which they can never be fired – they are both wrong and also not the type of employee we want to attract to government in the first place. We agree that the process for removing a poorly performing federal employee may be more complicated than it needs to be, but suggest that Congress and the Administration deal with that directly rather than penalizing the vast majority of well-performing employees by reducing overall pay.

Finally, we recognize that there are other benefits that are attractive to job candidates and which the taxpayer funds such as health insurance (even here, however, it must be noted that federal employees and retirees pay for approximately 30 percent of the premium). Our point is that if the financial cost of combined salaries and benefits within the government is determined to be too high, cutting base salaries should not automatically be the first option considered to bring costs down.

3. **Gather better and more complete pay data.**

To enable more market-sensitive pay setting, the federal government will need to invest in more robust data gathering to ensure that federal employee pay is being set based on true "apple to apple" job comparisons. Major private-sector companies have long relied on market surveys to determine what they need to pay to attract the talent they need – and to avoid paying more than they need. The federal government should tap into that data base and/or expand its own data gathering to ensure accurate pay comparisons to the relevant labor market. This should take into account geographic location, industry sector, occupation/skills requirements, and level of responsibility within an occupation. In short, before the federal government charts a new and more market-oriented destination for federal pay-setting, it needs a better understanding of where it currently stands.

When the General Schedule pay system was established in 1949, the emphasis was on internal equity within the federal workforce. The guiding principal was to provide equal pay for substantially equal work. Salary surveys to compare federal pay to comparable positions in the private sector were not conducted. In fact, salaries for all white-collar positions were set on a national scale – employees with the same grade and step were paid the same salary regardless of occupation or location. While this was frequently advantageous for federal employees in low-cost of living areas it was frequently a disadvantage for employees in high-cost of living area where private sector wages were typically higher for comparable jobs. In was only with the passage of the Federal Employees Pay Comparability Act of 1990 that Congress recognized the need to adjust wages based on geographically determined locality wage areas and to gather non-federal private sector salary data to help make that determination. However, pay adjustments in each locality pay area are still based on <u>average</u> differences between federal and non-federal jobs, i.e., the adjustments do not vary by occupation. To be fair to federal employees and to the taxpayers, the government should invest in more robust market-based salary surveys.

4. **Assess the quality of new hires.**

The true bottom-line test of whether both the federal hiring system and the federal pay system are working well, of course, is whether the individuals being hired are well-qualified and well-matched to the jobs for which they are hired. Even an employer who pays substantially below what other employers in the area are paying for comparable jobs will eventually find individuals willing to take the job. That employer, however, is likely to find that a percentage of those hires are also substantially below the quality of the hires being made by their better paying competitors. Frankly, we believe the work done by the federal government is too important to ever settle for "warm bodies" in place of highly qualified, motivated employees. However, in order to determine if any pay system is enabling the federal government to make the right hires, data should also be gathered on the quality of the hires that are being made and that quality should be tracked over time. This would provide for a much needed feedback loop so that refinements in pay setting might be made, as needed, to ensure that the American public is being served by federal employees who are among the best at doing the jobs for which they are hired.

5. **Reform the federal job classification system.**

Part and parcel of the GS pay system is the federal job classification system which requires each job to be classified or placed into one of 15 grade levels as well as the associated job family and job series within that family. The job classification component of the GS system has long been criticized as outdated and stultifying. This characterization is reinforced in a 2010 report, "Closing the Gap: Seven Obstacles to a First-Class Federal Workforce," based on in-depth interviews with 68 federal Chief Human Capital Officers (CHCOs) and other HR Leaders. Those interviews, conducted by the Partnership for Public Service and Grant Thornton, LLP, revealed that the very officials whose job it is to operate the federal classification system find it outdated and in need of an overhaul. According to one CHCO, "The classification system is ancient." When asked what should be done with the system, another CHCO bluntly suggested "We should just blow it up."

As alluded to earlier, one problem with the position classification system is that the differences between grade levels are not aligned with the realities of today's job market. Entry-level grades for many occupations pay below private-sector starting salaries while mid-level grades in the occupation may pay at or even above the market before going below market again at senior pay levels for some jobs. Further, as an employee advances into higher grades, the need to divide all jobs into one of 15 grade levels can lead to seemingly arbitrary distinctions. For example, the difference in statute between a GS-11 and a GS-12 level job is, in part, that the GS-11 position performs work of "marked difficulty and responsibility," while the GS-12 position performs work of "a very high order of difficulty and responsibility." Many respondents said this is a root cause of the problem with the General Schedule. As one CHCO noted, "Market-based pay makes sense, but you run into problems with the classification system."

6. **Ensure the government uses a comprehensive workforce planning effort to identify the talent for which it will compete.**

How much one needs to pay an employee to attract, motivate, and retain the talent needed obviously depends on the job that needs to be done and how the work is structured. It should not be assumed, for example, that the right goal is to fill a newly vacated job with someone with the same skills and attributes of the employee who last held that job. In some cases, the best response is to abolish the job and design a new position that is better aligned with a need or work environment that has changed. Or perhaps the job no longer needs to be done. In other cases, an organization may find that while the tasks and responsibilities that need to be assigned to the job may be relatively unchanged, but there is a need to upgrade the knowledge or skills set of the individuals hired to do that job. The point is that when embarking on a pay reform effort, we should also ensure that at the same time the federal government is actively engaged in an on-going, systematic effort to identify the number, quality, and level (entry-level, intermediate, or senior level) of employees needed to carry out its missions as effectively and efficiently as possible. Too often the case is that when one employee departs, there is an automatic refilling of the exact same position, without the benefit of a workforce review.

7. **Design a federal pay system that is flexible enough to encompass most, if not all, federal organizations.**

Part of the challenge for the federal government currently is that in addition to the GS pay system, there are a variety of other pay systems that have been authorized by Congress for selected federal agencies and agency subcomponents. For example, Congress authorized many of the financial agencies, such as the Securities and Exchange Commission (SEC), the Federal Deposit and Insurance Commission (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Federal Housing Finance Agency (FHFA), to develop pay systems that are more flexible than the GS system and more market-sensitive to enable those agencies to attract and retain needed talent. The Department of Veterans Affairs has a different pay system for it medical and health professionals, the Federal Aviation Administration has a unique pay system, the U.S. foreign service uses a different pay system and federal senior executive service is paid under a non-GS system approach, and then there are other federal organizations that are using pay systems developed under the demonstration project authority authorized under the 1978 Civil Service Reform Act.

Most of the alternative pay systems for white-collar employees in the federal government exist because the GS pay system was determined to be inadequate for those agencies. The existence of these multiple pay systems in the federal government increases the administrative complexity of the federal HR system and also causes internal alignment issues as some agencies are able to pay their employees more than other agencies for the same type of work, e.g., HR and budget specialists. Federal pay reform for the executive branch, therefore, should adopt as a guiding principle the goal of a pay system that is flexible enough and responsive enough to changing market conditions to encompass most, if not all, of the alternative pay systems that currently exist within the executive branch. It would also be suggested that these pay systems be reviewed to determine their success, as it may be possible to adopt what's already in place in other government agencies.

II. How to Move Forward in Creating a More Modern Federal Pay System

Gaining consensus on the need for change to the laws governing federal pay and benefits may be the easy part of the change process. Identifying and gaining agreement on both what should be changed and how the changes should be made are the goals that have eluded would be reformers in this area for more than 50 years now. Please allow me to offer three recommendations for how the federal government might make some progress this time around.

A. Brace yourself – federal pay reform is a heavy lift and will require an effort commensurate to the task.

Having a bi-partisan dialogue about the need for federal pay reform is a good start, but to achieve real results will require very substantial, sustained, and high-level commitment from all the players involved. That also means a substantial commitment of time and resources to design the new systems, to get the buy-in from all stakeholders, to develop viable long-range implementation plans, and to engage in what will have to be a multi-year training and development effort for the federal workforce. Effective pay reform is going to require no less than a fundamental culture change for everyone affected. There will also be transition issues to be addressed to ensue that moving from where the federal government is today to where it needs to go is done as smoothly as possible. For example, should a thorough market survey find that one or more federal occupations in selected geographic areas are being paid above market rates, there will need to be a clear plan to bring pay into alignment while being sensitive to the impact it will have on the employees. Conversely, where there are instances of federal pay that is under market, a plan to correct that situation within a reasonable amount of time will be needed.

B. Engage the best minds and expertise from all key stakeholder groups – including from the private, academic, and non-profit sectors, from political leaders in Congress and the Administration, and from federal employee unions and career managers and executives – and keep the focus on the end goal.

Care will need to be exercised to ensure that pay reform does not become an exercise to push forward an ideological agenda. For example, federal pay and benefits should not be seen as leverage points to increase or decrease the size and role of government in our society – that's a different debate and one worth having – but it should not drive decision-making about how much to pay or what benefits to provide to those workers hired to ensure that the work of government gets done as effectively as possible. As suggested at the outset of this testimony, this should be about good workforce management. It's about designing and implementing a federal pay and benefits system that enables the federal government to attract, motivate, and retain highly-qualified workers to carry out the many missions of the federal government. In other words, it's about ensuring that our country has a world-class government staffed by a world-class workforce. Making sure that all stakeholders are meaningfully engaged in the process and that all are focused on the end goal will substantially increase the chance of success.

C. Don't reinvent the wheel – look at what has already worked and build on that and gathered lessons learned from what was tried and failed, as well as what's currently working.

We clearly don't have to start from scratch in this effort. For example, the purpose the demonstration project authority (5 USC Section 4703) that Congress put into law in 1978 has been constructively used by a variety of federal organizations to experiment with different approaches to federal employee pay and those efforts has been well documented under the requirements of the authority, including instances where the outcomes were clearly superior to the GS system. Other federal organizations that have been authorized by Congress to design and operate unique pay systems, such as a number of federal financial agencies, parts of IRS, NASA, and VA, and the U.S. foreign service and their successes – and some of their less successful experiences – can also inform the debate going forward.

The federal government does not exist in a vacuum. While there are clearly differences between running an effective federal agency and a successful for-profit company in the private sector, for example, there are also similarities. Federal pay reform efforts, therefore, should also be informed by what has worked – or not worked – in the private and non-profit sectors. Finally, a number of state, local, and foreign governments have also developed approaches to pay setting that differ in significant ways from that of the federal government and we should look for the best and the worst (in terms of outcomes) among them to learn more about this extremely important – and highly controversial – issue.

III. In Conclusion

Steven Covey said, "The main thing is to keep the main thing the main thing." The main thing for this Subcommittee is a clear understanding of what it takes to build a more market-based pay system for the federal government that neither overpays, nor underpays, the talent needed by the federal government to provide vital benefits and services for the American public.

One way to help avoid distractions will be to keep a clear focus on the end goal of a highly qualified, motivated federal workforce that performs with the excellence that the American people deserve.

We commend the Subcommittee for your effort to learn more about this complex issue and we encourage you to keep at it. Thank you for inviting us to share the views of the Partnership for Public Service. We look forward doing whatever we can to help.

Mr. ROSS. Thank you, Mr. Stier.

Ms. Kelley, you're recognized for 5 minutes. Thank you.

STATEMENT OF COLLEEN KELLEY

Ms. KELLEY. Thank you very much, Chairman Ross, Ranking Member Lynch, and members of the subcommittee for the opportunity to testify today.

The pay system for the large majority of white collar Federal employees is known as the General Schedule. Its main thesis is that Federal pay should be comparable to pay for similar work in the private sector.

In 1990, Congress enacted the Federal Employees Pay Comparability Act [FEPCA], which introduced the concept of locality adjustments to make the pay system even more sensitive to geographic market forces. FEPCA requires the Bureau of Labor Statistics to conduct surveys of the 32 separate localities and then provide that information to the President's Pay Agent, which, as we've heard today, consists of the Secretary of Labor, the Director of OMB, and the Director of OPM, who then have the statutory responsibility of submitting a report to the President each year that lists pay gaps in the 32 areas as well as a national average gap. The Pay Agent reports showing lower pay for Federal employees have been consistent in Democratic as well Republican administrations.

The reasons that the data from BLS and The Heritage Foundation differ are many. Most importantly, BLS compares actual job duties, not just job titles but job duties. And, as we've heard, more than 54 percent of Federal workers work in the nine highest-paying occupation groups. Federal employees are more experienced, they are older, and they have many more years of education, as we've already heard, than private sector workers.

With regard to benefits, Federal employees as well as Members of Congress are covered by the Federal Employees Health Benefit Program. Enrollees pay, on average, 30 percent of the total premium cost. According to Mr. Sherk, in the private sector workers pay 18 percent of their premiums for single plans and 29 percent for family plans.

In the 1980's, the Federal Employees Retirement System was created to replace a defined benefit system. There has been discussion about that today, also. The earlier plan had serious and growing unfunded liability problems that are similar to those faced by many States today. But the first system today is fully funded and financially sound with no unfunded liability. And Federal retirement pensions are not overly generous. Close to 70 percent of Federal retirees receive annuities of less than $3,000 a month.

Mr. Chairman, in a recent interview you were quoted as indicating your support for instituting so-called pay for performance in the Federal Government. And I'm a big believer in setting goals, meaningful goals, and then figuring out how to reach those goals. With regard to pay for performance I believe that past conversations have proven that the goals are very often glossed over with statements like we want flexibility or it needs to be more modern.

It seems to me that a pay system should have a couple of major goals attached it: No. 1, does it help to recruit and retain the best people for the jobs; and, No. 2, does it help to motivate employees to better achieve the agency mission? I don't know of a single pay-for-performance system that is showing progress in either of these goals today in the Federal Government.

I discuss the serious problems with several of these systems in my written statement, including those at the TSA and the repealed NSPS system at the Department of Defense.

The Treasury Inspector General for Tax Administration has gone so far as to say of the IRS managers pay banding system that the IRS risks reducing its ability to provide quality service to taxpayers because the Internal Revenue pay-for-performance system potentially hinders the IRS's ability to recruit, retain, and motivate highly skilled leaders.

The Government Accountability Office has found that the flexibilities that are most effective in managing the Federal work force include things like time-off awards and flexible work schedules that allow employees to better balance the demands of career and family life. These and other existing flexibilities need to be used more widely.

Suggestions have also been made that contracting out more Federal work will lead to more cost efficiency. We have had recent experience with this notion, and it has not proven true. According to OMB, excessive reliance on contractors has eroded the in-house capacity of agencies to perform many critical functions and has undermined their ability to accomplish their missions.

The Obama administration has begun to reform this out-of-control contracting by requiring agencies to cut wasteful contracting practices and to improve oversight and accountability. These efforts are expected to result in $40 billion in annual savings beginning in 2011.

Mr. Chairman, some of the hardest-working people I represent make less than $30,000 a year, yet they are facing a 2-year pay freeze; and retirees are in the second year without a cost of living increase. NTEU members understand that the country faces challenges; and although they did not cause the fiscal crisis, they are willing to work to help solve it.

Thank you for the opportunity to testify here today, and I will be glad to answer any questions.

[The prepared statement of Ms. Kelley follows:]

NTEU
The National Treasury Employees Union

Testimony of

Colleen M. Kelley
National President

National Treasury Employees Union

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

House Committee on Oversight And Government Reform

"Are Federal Workers Underpaid?"

March 9, 2011

Chairman Ross, Ranking Member Lynch and members of the Subcommittee, thank you for inviting me to testify today on behalf of the 160,000 federal employees represented by NTEU. I appreciate the opportunity to discuss these important issues with the Subcommittee.

PAY

The pay system for the large majority of white collar federal employees is known as the General Schedule (GS). Its main thesis is that federal pay should be comparable to pay for similar work in the private sector. In 1990, Congress enacted the Federal Employees Pay Comparability Act, which introduced the concept of locality adjustments to make the pay system more sensitive to geographic market forces. Previous to that, federal pay was based on comparability to similar private sector jobs, but the same average annual adjustment was given to all GS employees. Under FEPCA, employees were to receive an annual across the board adjustment equal to half a percent below the increase in the Employment Cost Index, which measures non-federal wages, and a locality adjustment based on the size of federal vs. private sector wage gaps in 32 different localities around the country. In practice, the formula set in FEPCA was never fully implemented and Congress has set annual pay adjustments for federal employees almost every year. As you know, Congress last year enacted a two year pay freeze for federal employees covering 2011 and 2012.

But one provision of FEPCA that has been implemented requires the Bureau of Labor Statistics (BLS) to conduct surveys of the 32 separate localities to determine whether there are gaps between federal pay and private sector pay. BLS then provides that information to the President's Pay Agent, which consists of the Secretary of Labor, the Director of the Office of Management and Budget and the Director of the Office of Personnel Management who have the statutory responsibility of submitting a report to the President each year that lists pay gaps in the 32 areas as well as a national average gap. The gaps showing lower pay for federal employees reported by the Pay Agent to the President have been consistent in Democratic as well as Republican Administrations.

While the 2010 report has yet to be submitted, in 2009 the Pay Agent consisted of Hilda Solis (Labor Secretary), Peter Orszag (OMB Director) and John Berry (OPM Director) and that report stated the average "pay disparity as of March 2009 was . . . 22.13 percent." (p. 23) In 2008 the Pay Agent consisted of Elaine Chao (Secretary of Labor), Jim Nussle (OMB Director) and Michael Hager (OPM Director) and that report stated the average "pay disparity as of March 2008 was . . . 23.25 percent." (p. 25) In 2007 the Pay Agent consisted of Elaine Chao (Labor Secretary), Jim Nussle (OMB Director) and Linda Springer (OPM Director) and that report stated the average "pay disparity as of March 2007 was . . . 22.97 percent." (p. 19).

While witnesses at today's hearing will put forth quite different statistics, I do not believe the organizations they speak for have the unbiased credibility of the non-partisan, highly professional and respected, Bureau of Labor Statistics, which does the surveys relied upon by the Pay Agent. The witnesses who will claim today that federal employees are overpaid have clear ideological views that I believe should raise serious questions about the reliability of their findings. Some of these views include opposition to paid sick leave, opposition to collective bargaining in the public sector and opposition to extended unemployment benefits in high unemployment areas. In fact, Mr. Sherk recently commented that: "Other states should follow Wisconsin's lead and cease collective bargaining with government unions." (Time to Restore Voter Control: End the Government Union Monopoly, James Sherk, 2/25/11.) And he recently authored a document that analyzed the Healthy Families Act, which would require employers to provide employees with 7 days of paid sick leave, stating: "The HFA encourages irresponsible employees to game the system and dump tasks on their co-workers while still receiving full pay because they cannot be disciplined for using their leave." (Understanding Mandatory Paid Sick Leave, James Sherk, 2/22/11). I believe these views are outside the mainstream and particularly unfortunate in their emphasis on denying the most basic workplace rights for wage earning workers in light of the fact that their Board of Directors includes some of the wealthiest men in the world.

NTEU has no problem with The Heritage Foundation and the American Enterprise Institute advocating for their positions. We strongly believe in everyone having the right to do so and we are proud to advocate on behalf of those we represent. The difference here is that we, and they, are not each putting forth products that we have each funded and produced. Rather, they are putting forth self - serving, self - created data, while we are referring to data from an independent, non-partisan, credible source. In fact, Dr. Charles Fay testified before this Committee not long ago that the Bureau of Labor Statistics uses "impeccable methodology" to gather and evaluate statistically valid data for the GS system. (May 22, 2007, House testimony).

The reasons that the data from BLS and the Heritage Foundation differ on whether federal employees are paid more or less than the private sector are many. Most importantly, BLS compares actual job duties, not just job titles. How many budget analysts in the private sector oversee multi-billion dollar agency budgets? How many logistics managers in the private sector implement the deployment of tens of thousands of troops and their supplies? How many physicians in the private sector are doing cutting edge research on curing deadly diseases? BLS data also reflects the types of jobs done by the federal government. More than 54% of federal workers work in the nine highest paying occupation groups, including judges, engineers and scientists. Federal employees are more experienced, older and have more years of education than private sector workers. Fifty-one percent have at least a college degree compared with 35 percent in the private sector. Twenty percent have advanced degrees compared with 13 percent in the private sector.

In addition to pay increases set by Congress, federal employees are eligible for within grade step increases at intervals of one, two or three years depending on where they are in their career ladder. The eligibility for these increases ends once an employee reaches the top of his or her career ladder. Roughly 50% of employees are eligible for these increases each year. Supervisors must certify that an employee has maintained a level of acceptable performance in order for an increase to be received. While these step increases are tied to performance, there has been criticism that supervisors rarely withhold them. NTEU believes that increasing supervisor training could address any problems in this area and that attention should be given to implementation concerns before abolishing a system that has proven transparent, non-discriminatory and understood and respected by those who labor under it.

HEALTH BENEFITS

With regard to benefits, as members of the Subcommittee know, federal employees and Members of Congress are covered by the same Federal Employees Health Benefits Program (FEHBP). The program is administered by the Office of Personnel Management and covers close to 9 million federal employees, retirees and their families. Enrollees can choose among many different types of plans, including HMOs, fee for service plans and high deductible catastrophic plans. Federal employees do not have the right to negotiate over the amount of contributions to FEHBP. Enrollees pay on average 30% of the total premium cost. That is higher than what most private sector employees pay, as Mr. Sherk points out in his publication, "Time to Restore Voter Control: End the Government Union Monopoly," at page 3, "In the private sector, workers pay 18 percent of their premiums for single plans and 29 percent for family plans."

That is not to say that NTEU believes that FEHBP costs could not be brought down for both the government and the enrollees. Premiums have been going up steadily, although in most cases at a lower rate than in the private sector, to the point that premiums have increased by more than 50 percent in the past ten years. One area ripe for savings is FEHBP's prescription drug pricing method. It is complex, non-transparent and results in the government paying more for prescription drugs under FEHBP than in any other government program, including the Veterans Administration, Tricare, Medicare and Medicaid. In the last session of Congress, the Subcommittee's Ranking Member, Representative Lynch, introduced legislation that would have limited the ability of pharmacy benefit managers to make huge, undisclosed profits on discounts and rebates that are not passed on to the government or enrollees. And President Obama's 2012 budget proposes changes to FEHBP's drug purchasing processes that would save $69 million in 2012 and more than $1.76 billion over ten years. I urge the Subcommittee to look further into this issue.

One suggestion for changing the FEHBP program that NTEU strongly opposes was put forth by the National Commission on Fiscal Responsibility and Reform and would change the program into a voucher system with the amount of the vouchers capped at the increase in the GDP plus 1 percent. It is my understanding that this proposal was based on a plan by Budget Committee Chairman Paul Ryan to turn Medicare into a similar voucher program, but the Commission members felt such a radical change to the huge number of seniors on Medicare would be politically unpalatable. Instead they suggested trying the voucher system on federal employees and retirees, a smaller, less politically volatile group, as a "pilot program."

Clearly, the aim of such a voucher system would be to merely shift costs from the government to enrollees, who are already paying more toward their premiums than their private sector counterparts. Tying the value of vouchers to no more than the growth in GDP plus 1 percent would steadily erode their worth since medical inflation consistently increases at a faster rate than GDP. In all likelihood the total cost of premiums would dramatically increase under this scenario since individuals would be left to find their own policies, rather than using the purchasing power of 9 million enrollees to get the best group deal for the largest employer sponsored health care plan in the country.

RETIREMENT

In the 1980's, Congress, working with federal sector unions, reformed the federal retirement system. The Federal Employees Retirement System (FERS) was created 24 years ago to replace a defined benefit system (CSRS) that had a serious and growing, unfunded liability problem similar to those faced by many state plans today. FERS solved that problem and has recently been referred to as a model by many diverse pension experts. Retirement age, COLAs and the basic benefit formula for determining pension payments are less generous under FERS than under CSRS. The FERS retirement system is fully funded and financially sound, with no unfunded liability. It is comprised of social security, a small pension and employee and employer contributions to the Thrift Savings Plan, a 401(k) type plan. Most federal employees must work 30 years and be 55 years of age before being eligible for an unreduced annuity. Members of Congress, who pay slightly more toward their retirement and receive a slightly higher pension can retire after 20 years of service at the age of 50 with an unreduced annuity. Federal retirement pensions are not overly generous. Close to 70% of federal retirees receive annuities of less than $3,000 per month.

NTEU is opposed to proposals that would cut the value of federal pensions by changing the formula to one based on the high 5 years of service as opposed to the high 3 years. The federal workforce is an older workforce whose members have relied and planned on a retirement based on the present system. It would be extremely unfair to change the goalposts for these employees as they reach the end of their careers.

PAY FOR PERFORMANCE

Mr. Chairman, in a press release issued before this hearing you indicated your support for instituting so called "pay for performance" systems in the federal government. And I assume that other witnesses will call for that, as well as more contracting out of federal services to private contractors, as a way to bring down costs.

NTEU has always taken the position that in order for a pay system to be credible and effective it must either be set in statute like the GS system so that everyone knows what the rules are and what the consequences of actions are, or there must be collective bargaining so that the employees, through their union, can have a role in the design of the pay system and can take action to remedy any unfairness. As you know, collective bargaining over pay and benefits is prohibited for all but a small number of federal agencies.

Before I discuss NTEU's views on various pay-for-performance systems that have been tried, I would like to address the current GS system. There is quite a bit of confusion among critics about it, and criticisms are usually vague and exaggerated. The General Schedule is a structured system. It has rules, standards and evaluations,which must be written. It has both merit and market based components. Within grade and career ladder promotions are subject to merit standards. There is limited ability for favoritism, discrimination or other non-merit determinations to come into play. But there is also flexibility. Non-performers can be denied merit pay increases and outstanding performers can be given many rewards, including quality step increases, annual leave, as well as retention and recruitment bonuses. Yet, we have seen a pattern of managers' inability to follow the rules and work within the GS system. If managers currently have trouble with the GS system, it does not make sense to go to a *more subjective* system. That will not solve anything.

I am a big believer in setting meaningful goals and then figuring out how best to reach those goals. I have participated in numerous Congressional hearings and Hill and Agency meetings on pay-for-performance and I have to say the goals are very often glossed over with statements like, "we want flexibility," or, "it needs to be more modem." It seems to me that a pay system should have a couple of major goals: 1) Does it help recruit and retain the best people for the jobs? And, 2) Does it help motivate employees to better achieve the agency mission? And this is the area where I believe the pay-for-performance systems that have been tried have had the most problems. I don't know of a single so-called pay-for-performance system that is getting good reviews from the employees who are working under it.

TSA

TSA's PASS appraisal system, which is a unique system, designed by TSA, is widely-seen as a poor tool for measuring and rewarding performance. In our survey of officers, 82 percent identified problems with PASS as a major workplace issue. Most officers believe they are treated unfairly by the system, with many complaints about the lack of predictability of advancement under it.

Unlike the General Schedule system, where employee pay increases at regular intervals in accordance with established rules, pay levels and advancement at TSA are mysterious and random. All too often, officers do not advance from one pay band to another for years at a time due to minor, often unfair demerits under PASS. Supervisors hand out 'collateral duties' assignments to checkpoint favorites, enabling those officers to receive "role model" ratings. Long-service officers complain they work side by side with new employees receiving similar or higher pay. PASS is a hard to understand system, with performance goals that are moving targets. For example, only a certain percentage of employees are permitted to achieve the highest overall rating each year. This results in situations in which an employee can have a higher PASS score than he or she achieved in the previous year—meaning performance improved—but the employee receives a lower raise and bonus.

At the same time, there is no transparency in the component parts of PASS; for example, high first time Practical Skills Evaluation failure rates are common, and officers are not told why they failed. Then, upon retaking the test a short time later, they succeed despite performing the skill test in a similar way as they did on the previous attempt, when they were failed. Again, no explanation is provided.

To further confuse officers, PASS scores—and, thus, annual raises and bonuses—are negatively impacted by the first failure. The obvious conclusion many draw is that the high first-time failure rates are simply a way for TSA to lower PASS-based payouts.

IRS

The Internal Revenue Service (IRS) has a pay banding performance based compensation system. While bargaining unit employees represented by NTEU are not covered by this alternative system, managers participate in it. I do not want to speak for the managers but I think it is safe to say they have not embraced the system.

In their June 18, 2007, public comments on OPM's proposed regulations to revise the criteria for IRS broadbanding systems *(Federal Register April 7, 2007)* the Federal Managers Association (FMA) highlighted several problems with their pay banding system. The theme that ran through their comments is the notion that under the proposed regulations, pay is not necessarily dependent upon the *performance* rating. And isn't that the purpose of these alternative pay systems? The FMA's comments included this statement: "Any reform of the current system must eliminate the current service-wide performance ratings caps. For the IRS personnel system to be truly pay-for-performance, there cannot be arbitrary caps on the number of higher ratings. Managers must receive the ratings their performance dictates and they should not be harmed by a *capricious ceiling.* For any personnel system to be fair and effective, evaluative ratings and performance awards must be based on merit, *not forced quotas.* " *(June 18, 2007 public comments (emphasis added))*

The Managers' comments also spoke to how the current award pools fail to adequately reward managers for performance and for the compensation risk they believe they face. After these comments came out, on July 3, 2007, the Treasury Inspector General for Tax Administration (TIGTA) released a report (2007-10-106) titled, *"The Internal Revenue Pay-for-Performance System May Not Support Initiatives to Recruit, Retain, and Motivate Future Leaders."* The TIGTA report found a number of serious deficiencies in the pay for performance system at the IRS. Most alarming to me, Mr. Chairman was the sentence on page 1 of the report under "Impact on the Taxpayer" and I quote:

> "In addition, the new System was not adequately communicated to the managers before it was implemented, causing opposition and decreasing morale. As a result, the IRS risks reducing its ability *to provide quality service to taxpayers* because the Internal Revenue Pay-for-Performance System potentially hinders the IRS' ability to recruit, retain, and motivate highly skilled leaders." *(Emphasis added)*

I believe we cannot ignore the bottom line mission of the agency in these pay experiments. If these alternative pay systems are jeopardizing the achievement of an agency's core mission - in this case to provide quality service to taxpayers - how can we justify more similar experiments?

In its report, TIGTA found: 1) the system discouraged both managers and non-managers from applying for managerial positions; 2) performance based pay increases were not necessarily commensurate with a manager's performance; and 3) the Human Capital Office (HCO) did not adequately communicate with affected managers, which increased opposition and decreased morale. I need not remind you, Mr. Chairman, that the point of this pay experiment was to attract quality talent to offset an expected dearth of government managers when nearly 90 percent of high level government managers will become eligible to retire in the near future. These dismal findings hardly confirm the predictions of success.

Finally, shortly after the TIGTA report was issued the Federal Managers Association (FMA) revealed its own misgivings about the direction of the system in its newsletter to FMA members. Most revealing was its internal survey which showed that 92 percent of respondents answered "no" when asked if the current performance management system accurately identifies the truly 'outstanding' managers. *(FMA newsletter 2007-11, July 10, 2007)* Further, FMA agreed with TIGTA that communication with employees needs to be more "open and timely" with respect to pay before changes to pay and benefits can be made. There is a dearth of information to indicate that alternative pay systems have had any significant impact on recruitment, retention or performance. A GAO report on "Human Capital, Implementing Pay for Performance at Selected Personnel Demonstration Projects" from January 2004 (GAO-04-291) included virtually no evidence that the systems improved any of those measures. In fact, the Civilian Acquisition Personnel Demonstration Project, reviewed in that report, had as one of its main purposes, to "attract, motivate, and retain a high-quality acquisition workforce." Yet, attrition rates increased across the board under the pilot. I would also note that shortly after GAO began a pay-for-performance system for its own employees, the employees voted for the first time for representation by a labor union.

DOD

And , of course, there was the National Security Personnel System that was put in place at the Department of Defense, which was recently repealed by Congress due to many shortcomings including non-transparency, discriminatory impact of pay increases, arbitrary caps on the number of higher ratings and lack of credibility among employees.

EXISTING FLEXIBILITIES

Mr. Chairman, we are all aware that a surge in federal retirements could occur in the next several years. The Council for Excellence in Government & Gallup Organization has reported that 60 percent of the federal government's General Schedule employees and 90 percent of the Senior Executive Service will be eligible to retire in the next ten years. While no one knows for sure whether all of those eligible to retire will actually do so at the rates predicted, I do know that the federal government needs to be better prepared to compete for the best and brightest of the young new workers. Just as importantly, however, it must be prepared to use its many existing authorities and flexibilities to *retain* the hundreds of thousands of talented public servants who have the knowledge and expertise to continue contributing to the federal workforce.

Unfortunately, many federal agencies have been lax in utilizing their existing authorities and administrative personnel rules to retain the thousands of dedicated public servants who are currently working in our federal agencies. I contend that we should not plunge forward with untested pay experiments until we require OPM and the agencies to use existing flexibilities and provide them with the resources to do so.

The Government Accountability Office (GAO) has undertaken a number of studies focusing on the importance of designing and using human capital flexibilities. In one report (GAO-03-02), the GAO found that the flexibilities that are most effective in managing the federal workforce include time off awards and flexible work schedules that allow employees to better balance the demands of career and family life. These flexibilities need to be used more broadly. I also believe we should explore allowing retirement eligible employees to continue to work part time and draw part of their pension as a cost effective way to keeping experienced workers while bringing in new less experienced ones.

CONTRACTING OUT

Recommendations have been made that suggest contracting out more federal work will lead to more cost efficiency. We have had recent experience with this notion and it has not proven true. During the Bush Administration "competitive sourcing" was a priority issue. We saw the rules of competition overhauled, quotas set for competed jobs and grades given to agencies on their efforts in conducting competitions. The result was that government contracts doubled from 2001 to 2008, reaching over $500 billion in 2008. The size of the federal contract workforce, although no one seems to have its exact size, is clearly larger than the number of federal workers. According to the Office of Management and Budget, this excessive reliance on contractors has eroded the in-house capacity of agencies to perform many critical functions and has undermined their ability to accomplish their missions.

One such example is the Department of Homeland Security, which now has 188,000 civilian employees and 200,000 contractors working for it. As Chairman Lieberman noted during a recent Senate hearing, "the sheer number of DHS contractors currently on board again raises the question of whether DHS itself is in charge of its programs and policies, or whether it inappropriately has ceded core decisions to contractors." The Obama Administration has already begun to reform this out of control contracting by requiring agencies to cut wasteful contracting practices and improve oversight and accountability. These efforts are expected to result in $40 billion in annual savings beginning in 2011. NTEU believes that rather than increasing contracting, further savings can be achieved by ending no-bid and cost-plus contracts and ensuring that federal employees do inherently governmental work and are able to compete for commercial work on an even playing field.

CONCLUSION

Federal employees are facing a two year pay freeze. They are seeing proposals every day to expand and extend that freeze. They are reading about efforts to cut the retirement benefits they have spent years earning and have seen proposals to require unpaid furloughs. They are being called lazy, selfish and greedy. Sometimes, even by members of this body, who earn much, much more than they do. Some of the hardest working people I represent, like Tax Examiners at the IRS and Transportation Security Officers at TSA earn less than $30,000 a year.

NTEU members understand that the country faces challenges and although they did not cause the fiscal crisis, they are willing to work to help solve it. Federal employees have good ideas about how to do the work of the federal government more efficiently. They care deeply about successfully accomplishing the missions of their agencies. I hope this Subcommittee will work with us in a productive way to address the challenges before us. Thank you for the opportunity to testify here today. I would be happy to answer any questions you may have.

Mr. ROSS. Thank you, Ms. Kelley; and I will yield to myself 5 minutes.

Interesting in reading each transcript and then listening to both sides of the dais here is that I think we all believe that we need to recruit and retain and reward good employees in Federal employment, and I think that's a good common ground to begin with.

I also note in the last panel there was testimony given about how the Federal work force has remained almost stable in terms of numbers since President George H.W. Bush until today, but yet there seems to be a correlation also that, inversely, we have seen an increase in debt significantly since George H.W. Bush, well over 60 percent.

And, Mr. Sherk, my question to you is, if you were a businessman and you had a work force and yet you maintained your same work force but you've increased your debt by 60 percent, would that be indicative of something that needed to be done with your personnel management?

Mr. SHERK. I think it would be a sign that you have some pretty serious problems.

Mr. ROSS. You mentioned also—you talked briefly about Federal benefits, benefits from Federal employees, what impact does it have on total compensation, the value of Federal employee benefits?

Mr. SHERK. It increases it fairly substantially. If you take a look at only the wage premium, the cash pay that shows up in your pay stub, Federal employees, again, on average, when you're making that apples-to-apples comparison are making 22 percent more an hour. But if you then add in the value of those benefits like the pension benefits, both the defined benefit and the defined contribution pension they receive, and add in the value of those remaining benefits, that compensation premium increases between 30 and 40 percent. So they get generous pay and even more generous benefits.

Mr. ROSS. Dr. Biggs, you've discussed that lowering wages would only slightly reduce the quality of the Federal job applicants. Could you discuss any of your work that led to that conclusion?

Mr. BIGGS. Well, in our working paper we actually cited some research by Professor Steven Venti of Dartmouth College in New Hampshire. And the research he looked at are what are called queues for government jobs. Research tries to look at is there more demand for government jobs than private sector jobs? Are there people waiting out there who would like to get government jobs who cannot?

What Professor Venti found was that three to six times as many people would be willing to accept Federal employment as are actually offered jobs, implying that Federal jobs offer significantly more attractive overall compensation package than private sector employees.

Because you have such a large queue for Federal jobs, Venti found that you could cut salaries significantly without hurting the quality of applicants. Venti found that even a 16 percent reduction in salaries would only slightly reduce the educational qualifications of Federal job applicants.

I would add that Professor Krueger of Princeton took on an even simpler approach. He measured the number of qualified applicants that Federal job openings received relative to private sector job openings. He found that Federal jobs, on average, received 25 to 30 percent more applicants than private sector positions. Again, this is another indication of demand for Federal jobs, which means that if the salary were reduced you would not see a large reduction in the quality of applicants for Federal position.

Mr. ROSS. Thank you.

Mr. Stier, I want to go to you real quickly. Because the General Schedule which has been around since 1949 doesn't take into consideration any market forces, does it?

Mr. STIER. It doesn't. It takes——

Mr. ROSS. Locality.

Mr. STIER. Locality, correct.

Mr. ROSS. But in terms of incentivizing somebody to do well, as opposed to somebody just to show up and get a paycheck, it really doesn't make that distinction, does it?

Mr. STIER. From a recruiting perspective, it's not market sensitive. On the performance side, there are opportunities to give performance bonuses to people, to have increased step increases. So there are performance mechanisms that are currently in the system.

Mr. ROSS. And you've talked about—to be quick here, you've talked about pay-for-performance programs.

Mr. STIER. Yes.

Mr. ROSS. And I'd like to know quickly, do you feel that there is an adequate pay-for-performance system out there that would adequately compensate those in the Federal work force based on outcomes?

Mr. STIER. I think that the data is clear, which is employees don't believe that they are currently being rewarded for doing better work. So I think the answer is, no, the system is not working in the way it ought to. Otherwise, employees would be saying something different.

Mr. ROSS. But do you think there could be one implemented, a pay for performance?

Mr. STIER. I think that there could be. But I think the work that needs to be done first is to get a handle on how to make sure we know what good performance is and to be able to reward it accordingly.

Mr. ROSS. OK. Ms. Kelley, what I would like to do is I want to just have you step aside from your role with the Treasury Union right now and assume, if you will, that you were in charge of making decisions of a corporation that was showing a significant decline in revenue, so much so that their debt has increased by 60 percent over a 10-year period of time and you have to make a decision about personnel. Would you rather pursue a decision about personnel that you would have to let people go or have to reduce their salaries?

Ms. KELLEY. Well, the first thing I want to know is what caused the decline in revenue and what caused the debt.

Mr. ROSS. But assume that it is. It is what it is, so now you have to make a decision.

Ms. KELLEY. If the work force didn't cause it, then I need to get to the root cause of what did. And in this case I think there are a lot of other things to look at, like——

Mr. ROSS. So you can't say one way or the other what you would do.

Ms. KELLEY. Well, as I said, the work force didn't cause the debt. If they didn't cause the debt, then I think that working with them and figuring out what can be done and my bet is they are going to have some suggestions of how to change and do the work better and to not do things, for example, like cut taxes on the wealthiest Americans that is probably impacting the revenues coming in.

Mr. ROSS. My time's up.

I now yield to the distinguished Member from Massachusetts and the ranking member, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

President Kelley, you can put your union hat back on.

Look, 60 percent of Federal employees work in basically three departments, one being DOD; and we've already had a number of Members talk about the fact that we're in two wars. My wife says I spend way too much time in Iraq and Afghanistan. She's probably right. The rest of the employees in that large group work at the VA, and they work at DHS.

I know from my own experience when we look at what's going on in Iraq and Afghanistan, I know we have about 10 million—10 million private contractors across our government. It is sort of a shadow government. And more and more responsibilities are being contracted out, and I don't see any reduction in cost.

You know, we had a dilemma early on in Afghanistan where we were trying to decide whether embassy personnel, congressional codels should be guarded by Blackwater. I've been under the care and protection of Blackwater. They do an amazing job. But let's just look at the cost here for a minute, though.

Right now, Blackwater charges us or Xe or Triple Canopy charges about $1,500 a day—$1,500 a day for one security officer. Whereas if I have a U.S. Marine or Army solider do it, we're talking about $54,000 a year for the average. So $54,000 a year versus $450,000 a year.

And I see in my own district—you know, that goes the same for USAID. USAID does wonderful work in Afghanistan and Iraq, but when that goes over to the contractor's side the price goes right through the roof.

And so it just troubles me greatly that people are saying we'll privatize this stuff, and we'll save money. That has not been my experience.

As well in my own district, I spend a lot of time at the VA. I have a VA hospital in Brockton and one in west Roxbury and one in Jamaica Plain. And, quite frankly, the nurses there—the biggest problem I have is nurses and therapists being stolen away by the private hospitals in the area. And, quite frankly, the one thing that keep my VA nurses and docs and staff and therapists in place at the VA is that they are so proud to serve veterans. It is their commitment to veterans. They love their job because they are caring for the U.S. uniformed veterans. That's what keeping them there. They are working at lower rates, and the private sector hospitals are stealing them away. That's one of my biggest problems, to encourage young nurses to go work at the VA.

And, you know, I just see a lot of this acrimony and attacks on Federal employees are just not borne out under the facts.

Mr. Stier, you do raise a good point about how we can do this better going forward. But, President Kelley, I want to ask you, in terms of the folks that you're seeing at NTEU, you know, we're asking you to oversee—in many cases, we're asking your folks to oversee tremendous responsibilities. They could make a ton of money in the private sector. You mention in your testimony there are some gaps and differences in what you see these studies providing and what you see actually in practice at Treasury. Could you talk a little bit about that?

Ms. KELLEY. Well, if you look at—if you ever were a Federal employee and you know the work that they do, it is not work that you can just measure on a piece of paper. I was an IRS revenue agent for almost 15 years, and as an accountant and a CPA I know the kinds of Wall Street representatives that the IRS agents have to go up against and be knowledgeable on in order to find the financial schemes and scams that are happening. That's the kind of talent and skill that you need, and you have to be willing to pay for it.

And I also think that in this economy there has been a lot of talk about how many applications and how willing people are to come work for the government. In this economy, it is one world. I think when the economy turns—and it's obviously taking longer than we all hoped—but when it does, I'm very worried about the talent that the Federal Government has been able to recruit and whether or not they will be able to keep them when you look at the compensation and the gaps that are very well known by the employees.

They make a conscious decision—as you said, they make a conscious decision every day. Many of them want to work, they have a desire to serve, they have a desire to work for our country, and they are willing to give up some of the extras. But, in the long run and on most days, they want to be treated fairly; and that's really what this conversation is about.

Mr. LYNCH. Thank you very much.

I see my time has expired. Thank you, Mr. Chairman. I yield back.

Mr. ROSS. Thank you, Mr. Lynch.

I now recognize the ranking member of the Committee on Oversight and Government Reform, the distinguished gentleman from Maryland—on second thought, I'm going to recognize the distinguished gentlewoman from Washington, DC, Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman.

Ms. Kelley, you and I have sat in this very room when it was less rehabilitated, I must say, in any number of hearings, including joint hearings from Senate and House committees concerned about the state of the Federal work force, particularly the retiring of the so-called baby boomers. You testified that 90 percent of the SES, senior service, could retire within the next 10 years. This, of course, is considered by everybody to be the creme de la creme of the work force of the United States, the people who were apparently drawn for a number of reasons, the post-Kennedy folks.

There has been a lot of discussion here about Federal employees but little discussion about a return on investment that any employer will understand. When you hire an employee—let's take people in this very room. If you see one of your employees in whom have you invested time and energy walk out the door, you're seeing your investment in that employee walk out of the door as well. And so the return on your investment becomes important if that is a high-quality employee.

The others on the panel have apparently agreed that there is a greater return on experience in the Federal work force, and that may account for some of the promotions. We know this. Rapid turnover takes investment, of course, out of the door. I wish you would describe—and of course the notion of promotion from within encourages people to stay, and you want to encourage competition. If you want people to compete for these employees, you at least want to keep your investment in the Federal sector. So you'd like the investment to occur among Federal agencies, rather than have the private sector benefit from the investment of the taxpayers in the Federal employee. I wish you would describe that in places like the IRS and the other agencies you represent.

Ms. KELLEY. There are many employees who begin their work for the Federal Government in an entry level position in whatever their agency is, and what they hope is that they will see opportunities to move into new positions, to be promoted, to learn, to enhance their skills, to receive training, and to move up within the agency so they can do more complex and more important work for the agency. In agencies where those promotional opportunities do not exist you will tend to see people leave more. Because, obviously, people want to know that they have some opportunity in the future.

But I also have to believe that happens in the private sector. Most people do not go into a job and want to stay in that specific job and that occupation for their entire career. They are looking for opportunities to grow. And in the Federal Government the idea that there are so many different jobs and so much important work across agencies gives employees the opportunity to do just that, and they take——

Ms. NORTON. And, of course, the Federal Government has made a decision. It wants career employees. It is a career service. It is a civil service.

I wish you would describe—there have been some inflammatory statements made by others on the panel about the collective bargaining in Wisconsin and the rest. There seems to be very little understanding of the role that unions can play when there needs to be reductions in the work force, when there needs to be give-backs of some kind in the work force, as opposed to when you have to do that and nobody is there to make the employers understand how it occurred.

The President has had a management workers council. I wonder if you'd describe how that works.

Ms. KELLEY. Well, about a year ago, labor management forums were created under an executive order that the President signed; and that executive order has as its underpinning the idea of collaboration and that working together we can figure out some of the most difficult problems that we face. And that has included situations as you describe, Congresswoman Norton, where the work force has to change because the work of the agency changes and either work goes away and therefore there needs to be a smaller work force.

And it is the unions working side by side with management to deal with these very, very difficult issues to try to do two things: one, insure that the agency is able to continue to be successful in whatever its mission is, but, at the same time, to do all they can to have employees have opportunities to be placed somewhere else, to make sure that those skills, those experiences are not lost.

But when there have had to be those kind of situations, the only way that it happens in a way that's successful for the agency and for the work force, in my view, is if the unions are working with management and if management has the unions in every conversation so that it is something that we can craft the best solution to.

Ms. NORTON. That's how you get a labor piece. Thank you very much, Ms. Kelley.

Mr. ROSS. Thank you, Ms. Norton.

I now recognize the distinguished gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. Sherk, let me ask you, are you a fan of pay for performance.

Mr. SHERK. I think it is a good idea. It needs to be done correctly, but the general principle, yes.

Mr. DAVIS. Do you think it can be broadly used, can be broadly used in, say, the Federal Government?

Mr. SHERK. Broadly speaking, yes.

Mr. DAVIS. OK. And we would expect better results than what we get in terms of productivity as well as how we compensate our employees?

Mr. SHERK. If it is designed correctly, you should.

Mr. DAVIS. Dr. Biggs, let me ask you, you were here when Mr. Barry was testifying and you heard him talk about comparing apples with apples and oranges with oranges. And to arrive at the conclusion that you made relative to the comparability of public versus private sector pay, is that the methodology that you used?

Mr. BIGGS. I'll pick my words carefully here and say that Director Barry did not correctly describe the methodology that I have used in this study or that other academics have used.

The claim he made was that Federal employees are better educated on average than private sector employees, and that's a correct claim. He also claimed, though, that the pay studies that I have done and others have done do not correctly account for that. They were comparing apples and oranges. In fact, that's totally untrue. The studies we have done control for differences between the education and other characteristics of the Federal work force and private sector work force. In other words, we compare apples to apples. We control for these differences.

The Federal Pay Agent's analysis, which finds a pay penalty of 20 to almost 25 percent by contrast, that doesn't take education into account. It looks at a job but does not account for the fact that private sector employers tend to put more educated and more experienced individuals into those jobs than public sector employers do.

And we know that the value coming out of a job is a culmination of the job and the inputs of the individual himself. So I would say he miscorrectly characterized the study that I did.

Mr. DAVIS. Well, let me ask you, based upon your description, would a clerk at Wal-Mart be the same as a clerk in one of our agencies if you were looking at the two?

Mr. BIGGS. In general, no. In general, we don't categorize people by job types. We categorize them by what's called the human capital they are bringing to the game. A clerk in the Federal Government would generally have at least a high school education, a bachelors degree; and so we're counting the educational experience, the other experiences they may have, which will partly account for them getting better pay.

Our study doesn't say Federal employees shouldn't be higher paid on average than private sector employees. The question is how much higher should they be paid. By controlling for differences in education, experience, and other factors, we can find the effect of working in the Federal Government or outside in the private sector. And what we find and our studies consistently have found in peer-reviewed research over the past three decades is, if you take the same individual and put them in the Federal Government versus the private sector, that individual will get a significant salary premium in the Federal Government. That's not just what we're saying. That's what peer-reviewed research consistently says.

Mr. DAVIS. Let me ask you, you began your testimony by suggesting that maybe we were asking the wrong questions or exploring the wrong possibilities and options and that what we really ought to be looking at is how do we get the best work force that we possibly can for the price that we are prepared to pay? Could you rearticulate that for me?

Mr. STIER. I may have this wrong, but in listening to everybody here, I thought I heard everyone agree to the proposition that, at some point in looking at the totality of the Federal work force, there are going to be some folks that are underpaid, some that are overpaid, and there are some that are paid just right. There may be differences about what the proportions are amongst the panel, but that general proposition is one that appears to have been accepted by everybody here.

I think then the next question that has to be asked is how do we design a system that does a better job of actually insuring that we are being as cost effective as possible to get the right talent, the best talent for government. And my proposition would be that is the conversation we should be having, and I've proposed a set of principals that I hope can help push that conversation forward.

Mr. DAVIS. Thank you very much.

Thank you, Mr. Chairman; and I yield back.

Mr. ROSS. Thank you, Mr. Davis.

The chair now recognizes the ranking member of the Oversight Committee, the distinguished gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Dr. Biggs, let me make sure I understand this right. You're saying that—in answer to one of the chairman's questions, you're saying that there is a great demand for these Federal jobs; is that right?

Mr. BIGGS. That's what research has indicated, yes.

Mr. CUMMINGS. And because there's a great demand, what does that have to do with pay? Remind us.

Mr. BIGGS. A higher demand for Federal jobs does not prove that they are overpaid. It is an indicator that individuals in the marketplace judge the package they are going to get from Federal employment which includes salaries, benefits, other characteristics of the work more attractive than they would find private sector work.

You find similar indicators in things like quit rates. For Federal employees, those are consistently lower than the private sector. There could be other reasons for low quit rates. That is indicative in general. It offers people an attractive compensation package, yeah.

Mr. CUMMINGS. So most Members of Congress spend and collect millions of dollars to come here, and most could make a lot more money than what they're making. Apparently, there's something that Members want that comes from this public service that we do.

By the way, we are Federal employees, public servants. And I'm just wondering, is that one of those other things that you just talked about? That is, the desire—when I talk to nurses, for example, and I talk to people who are in that kind of profession, they will tell you in a minute in most instances I love my job because I'm able to help people. This is what I always wanted to be, ever since I was a little boy or girl. This is something that really means something to me. And you ask them, you know, does it bother you to have to be cleaning up blood and all that kind of stuff? And they say, no, because it is what they really, really want to do.

When I talk to the people up here on the Hill, a lot of them will come—and I have seen this many times, and I'm sure everybody up here can tell you similar stories. They want to come not so much for the pay. As a matter of fact, a lot of them are making a lot less pay.

I really just interviewed a few minutes ago somebody willing to take a 15 percent cut because he wants to be a part of government, of helping people. So how much does that play? And, Ms. Kelley, I want you to be thinking about that too. Is that part of that formula you just gave us?

Mr. BIGGS. No, I would not in any way deny that a desire for public service and desire to serve your country is an attraction for many people for serving the Federal Government. For myself, it has been where I served as congressional staffer.

Mr. CUMMINGS. Oh, you were a public employee? OK.

Mr. BIGGS. I know it's very hard to believe.

Mr. CUMMINGS. No, no.

Mr. BIGGS. The desire for public service is strong and legitimate. The question would be if what we had was simply a queue for Federal jobs or low quit rates, that could be entirely attributable to a desire for public service. The results you find from pay studies, though, which control for education, experience, and the rest, and they find that the same person would earn a higher salary on average in the Federal Government from the private sector, that is something which tends toward the view that there's overcompensation.

One of the aspects of the study we did was not simply controlling for differences in education and so forth. We followed the same people over time, using Census Bureau data. When those individuals switched from private sector employment to Federal employment, on average, they got a pay increase. That does not mean every person gets a pay increase in the Federal Government. It does not mean that the highest, best-qualified Federal employees couldn't earn any more in the private sector. It does mean that, on average, the same person would earn a higher salary and much more generous benefits in the Federal Government than they would outside.

Mr. CUMMINGS. Well, let me put it like—now you really just said something very interesting. Because a lot of people are constantly trying to move forward, right? Hello. I assume that when you moved from public servant you apparently made, I guess, more money, did you?

Mr. BIGGS. Well, I make less money now than I did.

Mr. CUMMINGS. OK, well, you're making my case. In other words, what you just said—I mean, usually, if somebody is going to move from one job to another, in many instances they are going to move to more pay. So if they are going to move from public to private—I mean private to public and they are moving on a normal course, it's logical, I guess, that they are going to make more money.

Mr. BIGGS. It is, but we control for that difference. Most people get a pay increase when they switch jobs. That's natural. Getting a pay increase is one of the main reasons why people do switch jobs. What we found was private sector workers who found a new job in the Federal Government received pay around 8 percent higher than private sector workers who found a new job in the private sector. So the same person getting different jobs—and this has been replicated in other studies as well. So we're not simply saying do you get a pay increase when you find a new job, because most people do. We're saying if you get a larger pay increase if you find a new Federal job than if you find a new private sector job, and the answer to that is yes.

Mr. CUMMINGS. I see my time has expired.

Thank you, Mr. Chairman.

Mr. ROSS. Thank you, Mr. Cummings.

Now recognizing the distinguished gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. Stier, is turnover in certain categories of jobs in the Federal Government a problem?

Mr. STIER. Yes, it is. And if I might just take 2 seconds, the name is Stier. It looks like steer, but parents decide pronunciation so——

Mr. CONNOLLY. Mr. Stier.

Mr. STIER. Thank you.

Mr. CONNOLLY. Thank you.

Mr. STIER. Thank you.

The answer is, yes, absolutely. If you look at the overall attrition number relative to the overall private sector number, it is lower.

But in the critical areas, new employees first 2 years is actually about 25 percent. You heard already nursing is close to 18 percent.

My favorite distressing example of the Department of Homeland Security between 2003 and 2007, the first 4 years, three-quarters of the SES left. And what's amazing is no one was paying attention. No one did exit interviews to find out why. But the point is what we really ought to be looking at is not generic attrition but attrition for the people we need to keep that are really vital.

Mr. CONNOLLY. Exactly. So when we actually look at certain categories of employees, actually, the attrition may be considerably higher than in the private sector.

Mr. STIER. Absolutely.

Mr. CONNOLLY. And your point, we have not bothered to find out why.

Mr. STIER. Correct.

Mr. CONNOLLY. Which most private sector firms I know do exit interviews.

Mr. STIER. The good ones do.

Mr. CONNOLLY. Ms. Kelley, can you think of some other categories of Federal workers where turnover is high?

Ms. KELLEY. The highest rate of turnover for the past few years has been at TSA, those who protect our skies. The turnover rate up until about a year ago was running at 20 percent.

Mr. CONNOLLY. A year?

Ms. KELLEY. Yes.

Mr. CONNOLLY. So these Federal salaries and cushy jobs and wonderful working conditions somehow don't prevent 20 percent of the work force from leaving every year.

Ms. KELLEY. These TSA workers all earn less than $30,000 a year. There is no way they could be into a category of overpaid anything.

Mr. CONNOLLY. Mr. Stier, a few years ago, when we had a much lower unemployment rate—I mean, I'm hearing testimony about how actually a lot of people are flocking to Federal service or public service. Well, of course, when you've got an almost 10 percent unemployment rate, my guess would be historically that's a pattern. But when you're looking at, say, 4 percent unemployment rate, especially in the higher end skill sets, my guess would be that the labor market gets real tight in being able to recruit and retain skilled workers for the Federal work force. Would that be true?

Mr. STIER. Absolutely. And as you suggested already, even with high unemployment, there are certain skill sets that the Federal Government is having a very hard time recruiting.

Mr. CONNOLLY. For example.

Mr. STIER. Well, the cybersecurity area is one that is, obviously, front and center. You've got examples of nursing.

Mr. CONNOLLY. Well, let's stop with cybersecurity for a minute. I happen to represent a high-tech district. Why would that be a problem? Why are we having trouble recruiting people to work in the area of cybersecurity?

Mr. STIER. Because there's a lot of competition.

Mr. CONNOLLY. And it requires a high skill set.

Mr. STIER. Absolutely.

Mr. CONNOLLY. Technical skill set.

Mr. STIER. Yes.

Mr. CONNOLLY. What percentage of the Federal work force is eligible for retirement over this decade?

Mr. STIER. You know, again, you're looking at—depending again on the—you're looking at over half.

Mr. CONNOLLY. Over half.

Mr. STIER. Well, a very large portion of the population will be eligible to retire. And, again, I think the general numbers are less important than looking at the specific populations that we should be most concerned about. And there you see much higher numbers.

Mr. CONNOLLY. So if I listen just to what I've heard from Mr. Sherk and Dr. Biggs, I would assume that, frankly, we're not going to have any trouble at all filling 50 percent of the existing Federal slots as people retire over this next decade. Is that your view as well, Mr. Stier?

Mr. STIER. It is my view that there will be no problem filling the slots. The question is filling with whom and are you getting the right talent.

Mr. CONNOLLY. Well, now, of course, that's the question.

Mr. STIER. And I think the answer is that we have to do a better job in a lot of different respects if we really want to have the right talent in government.

Mr. CONNOLLY. Ms. Kelley, do you have a view on that subject?

Ms. KELLEY. I'm very worried about the ability to fill the positions when they're vacated. You know, for years, everyone talked about this tsunami that was coming of Federal retirement, and it didn't come in large part because of the economy. But it will come. It will happen. And agencies are not in a position to be able to hire the skill level, the skill set to be able to maintain what it is they're trying to do in their agencies today.

Mr. CONNOLLY. And of course, a final note, if I might be allowed an observation. The more we debase Federal service, the less attractive we make it, and we go to Mr. Stier's point, then you have to worry about who you're attracting to Federal service, especially in the higher skill set.

I thank the chair.

Mr. CONNOLLY. Thank you, Mr. Connolly.

I now recognize the vice chair of the subcommittee, the distinguished gentleman from Michigan, Mr. Amash, for 5 minutes.

Mr. AMASH. Mr. Sherk and Dr. Biggs and all of you, thank you for being here today.

Mr. Sherk and Dr. Biggs, I have a question. How much would the Federal Government save if it equalized benefits with those provided in the private sector?

Mr. SHERK. I took a look at both pay and benefits. I didn't take a look at benefits specifically. If you'd like that, I could get it later. But if you took pay and benefits together, you'd save about $47 billion this year under my accounting.

Mr. BIGGS. I think that's about right, yeah.

Mr. AMASH. OK. Thank you.

Another question. Ms. Kelley, your union represents a cross section of Federal workers who perform many key functions of government. Since the pay freeze was enacted, how many of your members have left Federal service?

Ms. KELLEY. I couldn't give you an exact number. I can tell you that many are talking about leaving, and many who have been eligible to retire and were not going to and who planned to stay are now talking about leaving. I think that we will see real numbers in the foreseeable future. But I could not give you a number today.

Mr. AMASH. I have a general question to any of you who can answer it. The President has talked about freezing pay for 2 years. Does this include the within grade step adjustments which are 3 percent a year?

Mr. SHERK. No, it doesn't cover those at all. It's purely the cost of living adjustment. But the vast majority of Federal employees are going to receive these within grade adjustments and will get those 3 percent raises.

Mr. AMASH. When Mr. Berry was here earlier, he testified that there should be no place in the Federal Government for nonperformers to hide. How would you respond to the fact that Federal Government rarely fires employees, and, in the majority of cases, pay raises result in length of service rather than job performance?

Mr. SHERK. It's a pretty serious problem. Once they pass their probationary year, which is the first year, within that first year it's about 20 percent of Federal employees either quit or are fired. But, after that, it's very, very rare to see a Federal employee get fired.

And there's also very few rewards for performing above and beyond just a mediocre level. Federal managers rarely award performance ratings below three because it's a lengthy appeals process. The employees basically get to appeal and can challenge an adverse decision. Most managers simply don't want to go through the hassle. They want to manage the agency and not do that kind of work. So they almost always hand out a three or higher rating.

The employees, they qualify for the step increases, but very little above and beyond that is there in terms of performance pay. So it's simply designed to encourage mediocrity but not going above and beyond that and very tough to get rid of the bad apples after the first year.

Mr. AMASH. In my opinion, showing an acceptable level of competence is not sufficient for raising a person's salary. Would you agree that productivity, work ethic, dedication, performance, and exceeding expectations are the proper criteria for a salary increase?

Mr. BIGGS. Sure. I mean, I don't want to in any way demean the work ethic and the dedication of Federal employees. I've worked with them over significant periods of time; and, as Director Berry said, you are very surprised at how hardworking people are.

At the same time, it does not serve the hardworking, dedicated Federal employees when people who are not pulling their weight essentially cannot be fired. It's a natural process in any business that some people do very, very well and are promoted. Others don't do very well and are fired.

To explain the Federal rates of firing, we would have to assume the Federal Government is extremely good at picking employees such as it never finds anybody who doesn't work out. It's just not plausible. You want to retain good employees. You want them to buildup the job-specific skills that really do add to productivity. But you also want to have the flexibility to move on people who are not working out as well, and I think you need to find a strong balance between those two.

Ms. KELLEY. Congressman, can I add to this, though?

I think that the things that you identified are important, but I also think that performance is important. And I think that performance is an aspect of the Federal system today. And the flaws that are being described and are being grossly overstated, that Federal employees can never be fired, because they are fired. Federal employees are fired after their probationary period.

And if they are not fired at the rates that somebody thinks they shouldn't be, then someone needs to look at the implementation of the system within the agencies. And that means managers are not being trained on how to deal with poor performers. They are not doing what they should be doing to either help them correct that performance or to move them out of the agency. That's the manager's job. That has nothing to do with the system. It's about the managers, and it's about what the system supports for them from a training perspective as well as implementation perspective.

Mr. ROSS. Thank you, Mr. Amash. That completes our questions. Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I ask for unanimous consent to submit for the record the statements of the American Federation of Government Employees, the National Federation of Federal Employees, and the National Active and Retired Federal Employees.

Mr. ROSS. Without objection, so ordered.

[The information referred to follows:]

[NOTE.—No insert/information provided.]

Mr. ROSS. That completes our program. I want to thank our panel very much for being here. Appreciate your patience. And we stand adjourned. Thank you.

[Whereupon, at 4:16 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

3/9/2011 FCU

U.S. Office of Personnel Management Comments on The Heritage Foundation and American Enterprise Institute Testimony and Reports on Federal Pay

Mr. James Sherk, Senior Policy Analyst in Labor Economics, The Heritage Foundation (Heritage), and Dr. Andrew Biggs, Resident Scholar, American Enterprise Institute (AEI), provided testimony to the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, on March 9, 2011, that used human capital modeling and other techniques to support their position that pay and benefits received by the average Federal Government employee far exceed what the employee would receive if he or she worked in the private sector. As requested by Chairman Darrell Issa, the U.S. Office of Personnel Management (OPM) is providing its comments on this testimony.

Private Sector Companies and Governments Use Salary Surveys to Set Pay: Model Issues

The predominant way the private sector sets pay for its employees is that compensation professionals conduct salary surveys based on the composition of their organization's workforce, match and analyze the data obtained, and present the findings to an appropriate pay policy-determining authority, which establishes the rates of compensation for its workers.[1] OPM is not currently aware of any corporation or government that uses human capital modeling, the approach taken by Mr. Sherk and Dr. Biggs, to determine how much its employees should be paid.

Human capital theory statistical modeling techniques have been used for years to assess the return on investment in education and training. Statistical modeling has also been used to help explain how marital status, gender, and race associate with wage differentials for differing populations. Human capital theory can help explain matters retrospectively such as how large a wage differential a person with a college degree may receive compared to a person with a high school degree, or whether a married man can expect to have a wage differential over an unmarried woman. While this analytical tool has its strengths for understanding and deciding the value of investing in additional education and training, it is not a reliable approach for setting actual rates of pay prospectively.

Methodological Issues

Results of human capital modeling as applied to the relationship between Federal and non-Federal pay vary widely depending on who is doing the modeling, how the model is specified, and the quality of the data that are used in the model. For example, AEI and Heritage both use Current Population Survey data but AEI claims Federal employees enjoy a 14 percent wage premium while Heritage claims its 22 percent.

[1] The WorldatWork Handbook of Compensation, Benefits & Total Rewards, Chapter 8.

There are a number of methodological issues in the AEI and Heritage models that raise concerns. The three most relevant factors for setting pay for GS employees are (1) occupation, (2) level of work, and (3) geographic location. These three factors are market-oriented and required by statute as part of the overall comparison of GS pay to non-Federal pay. None of these factors is adequately controlled in either model. The net result is that the Federal employment variable in these models is picking up wage variation that is most likely attributable to other explanatory variables.

First, the models control for geographic location only by State.[2] An appropriate comparison should control by local labor market area, because that is the concept that underlies the geographic definition of GS locality pay areas. Many of the GS locality pay areas expand beyond one State (the Washington, DC area, for example) and they rarely cover an entire State.

Second, the AEI analysis controls for occupation by using only 10 broad occupational groups, which does not adequately represent the more than 700 occupations found in Federal Government work.[3] A study by Brent Moulton showed that controlling for detailed occupations (3-digit Census) tended to lower substantially the estimated wage premium.[4]

Third, level of work, which is critically important in setting pay, is not included in either model. This omission is fatal to the methodology because work level has a powerful effect on wages. Consider the example of two attorneys with equal human capital characteristics as measured by AEI or Heritage. Attorney 1 prepares simple wills; attorney 2 litigates multi-million dollar lawsuits. The models would predict that these two attorneys are paid the same, but in reality that is unlikely to be the case. Peer reviewed published research in labor economics reveals that variations in work level account for a large part of the wage difference between industries—indeed, work level accounts for inter-industry wage differences much better than the explanatory variables in either model.[5]

Other flaws in both models include treating a four-year degree from Harvard the same as a degree from an online University, treating a degree in engineering the same as a degree in social work, failure to consider whether or not a worker is employed in a job which utilizes or requires their level or kind of education including jobs not common in Government such as factory workers, retail clerks, and waiters and waitresses, and not controlling for job tenure.

Further evidence of problems with the AEI and Heritage testimonies and reports can be found in a March 2011 report by the Congressional Budget Office, which suggested a

[2] Heritage includes size of metropolitan area but not specific metropolitan area.
[3] Heritage presents several variations but the most detailed has only 65 occupational categories.
[4] Moulton, Brent. "A Reexamination of the Federal-Private Wage Differential in the United States." Journal of Labor Economics, 1990, volume 8, no. 2, pp. 270-293.
[5] Gittleman, Maury and Pierce, Brooks (2011) "Inter-Industry Wage Differentials, Job Content and Unobserved Ability, "Industrial & Labor Relations Review, Vol. 64, No. 2, article 8.

number of options for reducing the deficit -- including Option 37, to reduce across-the-board pay adjustments for Federal civilian employees.[6] In its report, CBO cautions:

> "An argument against this option is that it would make it more difficult for the federal government to recruit qualified employees. That effect might be pronounced for federal agencies that require workers with advanced degrees and professional skills. Recent research suggests that although federal workers with less education are paid more than private-sector workers with comparable characteristics, federal workers with professional and advanced degrees are paid less than comparable workers in the private sector. Thus, lower across-the-board increases in federal pay might bring federal and private pay closer to parity for less educated workers but at the same time widen the gap between federal employees and private-sector employees working in jobs that require high levels of education. For federal employees who are eligible to retire but have not done so, such action could also reduce their incentive to continue working. If a significant number of those workers decided to retire as a result of smaller increases in pay, increased retirement costs could offset some of the payroll savings produced by the policy change."

The employee benefits advantage which AEI and Heritage attribute to Federal workers appears to be exaggerated. For example, the AEI reports Federal bonuses of 1.4 percent and private bonuses at 2.5 percent of pay.[7] However, the 2.5 percent for the private sector seems low given that WorldatWork, a well regarded association of compensation professionals, pegs private sector variable pay at 17 to 18 percent.[8] AEI included overseas post differentials, physician's comparability allowances, and other payments on the Federal side of the ledger and nothing comparable on the private sector side.[9] Post differentials are paid to Federal employees at hardship posts mainly overseas and physician's comparability allowances are payments to Federal doctors in lieu of market rates.

AEI also suggests that job security is higher, on average, for Federal employees than for non-Federal workers and, further, that this higher degree of job security has monetary value.[10] More analysis would be needed to confirm the assertion of greater job security and the assumption and calculations of the monetary value of job security before incorporating into any calculation of compensation.

Over Half the Variation in Salary Differences Unexplained

The version of human capital modeling endorsed by AEI "explains" about 47 percent of the variation in salaries, leaving the other 53 percent unexplained.[11] AEI contrasts its

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[6] CBO, "Reducing the Deficit: Spending and Revenue Options", p. 126.
[7] A.E.I. (2011), p. 12.
[8] WorldatWork Salary Budget Survey 2010-2011, p. 1.
[9] A.E.I. (2011), p. 12.
[10] A.E.I. (2011), p. 19.
[11] A.E.I. (2011), p. 5.

results with those contained in the annual President's Pay Agent report, which compares General Schedule (GS) and non-Federal pay by locality pay area. The President's Pay Agent Report takes into account occupation and level of work, but does not consider how many years of experience or education employees possess, whether or not they were born in the United States, their marital status, race, or gender. Likewise, the President's Pay Agent's report does not cover Federal blue-collar workers, Federal executives, or the thousands of Federal employees under alternative pay systems. However, these categories of workers are included in the AEI database.

It is questionable to make inferences about the difference in pay between groups when so much of the salary variation cannot be explained, and when key variables such as work level and job tenure have been omitted. The evidence presented by AEI and Heritage is too incomplete to make any objective conclusion regarding differences in pay for "comparable" jobs.

Peer-Review

Peer review is a standard practice in the research field and is an essential threshold to establishing the legitimacy of the analysis. To our knowledge, these analyses have not had the benefit of peer review.

Conclusion

By law, the pay of Federal employees is based on the merit principle of equal pay for work of equal value. Satisfying this principle requires, at a minimum, measuring the relative value of work performed by Federal employees at many work levels and comparing it to the value of similar levels of work performed by non-Federal employees. The AEI/Heritage approach does not do this.