AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

FEDERAL EMPLOYEE COMPENSATION: AN UPDATE

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

MAY 18, 2017

Serial No. 115–25

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.fdsys.gov
http://oversight.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE

26–558 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

Jason Chaffetz, Utah, *Chairman*

John J. Duncan, Jr., Tennessee
Darrell E. Issa, California
Jim Jordan, Ohio
Mark Sanford, South Carolina
Justin Amash, Michigan
Paul A. Gosar, Arizona
Scott DesJarlais, Tennessee
Trey Gowdy, South Carolina
Blake Farenthold, Texas
Virginia Foxx, North Carolina
Thomas Massie, Kentucky
Mark Meadows, North Carolina
Ron DeSantis, Florida
Dennis A. Ross, Florida
Mark Walker, North Carolina
Rod Blum, Iowa
Jody B. Hice, Georgia
Steve Russell, Oklahoma
Glenn Grothman, Wisconsin
Will Hurd, Texas
Gary J. Palmer, Alabama
James Comer, Kentucky
Paul Mitchell, Michigan

Elijah E. Cummings, Maryland, *Ranking Minority Member*
Carolyn B. Maloney, New York
Eleanor Holmes Norton, District of Columbia
Wm. Lacy Clay, Missouri
Stephen F. Lynch, Massachusetts
Jim Cooper, Tennessee
Gerald E. Connolly, Virginia
Robin L. Kelly, Illinois
Brenda L. Lawrence, Michigan
Bonnie Watson Coleman, New Jersey
Stacey E. Plaskett, Virgin Islands
Val Butler Demings, Florida
Raja Krishnamoorthi, Illinois
Jamie Raskin, Maryland
Peter Welch, Vermont
Matthew Cartwright, Pennsylvania
Mark DeSaulnier, California
John Sarbanes, Maryland

JONATHAN SKLADANY, *Majority Staff Director*
WILLIAM MCKENNA *General Counsel*
KEVIN ORTIZ, *Professional Staff Member*
SHARON CASEY, *Deputy Chief Clerk*
DAVID RAPALLO, *Minority Staff Director*

CONTENTS

FEDERAL EMPLOYEE COMPENSATION: AN UPDATE

Thursday, May 18, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 9:00 a.m., in Room 2154, Rayburn House Office Building, Hon. Mark Meadows presiding.

Present: Representatives Meadows, Duncan, Issa, Jordan, Amash, Gosar, Farenthold, DeSantis, Ross, Walker, Blum, Hice, Russell, Grothman, Hurd, Palmer, Mitchell, Cummings, Maloney, Norton, Clay, Lynch, Connolly, Kelly, Lawrence, Watson Coleman, Plaskett, Demings, Krishnamoorthi, Raskin, Welch, Cartwright, DeSaulnier, and Sarbanes.

Mr. MEADOWS. The Committee on Oversight and Government Reform will come to order. And without objection, the chair is authorized to declare a recess at any time.

The United States Federal Government plays an important role in the lives of its citizens, and it needs a world-class workforce for maximum effectiveness. The government must acquire and retain top talent, especially in mission-critical occupations such as cybersecurity experts and economists.

However, the current Federal pay and benefits structure is really not conducive in my opinion to this goal. The general schedule, the pay schedule for the white-collar workers rewards tenure rather than performance, and the problem with this system is that it creates a two-fold problem: One, taxpayers are stuck paying for overly generous compensation packages in comparison to private sector salaries for a comparable job; and two, the Federal Government is unable to adequately recruit and compensate top talent in other fields.

Additionally, we need a Federal retirement system that is responsive to the needs of a transient millennial workforce. And in an era when employees are highly mobile and can frequently change jobs, it makes no sense to have an archaic pension system that is designed for a workforce that stays in place for decades.

Simply put, the current system is expensive and does not incentivize the best and brightest to join and stay in the Federal workforce. According to the Office of Management and Budget, in fiscal year 2015 more than two million full-time-equivalent non-postal individuals were employed in the executive branch, and the cost to the Federal Government for these employees was nearly $256 billion in direct compensation and benefits.

According to the Congressional Budget Office's recently updated Private Sector Compensation Comparison Report, Federal employees earn 17 percent more in total compensation than a comparable private sector employee. The CBO analysis might not tell the entire story either. Other analyses conducted by the Heritage Foundation, which we will hear from today; the American Enterprise Institute additionally who we will hear from found that Federal employees are compensated at even greater rates than private sector workers. Interestingly, the CBO report found that compensation differs higher among higher workforce than with lower levels of education and lesser among those workers with advanced degrees.

So we need to have a fiscally sustainable pay and benefits system that allows the Federal Government to reward performance and compensate others based on the importance of their position and not simply on tenure.

And I will want to make one other further comment. These hearings can many times be construed as taking one direction or another, and I have committed not only to my colleagues to my right to make sure that we get it right for the Federal workforce. One of the most illuminating aspects that I have had is I have gone from workforce place to workforce place, some very large and some very small that I was the first Member of Congress to ever visit them. I have found that we have an incredibly dedicated Federal workforce.

So today, I would like to use this hearing to not only get at the facts but also get an action plan where we can work in a bipartisan way to make sure that people are fairly compensated, but also to make sure that there is an incentive there to not only attract new Federal workers but also to make sure that the very thing that we are working for does not become a disincentive. What I have heard over and over and over again is that you have people who work very hard and you have those who don't, and yet the compensation doesn't seem to be commensurate with that. And it has a chilling effect on those hard workers that I know Mr. Connolly and I and certainly Mr. Cummings both agree that we need to recognize great performance because we have some great Federal workers.

Mr. MEADOWS. And with that, I would now like to recognize the distinguished ranking member and my good friend, Mr. Cummings, for his opening remarks.

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

As I listen to you, I cannot help but think about the many Federal employees who work so hard and have been committed, many of them since they were children, to make things better for a wide range of people. I have often said that the people that I meet, the ones, many of them we see in the halls, the guard when we came in the garage; the researchers at NIH; the people that have given their blood, sweat, and tears at EPA to keep our water and our air clean, and I could go on and on and on, the ones that do the dirty jobs that nobody else will do. And at every instant that I have to speak to our employees, I tell them thank you.

Today's hearing, we will review the compensation of Federal workers compared to the compensations of workers in the private sector. The Congressional Budget Office recently issued a report on this topic, and it provides a lot of detailed information. Not surprisingly, the CBO report shows that some Federal workers make more than their private sector colleagues while others make less. Unfortunately, I fear that my Republican colleagues will try to use this report to argue that we are paying Federal employees too much. Please. And then they may try to use this hearing as a basis to continue attacking the pay and benefits of Federal workers.

Since I have been in the Congress, one of the things that hurt me more than anything else is when the Congress was trying to deal with unemployment benefits, they said they had to be taken out of the purses of Federal employees. I will never forget that. Hello? Unemployment benefits taken out of the purse of the Federal employee.

And this is exactly the wrong lesson to draw from this report. The real lesson for today's hearing is not that middle class Federal workers are making too much. It is that private sector workers, especially those with the lowest incomes and educations are making too little.

Over the past several decades, the productivity of American workers has grown higher than ever before. At the same time, corporations, shareholders, CEOs have been exploiting these workers and hoarding more and more of the wealth that these workers produce. And they do produce. From 1979 to 2013, the total income for the top 1 percent of households grew by an astonishing 188 percent. But over the exact same time frame, total income for the bottom 80 percent of households grew by a paltry 18 percent. Let's stick that in the DNA of every cell of our brains.

It is not just wages that are stagnating. The Bureau of Labor Statistics reports that inequality in total compensation is worsening even more rapidly than wages alone. In other words, inequality is getting even worse when we take into account health insurance, retirement and savings plans, paid leave, and disability and life insurance.

The other day I had breakfast with one of my constituents, and one of the things she said that whenever you all are talking about health care, remember this. She said when you are sick, you can't work. And if you can't work, you can't earn. And if you can't earn, you can't pay a policy. A lady suffering from stage 4 colon cancer, 26 years old, just married, wanted to have a baby, young lawyer, just passed the bar.

So when we examine the lowest-quarter wage earners, nearly 60 percent had no access to sick leave. Nearly 70 percent had no access to employer-provided medical care as of March 2016. Yet our friends on the other side of the aisle refuse to help these workers.

And you are right, Mr. Chairman; we ought to applaud those who give their blood, their sweat, their tears, but no matter what office we go in, no matter where we go, there are going to be people that work real, real, real, real hard, and then there are going to be some that are going to work maybe just to get by. For years, they have refused to allow Congress to vote on democratic legislation to raise the minimum wage. The minimum wage is only $7.25 per hour, and it has not been raised in eight years. Try it. Try living on $7.25 an hour. At the same time, our Republican friends keep attacking Federal workers.

And I am so glad that you, Mr. Meadows, Mr. Chairman, have been a constant—you kept a balance with regard to this trying to look at both sides of it. And it is so important. It is so important because when I talk to Federal workers, they watch these hearings and they say, well, why are we so demonized? We are just trying to do our job. And so they force new Federal employees to pay more for their retirement benefits in 2012 and 2013, and now, they are threatening to take away their pensions.

They want to follow the lead of private sector corporations in eliminating traditional defined benefit plans in exchange for less generous 401(k)-style plans. And they cloak these cuts in the language of, quote, "reform," unquote. The truth is that this will hurt their own constituents. This will hurt nearly 8,000 Federal workers with only high school diplomas who live in Kentucky, 18,000 Federal workers with high school diplomas in Georgia, and 31,000 Federal workers with high school diplomas in Texas.

We should be trying to lift up all workers, including both middle class Federal workers and low-income private sector workers. I hope that our witnesses today will shed some light on this.

As I close with that, I would like to offer a special thanks to Jacqueline Simon, the public policy director of the American Federation of Government Employees, and all of our witnesses. She agreed to testify at our request under extremely short notice, and we thank her tremendously for being here.

Related to that, Mr. Chairman, I want to note my very strong objection to this committee's refusal to allow Senator Bernie Sanders to testify here today. I submitted my request for Senator Sanders to testify last week, and my request was denied for no reason other than certain Republicans on our committee claiming that Senator Sanders is not qualified to testify about challenges facing workers in our nation. Of course, that is ridiculous. Senator Sanders is a champion of workers' rights, and he is a nationally renowned expert on these matters.

This is not the first time the committee has refused to invite a witness we requested. Chairman Issa refused a request when we wanted to invite Sandra Fluke because he claimed she was not qualified to speak about the issues affecting women such as birth control.

However, this is the first time I can remember in being on this committee 21 years that the committee tried to silence a United States Senator, who is also a former member of this esteemed committee. As a matter of fact, he used to sit right beside me. He certainly deserved more respect than he was given, and I extended my apologies to him. He had made arrangements to try to be here, and he said perhaps he will have another invitation at another time.

With that, I yield back.

Mr. MEADOWS. I thank the good morning.

Mr. ISSA. Mr. Chairman, point of personal privilege.

Mr. MEADOWS. Well, hold on just a minute.

The ranking member knows very well my personal feelings towards him. The ranking member also knows very well my personal feelings towards the Federal workforce. And I expressed in no uncertain terms that this hearing would not be political. And Senator Sanders in my opinion representing less than 3,000 Federal workers in his State, was not the best person to address this in a non-political way. And I shared that with you personally.

I also wanted to, for the record, make it known that I offered other potential avenues for you to have people here. You were given 17 days' notice about this, and Senator Sanders brings a different element to a very important topic that we must fix on behalf of the Federal workers. I don't believe you nor I want to sacrifice that for a political statement that potentially could be made based on a Senator who represents less than 1 percent—in fact not even that, .15 of a percent of the Federal workforce in his State.

And so my good friend needs to understand that when it comes to this, if we want to make a political statement, we can do that. And I am doing my very best to make sure that what we do is we protect the Federal workers. I know you and I agree on that.

Mr. CUMMINGS. Yes, Chairman.

Mr. MEADOWS. I know Gerry Connolly and I agree on that. So let's make sure that we keep it where it is. And you know that I offered to have Steny Hoyer to come in because he represents a whole lot of other Federal workers. And Gerry Connolly comes to me each and every day on behalf of the Federal workers. This is a Republican complimenting a Democrat on his advocacy for the Federal workforce. You do the same. And here is what I want to say. Let's not make this political. And the denial for Bernie Sanders to come in here was one that was done in private between you and I, and so let's make sure that we keep the main thing the main thing.

Mr. CUMMINGS. Chairman, I just need one minute.

Mr. MEADOWS. Sure.

Mr. CUMMINGS. You know, all of this is political. We are in a political climate. And ——

Mr. MEADOWS. But it doesn't have to be.

Mr. CUMMINGS. No, I am not finished.

Mr. MEADOWS. It doesn't have to be.

Mr. CUMMINGS. Thank you. Thank you for yielding.

No, it does not have to be, but I think we set a dangerous precedent when we say to a United States Senator for the first time since I have been here, 21 years, that what he has to say he can't say in this forum. Normally, I mean, we have had Senators come and speak from both sides of the aisle. They come, they speak, we don't ask them questions, and they move on. But I understand, and I appreciate—I want to make it clear, and I tried to say it, that you have been fair. And I tried to say it. Now, maybe I didn't say it as clear as you wanted me to say it, but all I was saying is I think sometimes we can set a precedent that is dangerous. And I don't know if I will ever get on the other side to get over to the Senate, but I would hope you all will welcome me back to talk about anything I want to talk about.

I yield back.

Mr. MEADOWS. We will welcome you back. I don't know about talking on anything that you would like to talk about. How about that?

Mr. ISSA. Mr. Chairman?

Mr. MEADOWS. Yes.

Mr. ISSA. Point of privilege simply to correct what I think was an omission of some of the characteristics of a previous hearing because I, too, like you, Chairman, could not always allow every possible witness but did make an effort to make sure that we never had a panel that was inappropriate to the balance.

In the case of the particular hearing that the ranking member is referring to, they offered two witnesses. We had two panels. I had no problem with one witness, and I selected between the two they offered, an ordained minister to be on a panel with other ordained ministers, priests, and rabbis. The ranking member refused that and demanded that a college student not in any way a religious leader testify on the first panel. I offered that she could testify on the second panel, which included other if you will laypeople who were specialists. He refused.

So it was always about who was appropriate for panel one, which was priests, ministers, and rabbis, versus panel two, which were other people knowledgeable on the area. And I think that it is important, just as you are doing here today, that each panel represent a common thread of knowledge, experience, and testimony. And so I applaud you for appropriately balancing your panel.

It is interesting that when the shoe was on the other foot and I was in the minority, I was often denied even one witness, and I never made quite the claim that is being made here today. But I was unhappy but I never denied an appropriate panel to the ranking member, and I hope in the full discussion he appreciates that.

Mr. MEADOWS. Well, I thank the gentleman. I also want to say this. We are going to keep the main thing the main thing, and this is about the Federal workforce and proper compensation. There are good and valuable inputs that can come from both sides of the aisle, and I hope the ranking member realizes that there is no one willing to listen more intently than me on this particular issue. It is important. As a businessperson, the best and most valuable asset you have is not a building, it is not a vehicle, it is not even a computer. It is the asset of your workforce and their contribution.

And certainly our Federal workforce, if you hear nothing else if you are watching this, the asset of our Federal workforce is one that should be applauded, rewarded appropriately based on merits and performance, and certainly hopefully this hearing will get here.

So with that, I will hold the record open for five legislative days for any members who would like to submit a written statement. We will now ——

Mr. CONNOLLY. Mr. Chairman?

Mr. MEADOWS. We will now recognize ——

Mr. CONNOLLY. A unanimous consent request simply before you swear them in.

Mr. MEADOWS. Go ahead.

Mr. CONNOLLY. Yes, I ask unanimous consent that the statements from the Senior Executive Association, National Treasury Employees Union, and the National Association of Active and Retired Federal Employees be entered into the record.

Mr. MEADOWS. Without objection.

Mr. CONNOLLY. I thank the chairman.

Mr. MEADOWS. We will now recognize our panel of witnesses. I am pleased to welcome Mr. Joseph Kile, assistant director of microeconomic studies of the Congressional Budget Office. Welcome.

Mr. Andrew Biggs, resident scholar of the American Enterprise Institute, welcome.

Ms. Rachel Greszler, research fellow in economics and budget and entitlements at the Heritage Foundation, welcome.

Mr. Robert Goldenkoff, director of strategic issues at the Government Accountability Office, welcome.

And Ms. Jacqueline Simon, policy director of the American Federation of Government Employees of the AFL–CIO, welcome.

Welcome to you all. And pursuant to committee rules, all witnesses will be sworn in before they testify, so if you will please rise and raise your right hand. And I apologize; it is Ms. Simon.

[Witnesses sworn.]

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

In order to allow time for discussion, we would ask that you limit your oral testimony to five minutes, but your entire written statement will be made part of the record.

So, Mr. Kile, you are recognized for five minutes.

WITNESS STATEMENTS

STATEMENT OF JOSEPH KILE

Mr. KILE. Thank you. And good morning, Chairman Meadows, Ranking Member Cummings, and members of the committee. Thank you for inviting me to testify about CBO's recent report that compares the compensation with Federal employees with those in the private sector.

To provide some context for that comparison, my testimony focuses on the 2.2 million civilians who work for the Federal Government. Last year, the Federal Government spent $215 billion to compensate those people.

CBO analyzed how the Federal Government's compensation costs would change if the average cost of employing Federal workers was the same as that of the private sector. That's important because the government competes with the private sector for people who possess the mix of attributes needed to do its work. But a complete evaluation of the Federal Government's compensation system would require more information on recruitment and retention.

Comparing compensation between the sectors is complicated because the workforces differ in characteristics that affect compensation, for instance, experience, education, and occupation. On the whole, Federal workers tend to be older, more educated, and more concentrated in professional occupations than workers in the private sector. For instance, about 60 percent of Federal employees have a bachelor's degree or more. By contrast, about 35 percent of private sectors worker—private sector workers have that much education.

CBO's analysis accounts for those differences and for other factors that we could observe, but compensation for individuals in both sectors also depends on factors that we could not observe. For instance, other traits such as motivation or effort are not easy to measure, but they can matter a great deal for compensation at an individual level. So our results are best interpreted as average differences between the sectors rather than an assessment of whether any individual would be paid more or less in the other sector.

Turning to the results of our work, I want to focus on total compensation. That is the sum of wages and benefits. Between 2011 and 2015, the differences in total compensation of Federal civilian employees with those of similar workers in the private sector vary widely depending on employees' educational attainment. Among workers with a high school diploma or less, total compensation costs were 53 percent more on average for Federal employees than for their private sector counterparts.

Among workers whose education culminated in a bachelor's degree, which is the most common level of education in the Federal workforce, total compensation costs were 21 percent more for the Federal workers than for workers in the private sector. By contrast, total compensation costs among workers with a professional degree or a doctorate were 18 percent less for Federal employees than for workers in the private sector.

Let me make a brief observation on both components of compensation. Focusing for a minute on wages, the ranges of wages between high- and low-paid employees was narrower in the Federal Government than in the private sector. That narrower range of wages among Federal employees might reflect constraints of the Federal pay systems, which make it harder for managers to reward the best performers or to limit the pay of poor performers.

Turning briefly to benefits, the most important factor in contributing to the difference between the two sectors is the defined benefit plan that is available to most Federal employees. Such plans have become less common in the private sector.

I'd like to close by touching briefly on the effects of two significant policy changes in recent years. First, lawmakers eliminated across-the-board salary increases for Federal employees in—from 2011 to 2013. That limited the total increase during the period of our analysis to 2 percent. Because salaries in the private sector increased by more during that period, that change reduced the average wage of Federal employees relative to the private sector. However, at the same time, the Federal Government also reduce hiring and there was a temporary reduction in the number of hours worked by Federal employees. Both of those factors had the effect of increasing the average compensation of Federal workers relative to the private sector.

The second policy change involved increasing the share of wages that Federal employees who were hired after 2012 must contribute to Federal defined benefit retirement plans. That change will gradually reduce the cost to the Federal Government of the program beginning this year.

Thank you again for your time, and I'd be happy to answer any questions that you might have.

[The statement of Mr. Kile follows:]

Congressional Budget Office

Testimony

Comparisons of Federal and Private-Sector Employees' Compensation, 2011 to 2015

Joseph Kile
Assistant Director for Microeconomic Studies

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

May 18, 2017

This document is embargoed until it is delivered at 9:00 a.m. (EDT) on Thursday, May 18, 2017. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Notes

Numbers in the text, tables, and figures of this testimony may not add up to totals because of rounding. For the same reason, the percentage differences shown in some of the tables may not correspond precisely to the dollar amounts shown.

Unless otherwise indicated, the numbers in the tables and figures apply to full-time, full-year workers.

Wages, benefits, and total compensation in this testimony were converted to 2015 dollars using the employment cost index.

Contents

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's recent report comparing the compensation of federal and private-sector employees during the period from 2011 to 2015.[1] My testimony today summarizes that report.

Summary

The federal government employs about 2.2 million civilian workers—1.5 percent of the U.S. workforce—spread among more than 100 agencies in jobs that represent over 650 occupations. As a result, the government employs workers with a broad complement of talents, skills, and experience, and it competes with other government and private-sector employers for people who possess the mix of attributes needed to do the work of its agencies.

In fiscal year 2016, the government spent roughly $215 billion to compensate federal civilian employees. About two-thirds of that total was spent on civilian personnel working in the Department of Defense, the Department of Veterans Affairs, or the Department of Homeland Security. Federal employees typically receive periodic increases in their wages on the basis of performance, longevity, and changes in private-sector pay. However, lawmakers eliminated annual across-the-board increases for most federal civilian workers in calendar years 2011, 2012, and 2013.

How does the compensation of federal civilian employees compare with that of employees in the private sector? The answer to that question is complicated by the fact that the federal and private-sector workforces differ in characteristics that can affect compensation, such as experience, education, and occupation. On the whole, federal workers tend to be older, more educated, and more concentrated in professional occupations than private-sector workers. To account for such differences, the Congressional Budget Office has used data for 2011 through 2015 reported by a sample of households and employers to estimate differences between the cost of wages and benefits for federal employees and the cost of wages and benefits for similar private-sector employees, defined as those having a set of similar observable characteristics. Specifically, in its analysis, CBO sought to account for differences in individuals' level of education, years of work experience, occupation, size of employer, geographic location (region of the country and urban or rural location), veteran status, and various demographic characteristics (age, sex, race, ethnicity, marital status, immigration status, and citizenship). This testimony updates a 2012 CBO report that compared the compensation of federal and private-sector employees for the 2005–2010 period.[2]

Even among workers with similar observable characteristics, however, employees of the federal government and in the private sector may differ in other traits, such as motivation or effort, that are not easy to measure but that can matter a great deal for individuals' compensation. Moreover, substantial ranges of compensation exist in both the federal government and the private sector among workers who have similar observable attributes. Therefore, even within groups of workers who have such similarities, the average differences in compensation between federal and private-sector employees do not indicate whether particular federal employees would receive more or less compensation performing a similar job in the private sector.

CBO's analysis focuses on wages, benefits, and total compensation (the sum of wages and benefits). It is intended to address the question of how the federal government's compensation costs would change if the average cost of employing federal workers was the same as that of employing private-sector workers with certain similar observable characteristics.

Wages

During the 2011–2015 period, the difference between the wages of federal civilian employees and those of similar private-sector employees varied widely depending on the employees' educational attainment. The extent of that variation is evident in the differences in wages for workers with a bachelor's degree (the most common level of education in the federal workforce), the least educated workers, and the most educated workers:

- Federal civilian workers whose highest level of education was a bachelor's degree earned 5 percent more, on average, in the federal government than in the private sector (see Summary Figure 1).

1. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637.

2. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees* (January 2012), www.cbo.gov/publication/42921.

- Federal civilian workers with no more than a high school education earned 34 percent more, on average, than similar workers in the private sector.

- By contrast, federal workers with a professional degree or doctorate earned 24 percent less, on average, than their private-sector counterparts.

Overall, the federal government would have reduced its spending on wages by 3 percent if it had decreased the pay of its less educated employees and increased the pay of its more educated employees to match the wages of their private-sector counterparts.

Those estimates do not show precisely what federal workers would earn if they were employed in a comparable position in the private sector. The difference between what federal employees earn and what they would earn in the private sector could be larger or smaller depending on characteristics that were not included in this analysis (because such traits are not easy to measure). In addition, the estimated differences depend on how well the observable characteristics were measured in the samples of employees used by CBO and on other factors that are inherent in any statistical analysis.

The span between the wages of high- and low-paid employees was narrower in the federal government than in the private sector, even after accounting for employees' education and other observable traits. The narrower dispersion of wages among federal employees may reflect the constraints of federal pay systems, which make it harder for managers to reward the best performers or to limit the pay of poor performers.

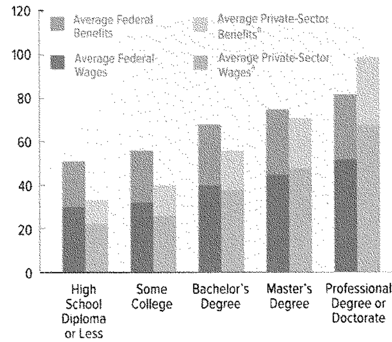
Benefits

During the 2011–2015 period, the federal and private sectors differed much more with regard to the costs that employers incurred in providing current and future benefits—including health insurance, retirement benefits, and paid leave—than they did with regard to wages. Again, the extent of that difference varied according to workers' educational attainment:

- Average benefits were 52 percent higher for federal employees whose highest level of education was a bachelor's degree than for similar private-sector employees (see Summary Table 1).

Summary Figure 1.

Average Compensation of Federal and Private-Sector Workers, by Educational Attainment



Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

The wages shown here include overtime pay, tips, commissions, and bonuses. The benefits shown here are measured as the average cost, per hour worked, that an employer incurs in providing noncash compensation.

a. Average wages and benefits for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect compensation.

- Average benefits were 93 percent higher for federal employees with no more than a high school education than for their private-sector counterparts.

- Among employees with a doctorate or professional degree, by contrast, average benefits were about the same in the two sectors.

On average for workers at all levels of education, the cost of benefits was 47 percent higher for federal civilian employees than for private-sector employees with certain similar observable characteristics, CBO estimates.

The most important factor contributing to differences between the two sectors in the costs of benefits is the defined benefit pension plan that is available to most

Summary Table 1.

Differences in Average Hourly Compensation Between Federal and Private-Sector Workers, by Educational Attainment

	Difference in 2015 Dollars per Hour			Percentage Difference		
	Wages	Benefits	Total Compensation[a]	Wages	Benefits	Total Compensation
High School Diploma or Less	$8	$10	$18	34%	93%	53%
Bachelor's Degree	$2	$9	$12	5%	52%	21%
Professional Degree or Doctorate	-$16	-$1	-$18	-24%	-3%	-18%

Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

CBO compared average hourly compensation (wages, benefits, and total compensation converted to 2015 dollars) for federal civilian workers and for private-sector workers with certain similar observable characteristics that affect compensation—including occupation, years of experience, and size of employer—by the highest level of education that workers attained.

Positive numbers indicate that, on average, wages, benefits, or total compensation was higher in the 2011–2015 period for federal employees than for similar private-sector employees. Negative numbers indicate the opposite.

a. The numbers shown for total compensation may not equal the sum of the numbers for wages and benefits because of rounding to the nearest dollar and because of the composition of the samples used by CBO.

federal employees.[3] Such plans have become less common in the private sector. CBO's estimates of the costs of benefits are much more uncertain than its estimates of wages, primarily because the cost of defined benefit pensions that will be paid in the future is more difficult to quantify and because less-detailed data are available about benefits than about wages.

Total Compensation

As with its components (wages and benefits), total compensation differed by varying degrees between the federal government and the private sector over the 2011–2015 period depending on workers' educational attainment:

- Among workers whose education culminated in a bachelor's degree, the cost of total compensation averaged 21 percent more for federal workers than for similar workers in the private sector.
- Among workers with a high school diploma or less education, total compensation costs averaged 53 percent more for federal employees than for their private-sector counterparts.
- Total compensation costs among workers with a professional degree or doctorate, by contrast, were 18 percent lower for federal employees than for similar private-sector employees, on average.

Overall, the federal government paid 17 percent more in total compensation than it would have if average compensation had been comparable with that in the private sector, after accounting for certain observable characteristics of workers.

Comparison With CBO's Analysis of the 2005–2010 Period

Some of the differences between federal and private-sector compensation have changed since CBO's previous analysis of the issue, which covered the years from 2005 to 2010. For instance, the average total compensation of federal workers without a bachelor's degree exceeded that of their counterparts in the private sector by more between 2011 and 2015 than between 2005 and 2010. Conversely, relative to their private-sector counterparts, federal workers with a master's degree received less average total compensation during the 2011–2015 period than during the 2005–2010 period. The differences in total compensation by educational attainment changed because wages grew more quickly among less educated workers in the federal government than they did among workers in the private sector and because CBO adjusted

3. Defined benefit plans provide retirement income that is based on fixed formulas, and the amount of that income is usually determined by an employee's salary history and years of service.

its approach to determining who is a federal employee. (Except for that adjustment, both analyses used broadly similar approaches.)

Two significant policy changes have affected federal wages since 2010. First, lawmakers eliminated across-the-board salary increases for federal employees from 2011 to 2013, limiting the total increase from 2010 through 2015 to 2 percent. In contrast, salaries increased by about 10 percent in the private sector over the 2010–2015 period. However, in addition to the across-the-board increase of 2 percent, average federal hourly wages were boosted by a decrease in federal hiring—because recently hired federal employees typically have lower salaries than other federal employees—and by a temporary reduction in the number of hours worked by salaried federal employees.

Second, lawmakers increased the share of wages that workers first hired after 2012 must contribute to the federal defined benefit retirement plan. That change will gradually reduce the cost to the federal government of defined benefit pensions beginning in 2017, but it does not factor into this analysis because workers hired after 2012 have not yet accumulated the five years of service needed to receive those benefits.

Scope of the Analysis

CBO's results apply to the cost of employing full-time, full-year workers. The analysis focuses on those workers—who accounted for about 94 percent of the total hours worked by federal employees from 2011 through 2015—because more-accurate data are available for them than for other workers. CBO measured the cost of employing those workers as the present value of providing compensation, some of which may be paid out in the future. (A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum paid today.) Thus, the cost of employing federal or private-sector workers includes an estimate of the cost of retirement benefits to be paid in the future to current employees. That present-value approach differs from the budgetary treatment of retirement benefits for federal workers; the cost of those benefits is recorded as federal outlays when people receive them rather than when the commitment to pay them is incurred.

CBO's analysis is limited to selected benefits (such as health insurance and paid leave) provided to federal and private-sector workers. The analysis excludes certain benefits some workers receive—for example, the above-market rate of return the federal government offers its employees through the G Fund (one of the investment options in their retirement plan) and the stock options that some private-sector firms provide to their employees. In CBO's judgment, the benefits that are not included in this analysis are less costly, on average, than the benefits that are included.

A key consideration in setting compensation is the ability to recruit and retain a highly qualified workforce. But assessing how changes in compensation would affect the federal government's ability to recruit and retain the personnel it needs is beyond the scope of this analysis. Factors other than the amount of compensation can affect that ability. For example, greater job security tends to decrease the compensation that the federal government needs to offer, relative to compensation in the private sector, to attract and retain highly qualified employees. Conversely, the government's cost of total compensation for a federal employee includes a greater share of costs for retirement benefits, which workers may find less valuable than an equivalent amount of cash received today. If so, and if all other things are equal, that mix of compensation would tend to increase the total amount of compensation needed to pay federal workers relative to similar workers in the private sector.

Comparing the Compensation of Federal and Private-Sector Employees

The Federal Workforce

The federal government employs about 2.2 million workers (not counting military personnel or employees of the U.S. Postal Service) in a wide variety of departments, agencies, and occupations. Those workers receive compensation in the form of wages and benefits, such as health insurance and pensions, at a total cost to the government of about $215 billion in fiscal year 2016. About 65 percent of that amount is spent on the three departments that employ the most workers: the Departments of Defense, Veterans Affairs, and Homeland Security.

Size of the Federal Workforce

For the past 30 years, the number of civilians employed by the federal government has hovered around 2 million people (see Figure 1).[1] During that period, federal employees have accounted for a declining share of the total U.S. workforce, because employment by the private sector and by state and local governments has grown along with the economy. In 1985, when about 85 million people worked in the private sector and 13 million worked for state or local governments, federal employees made up 2.1 percent of the workforce. By 2015, private-sector employment had reached 123 million and employment by state and local governments had reached 19 million. As a result, federal civilian employees accounted for 1.5 percent of the workforce in that year.

Besides federal civilian workers, who are the focus of this analysis, the government directly or indirectly employs other people to provide various services. In particular, the armed services include about 2.2 million uniformed personnel, about 1 million of whom are reservists. (The Congressional Budget Office has analyzed the compensation of military personnel in several publications.)[2] In addition, about 700,000 people work for government enterprises that typically pay for their employees' compensation through the sale of services rather than through tax revenues. (By far the largest government enterprise in terms of employment is the Postal Service.) Finally, because the federal government uses the private sector to carry out some of its functions, a number of private-sector employees work under contract to the federal government but have their compensation set by their employer.[3] This analysis does not include military personnel or employees of self-financing government enterprises such as the Postal Service; federal contractors are included as private-sector workers.

1. In this testimony, the size of a workforce is measured by the number of full-time and part-time employees. An alternative measure of size converts the work schedules of part-time employees to a full-time basis. Because part-time work is less common in the federal government, federal workers are a larger portion of the workforce under that alternative measure—2.3 percent in 1985 and 1.6 percent in 2015.

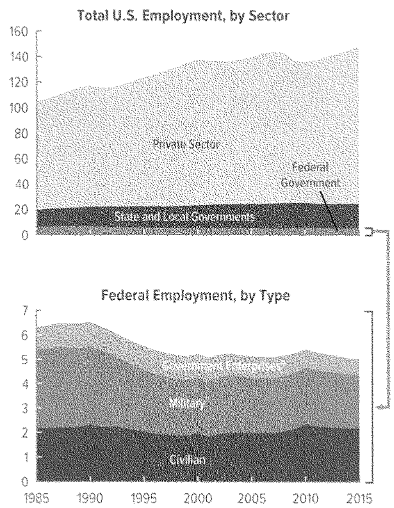
2. For a comparison of military and private-sector compensation, see the testimony of Carla Tighe Murray, Senior Analyst for Military Compensation and Health Care, Congressional Budget Office, before the Subcommittee on Personnel of the Senate Committee on Armed Services, *Evaluating Military Compensation* (April 28, 2010), www.cbo.gov/publication/21430; and Congressional Budget Office, *Evaluating Military Compensation* (June 2007), www.cbo.gov/publication/18788. CBO compared military compensation with federal civilian compensation in "Analysis of Federal Civilian and Military Compensation," an attachment to a letter to the Honorable Steny H. Hoyer (January 20, 2011), www.cbo.gov/publication/22002.

3. The number of federal contractors is estimated in John J. Dilulio, *10 Questions and Answers About America's "Big Government"* (Brookings Institution, February 2017), http://tinyurl.com/gouqmpw. Spending on federal contractors is tabulated in Congressional Budget Office, *Federal Contracts and the Contracted Workforce* (March 2015), www.cbo.gov/publication/49931. The compensation of federal contractors is discussed in Project on Government Oversight, *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors* (POGO, 2011), www.pogo.org/our-work/reports/2011/co-gp-20110913.html. In addition to federal contractors, the government supports the jobs of other private-sector employees through its purchases of goods and services produced by private firms. For example, the government buys computers and office supplies from companies in the private sector.

Figure 1.

Trends in Government and Private-Sector Employment Since 1985

Millions of People



Source: Congressional Budget Office, using data from the national income and product accounts.

This figure includes employees who work part time or part of the year.

a. Government enterprises are federal entities that typically fund their operating costs, including employees' compensation, through the sale of services rather than through tax revenues. By far the largest government enterprise in terms of employment is the U.S. Postal Service.

Agencies and Occupations

Federal civilian employees perform a broad range of tasks in more than 650 occupations. Although federal workers are employed by more than 100 departments and agencies, 60 percent of them work at three departments in the executive branch (see Figure 2):

- The Department of Defense employs 34 percent of the federal civilian workforce. Those employees work in hundreds of different occupations; the most common are program administrator, information technology worker, and program analyst.
- The Department of Veterans Affairs employs 17 percent of the federal civilian workforce. About 60 percent of its employees work in various medical professions, the most common of which is nursing.
- The Department of Homeland Security employs 9 percent of the federal civilian workforce. The most common job in that department is inspector for the Transportation Security Administration, which accounts for just under a quarter of the department's employees.

An additional 37 percent of federal employees work for the other departments and agencies of the executive branch. The most common occupations among those workers are program administrator, information technology worker, and program analyst. The remaining 3 percent of the federal workforce is employed by the legislative and judicial branches of government.

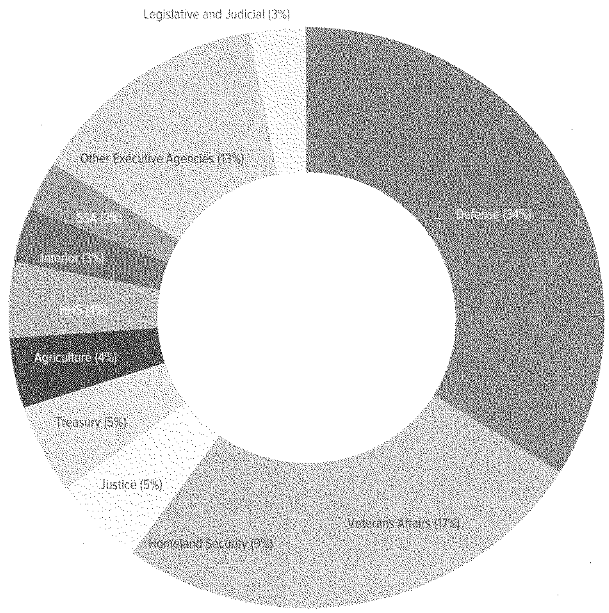
Differences Between the Federal and Private-Sector Workforces

Various characteristics of employees—including their occupation, education, and age—are likely to influence their compensation, regardless of whether they work for the federal government or the private sector. The federal and private-sector workforces differ in several significant ways that CBO incorporated into its comparison of compensation between the two sectors.

For example, 36 percent of federal employees work in professional occupations, such as the sciences or engineering, compared with only 20 percent of private-sector employees; in contrast, 24 percent of private-sector employees work in occupations such as sales, production, or construction, compared with only 5 percent of federal employees (see Table 1). Professional occupations generally require more formal training or experience than do the occupations more common in the private sector. Partly because of that difference, the average age of federal employees is substantially higher than that of private-sector employees (46 versus 42). The greater concentration of federal workers in professional occupations also means that they are more likely to have a bachelor's degree: Sixty percent of the federal workforce has at least that much education, compared with 35 percent of the private-sector workforce (see Figure 3). Likewise, 28 percent of federal employees have a master's, professional (such as a law or medical degree), or doctoral degree, compared with 11 percent of private-sector employees.

Figure 2.

Federal Civilian Employment, by Branch and Department, 2015



Source: Congressional Budget Office, using data from the Office of Personnel Management.

This figure includes federal employees who work part time or part of the year. It excludes military personnel (who account for roughly the same number as federal civilian employees) and employees of government enterprises, such as the U.S. Postal Service. It also excludes the Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, and the National Imagery and Mapping Agency.

HHS = Department of Health and Human Services; SSA = Social Security Administration.

The characteristics of employers, as well as those of workers, differ between the federal government and the private sector. Many federal agencies are quite large; the biggest, the Department of Defense, employs about 750,000 civilian workers. Nearly all federal employees work for entities that have at least 1,000 workers, whereas only about 42 percent of private-sector employees work for entities of that size.

The services that the federal government provides are needed across the nation, so federal employees work in a wide variety of locations. For instance, nurses and doctors who work at veterans' hospitals, security screeners at airports, and air traffic controllers are spread throughout the United States. In all, about 16 percent of federal employees work in or around Washington, D.C. (compared with 2 percent of the private-sector workforce); the

Table 1.

Characteristics of the Federal and Private-Sector Workforces

Percentage of Workforce

	Federal Government	Private Sector
Highest Educational Attainment		
High school diploma or less	13	36
Some college	27	29
Bachelor's degree	31	24
Master's degree	20	8
Professional degree or doctorate	9	3
Total	**100**	**100**
Occupation		
Professional	36	20
Management, business, financial	27	19
Administrative or office support	12	13
Service	12	12
Transportation	3	7
Installation, maintenance, repair	3	4
Production	2	8
Construction, extraction	2	5
Sales	1	11
Farming, fishing, forestry	1	1
Total	**100**	**100**
Size of Employer, by Number of Workers		
Fewer than 10	*	11
10 to 99	*	25
100 to 499	*	15
500 to 999	*	6
1,000 or more	99	42
Total	**100**	**100**
Region		
South	37	35
West	21	23
Washington, D.C., metropolitan area	16	2
Midwest	14	22
Northeast	11	18
Total	**100**	**100**
Memorandum:		
Veterans (Percentage of workforce)	22	5
Average Age (Years)	46	42
Number of People in Sample	6,892	163,148

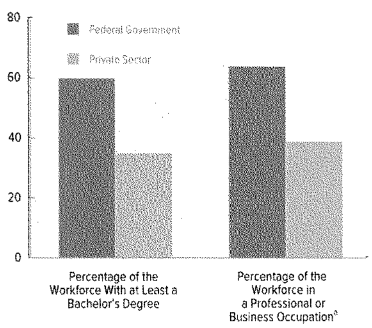
Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey.

* = between zero and 0.5 percent.

Figure 3.

Differences in Education and Occupation Between the Federal and Private-Sector Workforces

Percentage of Workforce



Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey.

a. Corresponds to the occupational categories "Professional" and "Management, business, and financial" listed in Table 1. About 65 percent of the workers in those occupations have at least a bachelor's degree, compared with 17 percent of the workers in other occupations.

other 84 percent of federal workers—about 1.8 million people—are located throughout the country in roughly similar proportions to workers in the private sector.

The attributes of the federal workforce are more like those of private-sector workers at large firms than those of workers at small firms, because both large firms and federal agencies tend to require a workforce that is more specialized and educated than small firms do. (In this analysis, small firms are those with fewer than 1,000 employees, and large firms are those with 1,000 or more employees.) Many federal employees have expertise in specific tasks, as over 95 percent of them work in agencies that divide tasks among more than 100 occupations. That degree of specialization is not possible for small employers. In addition, only 31 percent of workers at small firms have at least a bachelor's degree, whereas the proportion of workers with that level of education is greater at large firms (41 percent).

CBO's Approach to Analyzing Compensation for Federal and Private-Sector Employees

How would the federal government's compensation costs differ if the average cost of employing federal workers was the same as that of employing workers with certain similar observable characteristics in the private sector? To address that question, CBO examined average compensation costs for employees in the federal government and the private sector, accounting for differences in those characteristics. The comparison between the two sectors is based on the cost that an employer incurs in providing compensation, including wages and salaries, a share of health insurance premiums, retirement benefits, and payroll taxes (which fund government programs such as Social Security and Medicare).

CBO measured the cost of benefits provided to retirees as the present value of future obligations—that is, as a single number that expresses a flow of current and future payments in terms of an equivalent lump sum paid today. Such benefits are not necessarily paid by the employer in the year that someone works. In particular, retirement benefits for federal workers are recorded as federal spending when someone receives those benefits during retirement.

In both the federal government and the private sector, compensation may depend on a number of factors that can be observed and measured. CBO sought to account for differences in those factors—education, occupation, years of work experience, geographic location (region of the country and urban or rural location), size of employer, veteran status, and certain demographic characteristics (age, sex, race, ethnicity, marital status, immigration status, and citizenship). That approach produces a comparison between the average compensation of federal workers and the average compensation of private-sector workers who have certain similar observable attributes. Because education plays a particularly large role in determining compensation, CBO reports its results for five levels of educational attainment: high school diploma or less, some college, bachelor's degree, master's degree, and doctorate or professional degree.

People's compensation is also affected by many characteristics that are not easy to observe or measure, such as their natural ability, personal motivation, and effort. The degree to which federal and private-sector employees may differ with regard to those characteristics is much harder to quantify, and no adjustments were made for those attributes in this analysis.

Comparison of Wages in the Federal Government and the Private Sector

Using data from the Current Population Survey (CPS) and the analytic approach described above, CBO compared average hourly wages for federal civilian workers, by the highest level of education they achieved, with average hourly wages for private-sector workers who have certain similar observable traits that affect wages. CBO also compared the range between low and high wages for federal workers with the wage range for similar workers in the private sector.

Average Wages

By CBO's estimate, the extent to which hourly wages differed for federal employees and private-sector employees with certain similar observable traits during the 2011–2015 period varied greatly according to workers' educational attainment. The extent of that variation is evident in comparisons of the differences in wages for the least educated workers, workers with a bachelor's degree (the most common level of education in the federal workforce), and the most educated workers:

- Federal employees with no more than a high school diploma earned 34 percent more per hour, on average, than private-sector employees with the same level of education (see Table 2).

- Federal employees whose highest level of education was a bachelor's degree—about one-third of the federal workforce—earned roughly 5 percent more per hour, on average, than similar workers in the private sector.

- Federal workers with a doctorate or professional degree earned 24 percent less per hour, on average, than similar workers in the private sector.

On average, for employees at all education levels, wages were 3 percent higher for workers in the federal government than for private-sector workers with certain similar observable characteristics, CBO estimates. Thus, the federal government would have reduced its spending on wages by 3 percent if it had decreased the pay of its less educated employees and increased the pay of its more educated employees to match the wages of their private-sector counterparts.

If CBO had not structured this analysis to compare workers with similar observable traits, the difference in average wages between the two sectors would have been much larger. Comparing federal and private-sector employees with similar educational attainment was the most important element, for two reasons: Highly educated workers tend to earn much higher wages than less educated workers, and federal employees have more education, on average, than employees in the private sector. Accounting for differences in some of the other characteristics was also important because federal employees tend to work in higher-paying occupations and to have more years of work experience, which also tend to be associated with higher wages. Finally, employees of large firms tend to earn more per hour than employees of small firms, and federal employees are more than twice as likely as private-sector employees to work for entities that employ at least 1,000 people. Besides accounting for differences in those characteristics, CBO compared federal workers with private-sector workers who had similar demographic traits, but that adjustment did not have much effect on the difference between average federal and private-sector wages.

The large size of federal agencies does not necessarily imply that federal workers would receive the higher wages typical at large firms if they moved to the private sector. On the one hand, jobs are likely to be more specialized in the federal government and at large private firms than they are at smaller firms, so large private-sector employers might value the specialized skills of federal workers. That possibility suggests that accounting for the size of the employer leads to a more meaningful comparison of wages. On the other hand, the higher wages paid by large private firms may not reflect pay for skills that are transferable between the federal and private sectors, so adjusting for the employer's size could understate the difference between average federal and private-sector wages for workers with similar traits. If adjustments for the employer's size are not made, the difference between average federal and private-sector wages for all workers rises from 3 percent to 10 percent, and similar changes occur in the differences for workers at each level of education.

Differences between the average wages of federal and private-sector employees with the same measured traits could reflect the effects of personal characteristics that cannot be measured, differences in the way that the federal government and the private sector determine pay,

Table 2.

Federal and Private-Sector Wages, by Workers' Educational Attainment

	Average Wages (2015 dollars per hour)		Percentage Difference Between Averages
	Federal Government	Private Sector[a]	
High School Diploma or Less	29.60	22.10	34
Some College	32.10	26.30	22
Bachelor's Degree	39.50	37.60	5
Master's Degree	45.00	48.20	-7
Professional Degree or Doctorate	51.90	68.00	-24
All Levels of Education	38.30	37.20	3

Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey.

Wages are measured as an average hourly wage rate and include overtime pay, tips, commissions, and bonuses.

a. Average wages for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect wages.

or a combination of those factors. The data do not allow CBO to gauge the degree to which each of those factors affects differences in average wages between the sectors.

The findings of CBO's analysis vary from the results of other studies of public- and private-sector wages. That variation is largely attributable to differences in analytic methods. The distinction between those methods and the relationship of CBO's analysis to previous research are discussed at length in a CBO working paper from 2012.[4]

To address the question of how the government's costs for wages and salaries would change if federal workers cost the same amount to employ as similar private-sector workers, CBO focused on differences in *average* wages, which are closely tied to total government spending for the pay of federal employees. Other studies that found larger differences between federal and private-sector pay used a different measure of wages.[5] However, their measure overstates the differences between the cost of employing federal workers and similar private-sector workers because of the way the measure accounts for the difference in the dispersion of wages (the range from low to high) between those groups.

Besides the use of averages, another key feature of CBO's approach was comparing workers with similar characteristics, such as education, experience, and occupation. Other research that has compared the average pay of federal and private-sector workers who have similar jobs has found that the average salary for federal employees is much lower than the average for private-sector workers in comparable jobs.[6] However, by focusing the comparisons on specific, detailed jobs, that research may have ended

4. Justin Falk, *Comparing Wages in the Federal Government and the Private Sector*, Working Paper 2012-3 (Congressional Budget Office, January 2012), Section II, www.cbo.gov/publication/42922. That paper addresses CBO's analysis of federal wages from 2005 through 2010, but the points remain relevant for the 2011–2015 period analyzed in this testimony. The relationship between CBO's analysis and previous research is also discussed in Government Accountability Office, *Federal Workers: Results of Studies on Federal Pay Varied Due to Differing Methodologies*, GAO-12-564 (June 2012), www.gao.gov/products/GAO-12-564; and David H. Bradley, *Comparing Compensation for Federal and Private-Sector Workers: An Overview*, Report for Congress R42636 (Congressional Research Service, July 30, 2012).

5. See Rachel Greszler and James Sherk, *Why It Is Time to Reform Compensation for Federal Employees*, Backgrounder 3139 on Labor (Heritage Foundation Center for Data Analysis, July 2016), http://tinyurl.com/zf25ymg; and Andrew Biggs and Jason Richwine, *Comparing Federal and Private Sector Compensation*, Economic Policy Working Paper 2011-02 (American Enterprise Institute, June 2011), www.aei.org/publication/comparing-federal-and-private-sector-compensation.

6. Federal Salary Council, *Level of Comparability Payments for January 2018* (December 2016), https://go.usa.gov/xXCGm.

up comparing federal workers with private-sector workers who have more experience.[7]

The Distribution of Wages

In addition to looking at average wages, CBO examined the distribution of wages for federal workers and for private-sector workers with certain similar observable characteristics in each category of educational attainment. It then compared wages in the two sectors at the 10th, 25th, 50th (the median), 75th, and 90th percentiles of those distributions.[8] Among employees with no more than a bachelor's degree, low-wage workers (those at the 10th and 25th percentiles) earned more in the federal government than in the private sector. By contrast, among employees with at least a bachelor's degree, high-wage workers (those at the 90th percentile) earned less in the federal government than in the private sector. (That is also the case for workers at the 75th percentile of those who have a professional degree or doctorate. Among employees whose education culminated in a bachelor's degree, workers at the 75th percentile earned more in the federal government than in the private sector.)

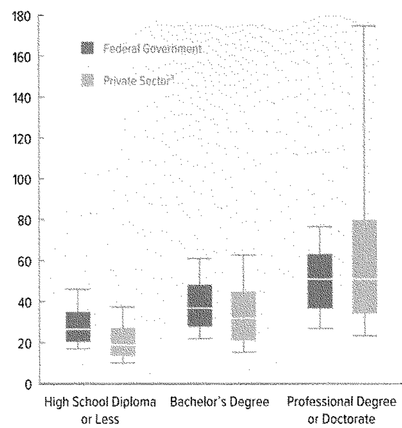
Both high and low wages tend to be less prevalent in the federal government than in the private sector, so the range between those wages—the dispersion of wages—tends to be narrower for federal employees. For example, as measured by the range from the 10th percentile to the 90th percentile, the dispersion of wages was smaller for federal employees with at least a bachelor's degree than for similar private-sector employees. That difference was especially evident for people with a professional degree or doctorate, mostly because the 90th percentile of wages is much lower for federal employees than for private-sector workers with the same level of education (see Figure 4). In fact, the large differences between the high percentiles of those two wage distributions push the average wage of federal employees substantially below the average wage for their private-sector counterparts. In contrast, the 50th percentiles of those distributions are about the same. The prevalence of higher wages also pushes the average wage above the 50th percentile for workers with other levels of education, particularly in the private sector. One implication is that about 50 percent of the federal workers whose education culminated in a bachelor's degree earned less than the average wage of their private-sector counterparts, even though the average wage was higher among the federal workers.

The dispersion of wages also tends to differ between federal employees and their private-sector counterparts when the workers are grouped by occupation instead of educational attainment. For example, the range from the 10th percentile to the 90th percentile was significantly

Figure 4.

Dispersion of Federal and Private-Sector Wages, by Workers' Educational Attainment

Wages, 2015 Dollars per Hour



Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey.

The horizontal line in the middle of each shaded box indicates the median (50th percentile) wage; the top and bottom of the box mark the 75th and 25th percentiles, respectively; and the whiskers above and below the box mark the 90th and 10th percentiles.

a. Wages for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect wages.

7. See Melissa Famulari, "What's in a Name? Title Inflation in the Federal Government" (draft, University of Texas at Austin, August 2002), www.econweb.ucsd.edu/~mfamular/pdfs/FederalPrivatepay.pdf (182 KB).

8. For details about how CBO constructed the wage distributions, see Justin Falk, *Comparing Wages in the Federal Government and the Private Sector*, Working Paper 2012-3 (Congressional Budget Office, January 2012), Section V, www.cbo.gov/publication/42922.

narrower for federal managers than for similar private-sector managers. In that regard, those distributions differed by about the same amount as the distributions for workers with at least a bachelor's degree.

The narrower dispersion of wages among federal workers may reflect the constraints of federal pay systems, which limit the pay of managers and make it harder for managers to reward the highest performers or to limit the compensation of the lowest performers. The highest salaries under federal pay schedules are substantially lower than the average salaries for most executive positions in the private sector.[9] Federal pay systems also limit the number of workers with low wages, because most federal workers compensated under pay schedules move to progressively higher pay levels as they become eligible for those levels on the basis of their years of federal employment. However, federal pay systems also include tools, such as promotions and bonuses, that managers can use to reward some top performers.

Comparison of Benefits in the Federal Government and the Private Sector

The federal government and most large private employers provide various forms of noncash compensation, such as retirement benefits, health insurance, and paid leave. The cost of providing those benefits varies greatly among private-sector employers as well as between the federal government and the private sector. Smaller private employers generally offer less-generous health insurance and other benefits; some do not offer such benefits at all. However, almost all employers are required to pay various payroll taxes to fund all or part of the benefits that workers or retirees receive through the Social Security, Medicare, unemployment insurance, and workers' compensation programs.

In both the federal government and the private sector, the cost of some benefits, such as retirement benefits and paid leave, is based largely on the wages that employees receive. Thus, the factors that determine an employee's wages—such as education, occupation, and experience—will also influence the cost that an employer incurs to provide those benefits. For example, workers with more education tend to receive more expensive benefits as well as higher wages. The cost of other benefits, by contrast, is not directly affected by the wages that employees receive. In particular, the cost of providing health insurance for federal workers depends directly on the insurance plan chosen and on whether an employee has single, single-plus-one, or family coverage (although that cost may be indirectly affected by the employee's wages if higher-income workers tend to choose more expensive insurance plans).

CBO compared the cost of the benefits provided to federal and to private-sector employees, accounting for the same differences in workers' characteristics that were used to analyze wages. For consistency with the measure of hourly wages, the cost of benefits was measured on an hourly basis by dividing estimates of the annual cost that an employer incurred to provide those benefits by the number of hours that an employee worked during the year.

As with wages, differences in the cost of benefits in the federal government and the private sector varied by employees' highest level of education (see Table 3). For example, CBO estimates that, relative to costs for similar workers in the private sector, benefit costs were about:

- 93 percent higher, on average, for federal workers with a high school diploma or less education;
- 52 percent higher, on average, for federal workers whose highest level of education was a bachelor's degree; and
- Roughly the same, on average, for federal workers with a professional degree or doctorate.[10]

On average for workers at all education levels, benefits for federal employees cost about $26 per hour worked, whereas benefits for private-sector employees with certain similar observable characteristics cost $18, CBO estimates. Thus, benefits for federal workers cost 47 percent more

9. Congressional Budget Office, *Comparing the Pay and Benefits of Federal and Nonfederal Executives* (November 1999), www.cbo.gov/publication/12015. That report compares pay in 1998. Since then, the highest salaries in the federal pay schedules have risen to $207,800 for the Executive Schedule and $187,000 for the Senior Executive Service. Those amounts remain below the average salaries for most executive positions at large private-sector firms even in 1998.

10. CBO estimates that benefits for federal workers with a professional degree or doctorate are 3 percent lower, on average, than benefits for private-sector workers with similar observable characteristics. However, that estimate is subject to considerable uncertainty because of the small number of workers in the data who have that level of education.

CBO

Table 3.

Federal and Private-Sector Benefits, by Workers' Educational Attainment

	Average Benefits (2015 dollars per hour)		
	Federal Government	Private Sector[a]	Percentage Difference Between Averages
High School Diploma or Less	21.30	11.10	93
Some College	24.20	13.50	80
Bachelor's Degree	27.50	18.10	52
Master's Degree	29.80	22.90	30
Professional Degree or Doctorate	29.70	30.70	-3
All Levels of Education	26.50	18.00	47

Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

Benefits are measured as the average cost, per hour worked, that an employer incurs in providing noncash compensation. The average benefits shown here are for workers at institutions that employ at least 1,000 people.

a. Average benefits for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect benefits.

per hour worked, on average, than benefits for private-sector workers with similar observable attributes. Benefits also constituted a larger share of compensation for federal workers, accounting for 41 percent of the cost of total compensation, compared with 32 percent for workers in the private sector.

Most of the higher benefit costs incurred by the federal government stem from differences in retirement benefits. The federal government provides retirement benefits to its workers through both a defined benefit plan and a defined contribution plan, whereas many large private-sector employers have replaced defined benefit plans with defined contribution plans.[11] The federal government also provides subsidized health insurance to qualified retirees, an arrangement that has become much less common in the private sector. As a result, deferred compensation accounts for a greater portion of total compensation in the federal government than in the private sector, on average. That difference could affect the types of workers who choose federal employment over private-sector employment. Federal pension and health care benefits for retirees are likely to attract workers who plan to stay with the same employer for many years, because the value of those benefits rises sharply if an employee waits to leave federal service until he or she is eligible for an immediate pension (at which point the employee is generally also eligible to receive federal health care benefits in retirement).

Comparisons of benefits by other researchers have not used data that allow federal employees to be compared with private-sector employees who have similar job-related attributes.[12] Those comparisons have found bigger differences between average federal and private-sector benefits than CBO finds. However, CBO's analysis indicates that a large portion of those bigger differences is attributable to the fact that federal workers have more years of education and experience, on average, than private-sector workers do.

CBO's estimates of differences in benefits between the two sectors are more uncertain than its estimates of differences in wages. That greater uncertainty reflects the complexity of measuring benefits and the extrapolations

11. Defined benefit plans provide retirement income that is based on fixed formulas, and the amount of that income is usually determined by an employee's salary history and years of service. In contrast, the amount of retirement income provided by a defined contribution plan, such as a 401(k) account, depends on the performance of the account's investments as well as on the amount of contributions made by the employer and employee.

12. For details, see Justin Falk, *Comparing Benefits and Total Compensation in the Federal Government and the Private Sector,* Working Paper 2012-4 (Congressional Budget Office, January 2012), Section II, www.cbo.gov/publication/42923.

that were necessary to integrate data sets from various sources.

Comparison of Total Compensation in the Federal Government and the Private Sector

CBO combined its analyses of wages and benefits to assess differences between the federal government and the private sector in total compensation for workers with certain similar observable characteristics:

- Among workers with a high school diploma or less education, total compensation costs were 53 percent higher, on average, for federal employees than for similar private-sector employees (see Table 4).
- Among workers whose education ended in a bachelor's degree, the cost of total compensation averaged 21 percent more for federal workers than for similar workers in the private sector.
- Among workers with a professional degree or doctorate, by contrast, total compensation costs were 18 percent lower, on average, for federal employees than for private-sector employees with similar attributes.

For workers with a bachelor's degree or less, the cost of total compensation averaged about $60 per hour worked for federal employees, compared with about $46 per hour worked for employees in the private sector with certain similar observable characteristics. In contrast, the cost of total compensation averaged about $77 per hour worked for federal employees with a master's degree, professional degree, or doctorate, which is about $3 less than the average for their private-sector counterparts. Overall, total compensation was about 17 percent higher, on average, for federal workers than for similar private-sector workers, indicating that the government spent about 17 percent more on total compensation than it would have if it provided its employees compensation equal to that of their private-sector counterparts.

In part because both federal and private-sector workers may value wages differently than benefits, comparisons of total compensation are an incomplete indicator of the government's ability to recruit and retain a qualified workforce. In this analysis, benefits are measured in terms of the cost that employers incur in providing them, which might not match the value that employees place on benefits. An implication is that differences in benefits might not compensate for apparently countervailing differences in wages, even if the measured differences in benefits and wages are similar. On the one hand, workers tend to pay less income tax on compensation that takes the form of benefits than they do on wages, which enhances the value of benefits. On the other hand, some recent research indicates that workers are willing to pay only a small portion of the cost of funding an increase in pension benefits, which suggests that they value wages more highly than pension benefits.[13] A broader assessment of how changes in the amount or composition of total compensation would affect the government's ability to recruit and retain a qualified workforce is beyond the scope of this analysis.

Comparison With CBO's Analysis of the 2005–2010 Period

CBO's 2012 report on differences between the wages, benefits, and total compensation of federal and private-sector workers covered the years from 2005 through 2010. This testimony, which used analytic methods that are broadly similar, covered the period from 2011 to 2015. Compared with the previous analysis, in this analysis the differences in compensation were substantially larger for less educated workers, smaller for workers with master's degrees, and changed little for workers overall.

Changes in the Comparison of Wages

The differences in average wages by educational attainment primarily changed because wages grew more quickly among less educated workers in the federal government than among their counterparts in the private sector and because CBO adjusted its approach to determining who is a federal employee. Differences in wages were also affected by reductions in across-the-board increases to federal salaries, a slowdown in federal hiring, and a temporary reduction in the number of hours worked by federal employees.

Changes in the Comparison of Wages by Level of Education. At all five levels of educational attainment, the differences between the wages paid by the federal government and the private sector were larger during the 2011–2015 period than they were during the

13. Maria D. Fitzpatrick, "How Much Are Public School Teachers Willing to Pay for Their Retirement Benefits?" *American Economic Journal: Economic Policy*, vol. 7, no. 4 (November 2015), pp. 165–188, http://dx.doi.org/10.1257/pol.20140087. That study includes a discussion of why defined benefit pensions are still common in the public sector even though the value that workers place on them appears to be lower than their cost.

Table 4.

Federal and Private-Sector Total Compensation, by Workers' Educational Attainment

	Average Total Compensation (2015 dollars per hour)		
	Federal Government	Private Sector[a]	Percentage Difference Between Averages
High School Diploma or Less	50.90	33.40	53
Some College	56.30	40.40	39
Bachelor's Degree	67.00	55.20	21
Master's Degree	74.80	70.90	5
Professional Degree or Doctorate	81.70	99.80	-18
All Levels of Education	64.80	55.30	17

Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

Total compensation consists of wages and benefits. The average compensation shown here is for workers at institutions that employ at least 1,000 people. Because a broader sample was used to compare wages than to compare benefits, the numbers shown here for total compensation may not equal the sum of the numbers for wages and benefits separately.

a. Average total compensation for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect compensation.

2005–2010 period. The average wages of federal workers with a bachelor's degree or less exceeded the average wages of their private-sector counterparts by more between 2011 and 2015 than between 2005 and 2010 (see Table 5). Conversely, the average wages of federal workers with more than a bachelor's degree fell further short of their counterparts' in the private sector between 2011 and 2015 than between 2005 and 2010. However, the change for more educated workers is small and imprecisely measured.

One reason for the larger differences in wages in the 2011–2015 period is that wages grew more quickly among less educated workers in the federal government than among their counterparts in the private sector. In particular, wages for federal workers who attended college but did not earn a bachelor's degree grew by about 11 percent between the 2005–2010 period and the 2011–2015 period. In contrast, wages for private-sector workers with similar amounts of education grew by about 7 percent between the two periods. (Those growth rates are not adjusted for general changes in the cost of labor.) Those trends increased the difference between the average wages of those workers from 15 percent to 19 percent. For the same reason, the difference between the average wages of federal workers and their private-sector counterparts was boosted from 21 percent to 24 percent among workers with no more than a high school diploma. (In order to isolate the effect of different rates of wage growth, the estimates in this paragraph do not reflect CBO's adjustment to its approach to determining who is a federal employee.)

Another reason that CBO estimated larger differences in wages for less educated workers is that the agency adjusted its approach to determining who is a federal employee. CBO primarily relies on data from the CPS in its analysis of wages because the CPS includes information on federal employees and workers in the private sector. However, data on federal employees compiled by the Office of Personnel Management indicate that the CPS substantially overstates the number of low-wage workers in the federal government, so CBO adjusted the data accordingly. Because most low-wage workers do not have a bachelor's degree and tend to have lower wages than other federal employees with the same level of education, the adjustment substantially increased the average wages of federal workers with less than a bachelor's degree. As a result of that adjustment, the estimated differences between the average wages of federal and private-sector workers grew from 24 percent to 34 percent among workers with no more than a high school diploma and from 19 percent to 22 percent among workers with some college education.

Table 5.

Percentage Differences Between Federal and Private-Sector Compensation, by Analytic Period

	2005 Through 2010			2011 Through 2015		
	Wages	Benefits	Total Compensation	Wages	Benefits	Total Compensation
High School Diploma or Less	21	72	36	34	93	53
Some College	15	71	32	22	80	39
Bachelor's Degree	2	46	15	5	52	21
Master's Degree	-5	36	8	-7	30	5
Professional Degree or Doctorate	-23	2	-18	-24	-3	-18
All Levels of Education	2	48	16	3	47	17

Source: Congressional Budget Office, using data for 2005 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

Differences are based on average compensation for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect compensation.

Wages are measured as an average hourly wage rate and include overtime pay, tips, commissions, and bonuses.

Benefits and total compensation are measured as the average cost, per hour worked, that an employer incurs in providing noncash compensation. The differences in averages shown here are for workers at institutions that employ at least 1,000 people.

The approach that CBO used to compare compensation from 2011 through 2015 is broadly similar to the approach the agency used to compare compensation from 2005 through 2010 but differs in several respects. See the text for details.

Changes in the Comparison of Average Wages. On average for workers at all levels of education, the difference in wages between the federal and private sectors changed little between the two periods because reductions in across-the-board salary increases for federal employees were offset by other factors. The Federal Employees Pay Comparability Act of 1990 specifies that the salaries of most federal employees be adjusted annually on the basis of changes in the salaries of private-sector workers. From 2005 through 2010, those changes averaged 2.7 percent, which was similar to the increase in the salaries of private-sector workers during that period as measured by the employment cost index compiled by the Bureau of Labor Statistics (see Figure 5). From 2011 through 2015, however, policymakers chose to implement smaller increases—averaging less than half a percent—for federal employees. In contrast, salaries of private-sector workers grew by an average of 1.9 percent during those years. In addition to across-the-board pay increases, federal employees can earn pay raises based on their seniority and merit, but those raises did not expand to offset the reduction in the across-the-board increases over the 2011–2015 period (see Figure 6).[14] Thus, the lower across-the-board pay increases probably reduced the wages of federal employees relative to the wages of their private-sector counterparts by roughly 7 percent by 2015 and by an average of 4 percent over the 2011–2015 period. The lower pay increases—and higher pension contributions mandated by policymakers—are evident in the average wage of newly hired federal employees (see Box 1).

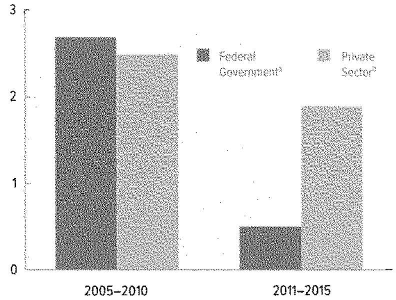
The reduction in across-the-board salary increases was partially offset by a decline in federal hiring. Hiring fell from around 215,000 workers per year over the 2006–2010 period to around 165,000 workers per year between 2011 and 2015. That drop in hiring increased

14. To further investigate the effects that the elimination of general pay increases from 2011 through 2013 had on the difference in average wages, CBO compared the average wage differential between federal and private-sector employees during 2014 and 2015. By limiting the sample to the period after the pay freeze, CBO found that the average federal wage exceeded the average private-sector wage by 1 percent rather than 3 percent for the entire 2011–2015 period.

Figure 5.

Changes in Average Salaries, by Sector

Percentage Change per Year



Source: Congressional Budget Office, using data from the Office of Personnel Management and the Bureau of Labor Statistics.

The salaries that the changes in this figure are based on have not been converted to 2015 dollars.

a. Consists of across-the-board increases and changes in locality payments for workers on the General Schedule, as well as general market and structural pay adjustments for workers on other pay schedules.

b. The change in the employment cost index for the salaries of workers in private industry.

the average federal wage over what it would have been otherwise, because the average salary of recently hired federal employees is substantially lower than that of federal employees overall.

The reduction in across-the-board salary increases was also offset by the increase in federal hourly wages caused by federal employees' working fewer hours in the 2011–2015 period than they had in the 2005–2010 period. In particular, salaried federal workers reported fewer hours of work in 2013, the year in which many federal employees were not allowed to work for the first 16 days of October.

Changes in the Comparisons of Benefits and Total Compensation

As with wages, the cost of federal benefits exceeded the cost of private-sector benefits to a greater extent over the 2011–2015 period than over the 2005–2010 period for workers with a bachelor's degree or less. Conversely, for workers with a master's degree, the amount by which the cost of federal benefits exceeded the cost of private-sector benefits declined between the two periods. And among workers with a professional degree or doctorate, the cost of federal benefits was less than the cost of private-sector benefits in the 2011–2015 period, whereas federal benefits were more expensive than private-sector benefits in the 2005–2010 period.

Changes in wages are largely responsible for the changes in benefits (because the costs of pensions, paid leave, and legally required benefits are closely tied to wages), but increases in the cost of health insurance also played a role. The amount employers contributed to their workers' health insurance grew more than wages in both sectors, but that growth was more concentrated among workers with higher earnings in the private sector, many of whom are highly educated. Thus, the differences between the cost of benefits for workers with more education in the federal sector and the private sector changed by a greater extent than the changes in wages alone would suggest.

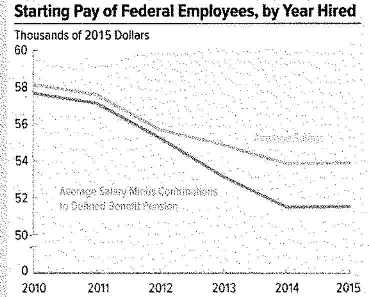
The differences in the total compensation of federal workers and their private-sector counterparts with the same educational attainment changed between the 2005–2010 period and the 2011–2015 period as the differences in wages and benefits between those two groups changed. In some instances, the changes in the differences in total compensation between the two groups were more pronounced than the changes in the differences in wages or benefits. The additional growth in total compensation stemmed from more rapid growth in benefits than in wages between the 2005–2010 and 2011–2015 periods, which made the difference in benefits a larger share of the difference in total compensation. For example, among workers with a bachelor's degree, the difference in total compensation grew by 6 percentage points over the two periods, although the differences in its two components, wages and benefits, grew by smaller amounts.

Box 1.

Changes in Compensation for Newly Hired Federal Employees

Adjusted for private-sector wage growth, the compensation the federal government provides to newly hired employees decreased by about 11 percent between 2010 (the last year examined in the Congressional Budget Office's previous report on compensation) and 2015 because lawmakers limited across-the-board increases to wages and raised the amount that new employees contribute to the defined benefit pension (see the figure).[1] Over the 2011–2015 period examined in this testimony, those policies had a smaller effect on average compensation for all federal employees than for newly hired ones. CBO expects that the changes will further reduce the pay of the federal workforce over time as more employees are hired and as employees hired before the changes were put in place retire or leave the federal government. The changes also may hamper the government's ability to recruit a highly qualified workforce—especially among workers whose jobs require advanced training—but analysis of that issue is beyond the scope of this testimony.

Starting Pay of Federal Employees, by Year Hired



Source: Congressional Budget Office, using data from the Office of Personnel Management.

Average salaries are adjusted for changes over time in newly hired federal employees' educations, occupations, and certain other observable characteristics likely to affect wages.

From 2010 through 2015, salaries paid to new federal employees declined by about 7 percent after adjusting for general changes in the cost of labor. Policymakers limited across-the-board wage increases to a total of 2 percent, which in turn constrained the growth in the average salary of new employees to roughly the same percentage. That is, without adjusting for general changes in the cost of labor, the average salary of new employees in 2015 was roughly 2 percent more than the average salary of similar new employees in 2010. Over the same six-year period, the employment cost index for wages and salaries of workers in private industry—a measure of changes in private-sector pay that the Bureau of Labor Statistics adjusts so that the composition of the workforce is similar from one quarter to the next—grew by about 10 percent. Thus, adjusted for general changes in the cost of labor, starting federal salaries fell by about 7 percent, on average, between 2010 and 2015.

Lawmakers recently increased by 3.6 percentage points the portion of new federal employees' salaries that those employees must contribute to their defined benefit pensions. First, the Middle Class Tax Relief and Job Creation Act of 2012 increased the contribution rate from 0.8 percent to 3.1 percent for most employees hired after December 31, 2012. Then, the Bipartisan Budget Act of 2013 further increased the contribution rate to 4.4 percent for most employees hired after December 31, 2013. After that rise in contributions was subtracted from compensation, the starting pay of federal employees fell by an additional 4 percent between 2010 and 2015. Thus, in total, average federal salaries for newly hired employees, after taking into account contributions to defined benefit pensions and general changes in the cost of labor, fell by about 11 percent between 2010 and 2015. Because newly hired employees constitute a small share of the federal workforce, the change had only a minor effect on average compensation for all federal employees. However, that effect is expected to grow over time as more employees are hired, thereby reducing the difference in compensation between the federal government and the private sector.

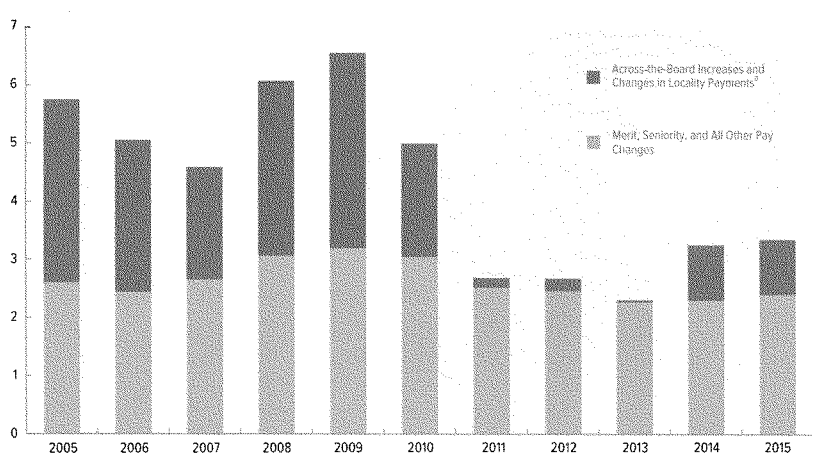
The increase in employees' contributions to their defined benefit pensions does not factor into the comparisons of benefits presented in this testimony because workers first hired after 2012 had not yet accumulated the five years of service needed to receive the defined benefit pension.[2] If they leave federal employment, most workers with fewer than five years of service choose to have their contributions refunded to them at that time. However, once those workers have served long enough to receive an annuity, the cost of compensating them will be less than it would have been under a lower contribution rate because the additional contributions from employees will reduce the portion of the pension payments funded by the government.

1. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees* (January 2012), www.cbo.gov/publication/42921.

2. This approach differs from the budgetary treatment of employees' contributions to the defined benefit pensions; those contributions are categorized as revenue when they are withheld from employees' pay. Under that treatment, the savings would still be a small fraction of the cost of total compensation because most federal employees were hired before 2013.

Figure 6.

Changes in Average Salaries for Federal Employees, Including Changes Based on Merit and Seniority



Source: Congressional Budget Office, using data from the Office of Personnel Management.

The salaries that the changes in this figure are based on have not been converted to 2015 dollars.

In this figure, the composition of the workforce changes from year to year, and the change in salary reflects, in part, additional work experience.

a. Also includes general market and structural pay adjustments for workers who are not on the General Schedule.

This testimony reproduces the summary and main text of *Comparing the Compensation of Federal and Private-Sector Employees*, 2011 to 2015, a report written by Justin Falk that CBO released in April 2017. In keeping with CBO's mandate to provide objective, impartial analysis, the testimony and report contain no recommendations.

Robert Arnold, Elizabeth Bass, Jordan Berne, Holly Boras, William Carrington, Heidi Golding, Jeffrey Holland, Nadia Karamcheva, Kim Kowalewski, Amber Marcellino, Carla Tighe Murray, Daniel Ready, Felix Reichling, Chayim Rosito, Stephanie Ruiz, John Seliski, and David Torregrosa provided comments on the report on which this testimony is based. Joseph Kile and Molly Dahl supervised that work, and Wendy Edelberg, Mark Hadley, and Jeffrey Kling reviewed it.

Christine Bogusz edited the testimony, and Jorge Salazar prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/52707).

Mr. MEADOWS. Thank you, Mr. Kile.

Mr. Biggs, you are recognized for five minutes.

STATEMENT OF ANDREW BIGGS

Mr. BIGGS. Chairman Meadows, Ranking Member Cummings, members of the committee, thank you for the opportunity today to discuss how Federal pay and benefits compare with what similar workers will be likely to receive in the private sector.

The Congressional Budget Office has conducted a highly professional state-of-the-art analysis which produces the headline figure that on average Federal salaries and benefits are 17 percent above private sector levels. And that is the figure that deserves headlines. Total compensation for full-time equivalent Federal employee in 2015 was about $123,000. A 17 percent Federal pay premium implies that similar private sector workers would receive total pay and benefits of around $105,000, an annual difference of about $18,000.

When averaged over 2.2 million Federal employees, the Federal compensation premium adds up to about $38 billion per year, equal to what the Federal Government spends on energy and the environment and substantially exceeding Federal spending on transportation.

One could have technical quibbles with the CBO's approach. My own view again for technical reasons is that the CBO somewhat underestimates the salary premium paid to Federal employees, as well as underestimating the compensation paid to Federal employees through their defined benefit pensions. My written testimony provides details on these technical disagreements. But to be clear, I doubt that any analyst would find the CBO's methods or results to be unreasonable.

At this point we should consider the technical debate over Federal pay to be basically settled. Some Federal workers may be underpaid relative to the private sector, but the vast majority are not. Some Federal employees, particularly those with less education, receive far more in Federal employment than they would likely receive outside of government.

My own view is that across-the-board changes like wage freezes aren't the best approach. Instead, Congress and the administration should work to make Federal agency pay-setting more flexible to the needs of the labor market. If an agency finds that it cannot hire, it should be able to increase salaries. But the fact that the Federal Government receives so many applicants for each job opening that it has to cap the number of applicants it even considers is evidence that most Federal jobs are considered attractive relative to opportunities outside of government.

The Federal Government should look to move away from the one-size-fits-all general schedule which tries to equate dramatically different jobs onto a single pay scale. Other developed countries use more decentralized pay-setting approaches in which individual agencies are given more discretion to set pay for different jobs. Given the diverse range of occupations in the Federal Government, that seems an appropriate next step in ensuring that Federal employees are paid fairly and efficiently.

Thank you for your time and attention, and I'm happy to answer any questions.

[The 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

How Do Federal Employee Salaries and Benefits Compare with the Private Sector?

Andrew G. Biggs, Ph.D.
Resident Scholar
American Enterprise Institute

May 18, 2017

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

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee. Thank you for the opportunity to discuss the compensation of the federal government workforce and how federal pay and benefits compare with those in the private sector.

Today I wish to make four main points:

1. The CBO's report on federal employee salaries and benefits uses high-quality data and cutting-edge methods. The CBO's finding that federal employees receive total pay and benefits averaging 17 percent above what similar employees would receive from large private sector employers is a reasonable one.
2. To the degree one would disagree with CBO's methodology, the result would be to find an even larger federal pay premium. Were the CBO to use the academic-standard approach for measuring wage differences and measure the value of federal pension benefits similarly to how corporate pension liabilities are valued, the resulting federal compensation premium would be substantially larger.
3. The CBO finds that the best-educated federal employees receive lower pay than in the private sector. This is an area where better data and a broader analytic approach might produce stronger results.
4. The Federal Salary Council's claim that federal employees receive salaries 34 percent below private sector levels also holds that federal salaries are a similar percentage below those of state and local government employees, a claim that simply isn't credible.

The Congressional Budget Office (CBO) has conducted a highly professional, state-of-the art analysis that compares the salaries and benefits of federal employees with what employees with similar levels of education and experience receive in large private-sector firms.[1] As the CBO will be the first to tell you, such studies cannot provide a precise figure telling us what each individual federal employee "should" be paid. However, over large numbers of employees, this sort of analysis can tell us whether pay and benefits on average are higher in the federal government or the private sector.

The CBO report's headline figure is that, on average, federal salaries and benefits are 17 percent above private-sector levels. And that is a figure that deserves headlines. All-in compensation per full-time equivalent federal employee in 2015 was about $123,000. Assuming a 17 percent federal pay premium, this implies that on average a similar private-sector employee would receive total pay and benefits of about $105,000, an annual difference of about $18,000.

When averaged over 2.1 million federal employees, the federal compensation premium adds up to real money. Total federal compensation last year was close to $260 billion. A 17 percent difference is about $38 billion per year, equal to what the federal government spends on energy and the environment and substantially exceeding federal spending on transportation.

Are the CBO Report's Conclusions Correct?

The CBO's conclusions are unquestionably reasonable. If the report's authors were to submit it to an academic journal—and there have been many academic reports published on

[1] Congressional Budget Office. "Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015." April 25, 2017.

federal pay over the years—it would be taken very seriously. In most technical aspects, the CBO's report is the finest and most advanced study of federal employee compensation ever produced. It uses better sources of data and more advanced methods than studies that have been published in academic journals.

That said, I would consider the CBO's reported federal compensation premium to be on the low end of the reasonable range, for two reasons.

First, the CBO analyzed federal wages using a cutting-edge econometric methodology that attempts to address certain technical shortcomings in the standard approach used in academic studies. The CBO's approach finds that federal employees on average receive salaries that are about 2 percent above private-sector levels.

The standard approach for analyzing wage differences, which continues to be widely used in academic studies, would find a substantially larger federal salary premium. For instance, when I analyze federal employee wages using the methodology that the progressive-leaning Economic Policy Institute has used in numerous studies of state and local government salaries, I find an average federal salary premium of not 2 percent but of about 14 percent.[2] My point is not that 2 percent is "wrong" and 14 percent is "right," but rather that there is a range of reasonable answers found in studies of federal salaries and the CBO's result is likely toward the lower end of that range.

Second, any study that calculates the value of future pension benefits must choose an interest rate at which to "discount" those future benefits back to the present. In general, if a future benefit is very safe it should be valued using a low discount rate, while a risky future benefit should be valued using a higher discount rate. The higher the discount rate, the lower the present value of those pension benefits and the less valuable the overall employee compensation package is judged to be. The CBO chose to value federal employees' pension benefits using a 5 percent discount rate. Using that discount rate, the federal employee retirement package was found to be substantially more generous than is received by comparable private-sector employees.

But a strong case can be made for using a lower discount rate to value federal employee pensions. For instance, corporate defined benefit pensions must value their liabilities using a discount rate of about 4 percent. And corporate pensions are not nearly as safe as federal pensions, as witnessed by pending benefit reductions for "multiemployer" defined benefit plans. Valuing federal pension benefits using a lower discount rate to better reflect their safety would find a higher overall federal compensation premium.

Again, any study of federal employee pay will involve judgments regarding the best methods and assumptions to use. The CBO's report is well within the range of reasonable judgments. I would simply point out that, where reasonable disagreements occur, alternate approaches would tend to find larger rather than smaller compensation premiums paid to federal employees.

---

[2] For instance, see Biggs, Andrew G., and Jason Richwine. "Comparing federal and private sector compensation." American Enterprise Institute Working Paper No. 2011-02 (2011).

How Does the Federal Government Retain Highly Educated Employees?

The CBO's report breaks down differences in pay and benefits by the educational attainment of employees. The CBO finds that, on average, federal employees with educations ranging from high school graduates through master's degrees receive total compensation exceeding private-sector levels. These employees make up around 91 percent of the federal workforce.

However, the CBO also found that federal employees with professional or doctoral degrees, who make up 9 percent of the federal workforce, receive pay and benefits averaging 18 percent below private-sector levels. Most private-sector employers could not attract and retain employees while paying 18 percent less than their competitors, so it is worth considering how this could take place.

One answer is that the federal and private-sector employees being considered are not truly identical. For instance, a Ph.D. who graduated with middle grades from a middle university with a degree in a nonmarketable field is not the same as a top student from a top university with a doctorate in a STEM field. The data used in the CBO report don't provide that level of detail, which should cause an observer to be less certain of the results. Now, "less certain" does not mean that the pay penalty for highly educated federal employees does not exist. But given that market forces naturally work to erase pay differences for similarly skilled workers in the labor force, I am less confident that the CBO's results for these highly educated federal employees are correct.

A second answer is that federal employment offers nonfinancial benefits that other jobs do not. For instance, the security of federal employment is well known: Layoffs and firings for cause are extremely rare in federal employment, while they are far more common in the private sector. As a result, federal employees have a much smaller chance of becoming unemployed than similar private-sector workers. A second factor could be the opportunities afforded in federal employment to gain more responsibility at a younger age, to work on the most prominent and important policy issues of the day, and to have access to data and technology that are unavailable in the private sector. These factors are even more difficult to measure, but I suspect they play a role in attracting highly skilled individuals to federal employment in spite of seemingly low salaries.

What About Claims That Federal Salaries Are Below Private-Sector Levels?

Each year, the Federal Salary Council issues a report which contains an estimate of the percentage difference between federal salaries and salaries in nonfederal jobs—meaning, private sector and state and local government—that have similar skill requirements. The Federal Salary Council is made up of six representatives of federal labor unions and three outside members appointed by the president. In their last report, the Salary Council concluded that federal employees receive salaries that are, on average, 34 percent *below* those of comparable nonfederal jobs.

Many policymakers and reporters rely on the Salary Council's figures in considering appropriate pay levels for federal employees. However, the Salary Council's figures are highly flawed, and no other study I have seen reaches conclusions remotely like those of the council.

The Salary Council's figures rely upon data from the Bureau of Labor Statistics' (BLS) National Compensation Survey (NCS). As part of the NCS, BLS economists analyze the skill demands of nonfederal jobs and assign each job a "work level" based upon the federal General Schedule (GS) scale. The Salary Council compares salaries paid for these nonfederal jobs with the salaries paid via the federal General Schedule and concludes that federal employees are dramatically underpaid.

There is a technical reason for the Salary Council's findings, which I will explain. But policymakers should first understand the sheer implausibility of the Salary Council's reported 34 percent federal salary deficit. Remember that the BLS data used for the Salary Council's figures cover both private-sector and state/local government jobs. And BLS economists have found that private-sector and state/local jobs with the same work demands pay very similar salaries. This implies that, if the Salary Council's figures are correct, not only are federal workers "underpaid" by 34 percent relative to private-sector jobs, federal workers are *also* underpaid by 34 percent relative to state and local government employees. No one who has worked in state and local government finance would find this result to be even remotely plausible. A standard regression analysis that compared federal employee salaries with those of state/local workers with similar levels of education and experience would likely find a federal salary premium in excess of 25 percent.

Why are the Salary Council's figures so flawed? It is difficult to say for certain without a more in-depth investigation, which the Salary Council has not undertaken despite its figures being the clear outlier in studies of federal employee pay. However, there is one clear flaw in the Salary Council's approach. Recall that the BLS analyzes the skill requirements of private-sector and state/local government jobs and assigns them a rating on the federal GS pay scale. However, the BLS *does not* independently analyze the work requirements of federal jobs. In the Salary Council's analysis, it is assumed that each federal job is correctly assigned to the appropriate spot on the GS scale. However, this assumption overlooks the problem of "overgrading" in federal employment, in which a job is assigned a higher GS rating than the work demands of that job justify. The CBO, the GAO, and academic analysts have documented federal overgrading in various studies over the years. If federal jobs are overgraded on the GS scale, they could pay well relative to private-sector jobs—as the CBO's analysis, my own study, and many others have found—while still appearing to be underpaid using the Salary Council's flawed methodology.

It is misleading and, indeed, inflammatory for the Salary Council to notify federal employees that they are dramatically underpaid in the face of multiple studies that find the opposite. I would urge the committee to work with the Salary Council to ensure that a more appropriate methodology is used for analyzing the adequacy of federal employee pay.

What Should Policymakers Do About Federal Pay and Benefits?

Salary and benefit policies are extremely complex, and the federal government is a large and complex organization to begin with. Thus, it is understandable that policymakers concerned with the high cost of federal employees might resort to broad-brush policies such as a salary freeze, a hiring freeze, and higher pension contributions. I don't believe that such policies have done the federal workforce a great deal of harm: Salaries continued to rise despite the so-called pay freeze, and federal employees still contribute less toward their traditional pensions than do most state and local government employees. But it would be better to make the federal pay scale more flexible and nimble, and better able to respond to individual needs and what the labor market demands at any given time. That will take a far larger effort by Congress and the executive branch.

Obviously, there is a budgetary cost when the federal government pays more in salaries and benefits than it needs to. But there is a social and economic cost as well. As the CBO report shows, for less-educated workers federal pay is more than 50 percent higher than private-sector levels. This makes it almost impossible for an employer of less-educated workers to compete and, as a result, the best of that group—employees with the greatest drive, imagination, and leadership—may find themselves employed in government rather than the private sector, where they might make a larger impact on their communities.

And while federal pay for better-educated workers is less compelling, it is hardly stingy. A married couple with two GS-15 federal employees could collect nearly $300,000 in annual salaries plus perhaps another $120,000 in current or future fringe benefits. Four of the five highest-income counties in the United States are in the suburbs of Washington, DC. That doesn't come from the federal government paying low salaries. There are many highly-educated, highly-skilled, highly-motivated Americans working for the federal government doing important jobs. But we shouldn't miss the risk that generous federal pay could mean the founders of the next Google or Tesla find themselves working in a federal office building instead of creating the innovations that can change the world.

The CBO's report should settle the public debate on whether the federal government pays well. It does, and in most cases better than the private sector. The next debate is over how to make federal compensation work better, in the sense of attracting and retaining the employees the federal government needs without paying above-market salaries and benefits.

Mr. MEADOWS. Thank you, Mr. Biggs. And you have got a good namesake here in Congress from Arizona that shares your name.

So, Ms. Greszler, you are recognized for five minutes.

STATEMENT OF RACHEL GRESZLER

Ms. GRESZLER. Thank you for the opportunity—sorry. Thank you for the opportunity to be here today. I'd like to focus my testimony on three different points. The first is differences in compensation that are not included in the CBO study or either of our studies here. The second is the government's faulty business model. And the third is some recommendations I have to bring Federal compensation more in line with the private sector.

So, first, there are a lot of benefits that cannot be measured very easily or for which there's not significant data available or that might not be available to all workers equally across the board. So some of those benefits that are available to Federal employees include significant student loan repayments, up to $10,000 per year, or $60,000 in total, as well as student loan forgiveness after 10 years of on-time payments.

Then, there's up to $3,000 per year in Federal transportation subsidies, as well as another $3,500 per year value of employees' retirement health benefits. Federal employees also have greater access to things like on-site childcare, and some can receive as much as $35,000 per year in childcare subsidies. And lastly, Federal workers enjoy preferable work schedules and significantly greater job security.

My second point is that the Federal Government's bad business structure hurts productivity and it unnecessarily drives up taxpayer costs. The government provides a big compensation premium. That should help the government function like a well-oiled machine. Instead, it's rusty and sluggish. One reason is that the government has a skewed compensation structure. It provides the biggest premium to the workers that it faces the least competition to attract, and it provides the smallest premium to those that it needs to entice the most. Compared to the private sector, the Federal Government employs almost three times as many workers with a master's degree or more but only about a third as many with a high school diploma or less.

Another one of the government's bad business practices is that it over-weights an undervalued benefit. Federal employees receive about three times as much in retirement benefits. Most of that comes from the government's defined benefit contribution plan. But workers don't fully value this pension plan because they don't know how much it will ultimately provide them in retirement, and oftentimes, they need money in their paycheck more than they need a future promise for benefit. A study of Illinois public teachers found that they valued additional pension benefits at only 19 cents on the dollar. It makes no sense for the Federal Government to provide a benefit that is worth only a fraction of the cost to its employees.

And lastly, the government stifles productivity by failing to reward high performers and also failing to penalize low performers. Federal workers receive two effectively automatic pay increases. The first is an annual cost-of-living adjustment, and then second, 99.9 percent of all Federal employees receive a so-called performance-based pay increase. While virtually all Federal employees receive these performance-based pay increases, almost none are penalized or fired.

According to a study by the OPM, 80 percent of all Federal managers have managed a poorly performing employee, yet fewer than 15 percent have rated those poor performing employees anything less than fully successful, and fewer than 8 percent of them attempted to do anything about it. Among those who did attempt to take action, 78 percent that their efforts—said that their efforts had no effect. This is a recipe for driving out the most productive employees and retaining the least productive ones. That is the opposite of what business schools teach and what private and successful businesses practice.

So finally, I'd like to propose a few changes to bring Federal employee compensation more in line with that of the private sector. This should help improve productivity, accountability, and efficiency. First, Congress should make dismissing Federal employees less difficult by extending the probationary period from one year to three years, by limiting dismissal appeals, by lowering the burden of proof necessary to fire Federal workers, and by expediting the dismissal process for certain employees.

Next, Congress should reduce the level of within-grade pay increases that cause Federal employees to climb the pay scale more quickly than those in the private sector. Some of those savings should go towards truly performance-based pay increases. Employees who don't receive performance-based pay increases should have limited options for appeal, and Federal managers should not have to institute a performance improvement plan for employees that it rates anything less than fully successful.

Finally, the biggest change that can be made is in the defined benefit contributions for the pensions. This could actually be a win-win for taxpayers and for Federal employees. As I propose it, workers would have options as to the type of plan. They would not be kicked out of their defined benefit pensions. They wouldn't lose anything that they've already accrued, and less of their total compensation could be tied up in future benefits. This would give workers actual dollar contributions that they own and control, and it would force the Federal Government to recognize the costs that it promises immediately instead of passing them on to future taxpayers.

Other changes would include reducing the amount of paid leave from roughly 43 days to 35, as well as limiting the retiree health benefit to current employees.

Thank you.

[The statement of Ms. Greszler follows:]

The Heritage Foundation

CONGRESSIONAL TESTIMONY

Costly, Concerning and Counterproductive: The Federal Government's Compensation Premium and How to Capitalize On the Private Sector's Platform

Testimony before
The Committee on Oversight and Government Reform

United States House of Representatives

May 18, 2017

Rachel Greszler
Research Fellow in Economics, Budgets and Entitlements
The Heritage Foundation

My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets and Entitlements 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 Congressional Budget Office (CBO) finds that the federal government provides significantly higher total compensation to its employees than private-sector employers provide. This is a problem for taxpayers who are over-taxed and over-indebted to over-pay federal workers. It is also a problem for the government. Although a compensation premium should serve to enhance the federal government's workforce and productivity, the federal government's faulty compensation and career advancement structures impede—instead of advance—government efficiency and achievement.

I would like to focus my testimony on three things. First, is the effect of federal benefits that are not included in the CBO's study on the federal compensation premium. Second, is the baseless and obstructive federal employment platform, and third is a set of recommendations that would help bring public-sector compensation in line with that of the private sector, helping make government more efficient and productive.

Broad Evidence of Significant Federal Compensation Premium

Overall, the CBO report finds a 17 percent compensation premium, consisting of a 3 percent wage premium and a 47 percent benefit premium.[1] Many other studies have also found significant federal compensation premiums. Back in 1980, Alan Krueger (who served as Chairman of President Obama's

[1]Congressional Budget Office, "Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015," April 2017, https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52637-federalprivatepay.pdf (accessed May 10, 2017).

Council of Economic Advisers) documented a federal pay premium.[2] More recently, a 2011 Heritage Foundation study found a slightly higher overall compensation premium between 30 percent and 40 percent[3] and a similar 2011 study by the American Enterprise Institute found a 61 percent premium.[4] The fact that federal employees quit their jobs at only one-fifth the rate of private-sector workers supports the nearly universal findings of a significant federal compensation premium.[5]

1. Omitted Compensation Costs and Benefits

Although the CBO's report examined both cash wages and major benefits, it did not include some forms of compensation that are difficult to value, unequally distributed, or that lack sufficient data. Including these additional benefits would further widen the gap between public and private compensation.
Among the benefits excluded by the CBO (and many other comparisons) are:

Student Loan Repayment. The federal government provides eligible employees with up to $10,000 a year and $60,000 total in student loan repayments. In 2015, federal agencies provided more than $69.5 million in repayments to 9,610 federal employees—an average annual benefit of over $7,200 per employee.[6] Student loan repayments were non-existent among private-sector benefits until recently. Although student loan repayments benefits are on the rise, only 4 percent of private-sector employers offer them and even the most generous private-sector plans provide only 10 percent to 20 percent as much in annual and maximum repayments as the federal government.[7]

Student Loan Forgiveness. Beginning in 2007, federal employees (as well as public-sector or nonprofit workers) became eligible for student loan forgiveness. Federal employees can have their student loan payments limited to as little as 10 percent of their income, and after 10 years (120 months) of on-time student loan payments, their remaining debt can be forgiven.[8] "Forgiven" is another way to say forked over to taxpayers.

[2]Alan B. Krueger, "Are Public Sector Workers Paid More than Their Alternative Wage? Evidence from Longitudinal Data and Job Queues," in Richard B. Freeman and Casey Ichniowski, eds., *When Public Sector Workers Unionize* (Cambridge, MA: National Bureau of Economic Research, 1988), http://www.nber.org/chapters/c7910.pdf (accessed June 9, 2016).

[3]James Sherk, "Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service," Heritage Foundation *Center for Data Analysis Report* No. 10-05, July 7, 2010, http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-are-overtaxed-to-overpay-the-civil-service.

[4]Andrew G. Biggs and Jason Richwine, "Comparing Federal and Private Sector Compensation," American Enterprise Institute *Working Paper* No. 2011-02, June 1, 2011, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1991405 (accessed June 9, 2016).

[5]Bureau of Labor Statistics, Economic News Release, Table 4. Quits Levels and Rates by Industry and Region, Seasonally Adjusted, March 2017, (private = 2.4, federal = 0.5), https://www.bls.gov/news.release/jolts.t04.htm (accessed May 9, 2017).

[6]Office of Personnel Management, "Federal Student Loan Repayment Program, Calendar Year 2015," October 2016, https://www.opm.gov/policy-data-oversight/pay-leave/student-loan-repayment/reports/2015.pdf (accessed May 9, 2017).

[7]Among the top firms providing student loan repayments, most cap benefits at $1,200 to $2,000 per year and some cap total benefits at about $10,000. Zack Friedman, "Student Loan Repayment: The Hottest Employee Benefit of 2017," *Forbes*, December 19, 2016, https://www.forbes.com/sites/zackfriedman/2016/12/19/student-loan-repayment-benefit/#3d69b0191d6f (accessed May 9, 2017).

[8]Federal Student Aid, "The Public Service Loan Forgiveness Program," U.S. Department of Education, https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (accessed May 11, 2017).

A federal employee with $120,000 in student loans and a 30-year repayment period would have almost $95,000 in principle remaining on their student loan after 10 years. That is about twice the median earnings in the U.S., but for federal workers, it is just a job perk—and a misguided one at that.

After 10 years of employment, most workers have advanced in their careers and established sustainable living circumstances and finances. Yes, wiping out tens of thousands of dollars of debt and thousands of dollars in annual payments for select employees who clock 10 years of federal service is a huge benefit, but employees do not fully value it because they do not know if they will receive it. Moreover, a massive lump sum benefit 10 years into federal employment is less helpful than student loan relief early on in workers' careers when they have lower earnings. Consequently, student loan repayments function more as windfall benefits than to make government employment more competitive.

The federal government extends student loan forgiveness to workers in state and local governments as well as those in "public service" non-profit institutions. This allows those subsidized sectors to provide lower compensation than they would need to absent the student loan forgiveness and it presumes that certain groups of workers are more valuable to society than others. Private institutions can be just as valuable to society as government and non-profit institutions, yet this selective subsidy disadvantages private sector because companies are not privy to the federal government's ability to convey whatever costs or debts it chooses onto taxpayers.

Transportation Benefits. Federal employees are typically eligible for either free parking—something that can cost hundreds of dollars in cities such as DC—or tax-free mass transit benefits of up to $255 per month ($3,060 per year). Most private employers allow employees to claim transit subsidies, but employees typically pay their transit costs.

Retiree Health Benefits. Federal employees who have five or more years of federal service and who go directly from federal service to retirement are eligible (at a minimum age of 57) to receive the same health insurance subsidy during retirement that they received while working.[9] A 2002 study by the Congressional Budget Office (CBO) estimated the accrual cost of this benefit at $3,475 per year, or 6.4 percent of workers' pay.[10] Federal employees also enjoy a number of benefits that are more difficult to value or measure:

Childcare. Federal employees have greater access to on-site childcare. While most employees still pay for childcare, they pay less than they would absent the rent subsidy typically provided to on-site childcare providers.

Additionally, some federal employees who make less than about $70,000 a year can receive significant childcare payments from the federal government.[11] For example,

[9]Office of Personnel Management, "Continuing FEHB Coverage into Retirement," FAQ, https://www.opm.gov/faqs/topic/insure/?cid=880bfba8-8f8b-4e64-9a72-fae98408fd0e (accessed May 10, 2017).

[10]Authors' calculations establish the 6.34 percent of pay cost by comparing the average salary of $54,656 in 2002 to the estimated $3,475 accrual cost of FEHB benefits as reported in Congressional Budget Office, "The President's Proposal to Accrue Retirement Costs For Federal Employees," June 2002, https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/accrual.pdf (accessed May 16, 2016).

[11]Childcare subsidies are available to federal workers at select agencies and departments, and who make less than a certain amount per year. The maximum earnings amount below which workers qualify for childcare subsidies ranges from about $50,000 and $70,000 per year, depending on the agency and program. Financial

General Services Administration (GSA) employees receive federal subsidies to cover the portion of their childcare costs that exceed a specified percentage (ranging from 5 percent to 15 percent) of their Adjusted Gross Income (AGI). These subsidies can amount to tens of thousands of dollars per year, with an annual cap of just under $35,000.[12]

Preferable Work Schedules. Most workers recognize federal government jobs as requiring fewer total hours than similar private-sector positions, and as offering greater flexibility in schedules. For example, many federal employees work slightly longer days in exchange for every other Friday off. Better hours and flexibility are among the reasons many workers who want a better work-life balance seek out federal government jobs.

Job Security. Federal employees receive an invaluable benefit through superior job security. Federal law makes it extremely difficult to fire federal employees for poor performance, misconduct, or even posing a threat to the security of the agency. On average, it takes about a year and a half to fire a federal employee as they have access to multiple layers of appeals.[13] Consequently, the layoff and discharge rate for federal employees is only one-third that of the private sector.

2. Bad Business Structures Hurt Government Productivity and Unnecessarily Drive Up Taxpayer Costs

While the federal government's compensation premium should increase its competitiveness in attracting and retaining the best and brightest workers, the structure of the premium along with perverse features of the government's employment model instead weaken the government's competitiveness and efficiency. The government could optimize its workforce and save taxpayers tens of billions of dollars per year by shifting its compensation structure towards that of the private sector.

Unequal Compensation Premiums. As the CBO report showed, the federal compensation premium is not uniform across the federal workforce. According to the CBO study, the federal government overcompensates workers with no more than a high school education by 53 percent, compared to 21 percent for workers with a bachelor's degree.[14] For workers with professional or masters degrees, the CBO report shows the federal government actually undercompensates them by 18 percent. (These figures do not take into account the omitted benefits discussed above.)[15]

This structure directly contradicts the federal government's workforce needs. Compared to the private sector, the federal government has 2.5 times as many workers with master's degrees or higher and only about one-third as many workers with less than a high school degree.[16] Yet, the government provides the biggest compensation premium where it faces

---

Shared Services, "Child Care Subsidies for Federal Employees," U.S. Department of Agriculture, https://nfc.usda.gov/FSS/clientservices/Child_Care_Subsidy/ (accessed May 11, 2017).

[12]Financial Shared Services, "General Services Administration (GSA) Child Care Subsidy: Program Eligibility Determination and Financial Consideration," U.S. Department of Agriculture, https://nfc.usda.gov/FSS/clientservices/Child_Care_Subsidy/subsidies/GSA/eligibility.php#etable (accessed May 10, 2017).

[13]James Sherk, "IRS Abuses: Ensuring that Targeting Never Happens Again," testimony before the Oversight and Government Reform Committee, U.S. House of Representatives, August 6, 2014.

[14]Congressional Budget Office, "Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015."

[15]Ibid.

[16]According to the April 2017 CBO report, 29 percent of the federal workforce had master's, doctoral, or professional degrees, compared to 11 percent of

the least competition for lower-educated workers and the smallest premium—even a penalty in some instances—where it faces the most competition among highly educated workers.

A productivity- and profit-maximizing private company that needs more skilled workers than its competitors provides equal or even greater compensation to attract and retain the best workers it can. Similarly, a private company that needs fewer lower-skilled workers than its competitors will not massively and unnecessarily overcompensate them.

Overweighting an Undervalued Benefit. Delayed compensation is less valuable to workers than immediate compensation and yet, the federal government provides at least three times as much delayed compensation—in the form of retirement benefits—as the private sector. Federal employees receive between 16.1 percent and 18.2 percent of their pay in retirement benefits, compared to about 3 percent to 5 percent for private workers.[17] While saving for retirement is a good thing, there is no one-size-fits-all prescription for the level and timing of retirement savings. Workers benefit from the freedom to choose when and how much to save. Some workers can afford to sack away significant retirement savings right from the get-go, and that is great for them. Others, however, who start with lower earnings or who begin a family and want to purchase a home or have to pay for childcare are better off with larger paychecks than retirement benefits.

With rising student loan debt, many recent college graduates are hard-pressed to meet their living expenses and student loan payments. The government's benefit-heavy and pay-light compensation almost certainly prevents many talented younger workers from taking jobs with the government.

Moreover, the government's primary retirement compensation is a defined benefit pension called the Federal Employees Retirement System, or FERS. Defined benefit pensions are largely undervalued, however, because employees do not know how much—if anything—they will eventually receive in pension benefits. It is not until workers attain significant tenure or near their retirement that they have a meaningful understanding of their pensions' value.

A study by Maria Fitzpatrick of Cornell University examined the value of defined benefit pensions to workers and concluded that defined benefit pensions are substantially inefficient forms of compensation with little value in attracting employees.[18] According to her analysis, Illinois' public teachers valued additional pension benefits at only 19 cents on the dollar.[19] It makes no sense for the federal government to provide a benefit that workers perceive as being worth only a fraction of its actual cost.

Shifting away from defined benefit compensation would be a win-win for federal employees and taxpayers. It provides the opportunity for federal employees to receive equally or even more valuable compensation at significantly lower costs.

Failure to Reward High Performers or Penalize Low Performers

---

private-sector workers, and 13 percent of federal workers had a high school diploma or less compared to 36 percent of private-sector workers.

[17]Employees hired before 2013 receive a 13.2 percent contribution to FERS, those hired in 2013 or later receive an 11.1 percent FERS contribution. Additionally, all employees receive an automatic 1.0 percent contribution to their Thrift Savings Plan (TSP) and up to an additional 4 percent (5 percent total) in matching contributions.

[18]Maria D. Fitzpatrick, "How Much Do Public School Teachers Value Their Retirement Benefits?" Cornell University, https://www.human.cornell.edu/pam/people/upload/Fitzpatrick-Pensions-120117.pdf (accessed May 9, 2017).

[19]Ibid.

In the private sector, productivity determines workers' pay. If private employers pay employees more than they produce, they lose business to competitors who do not over-pay their employees. Similarly, if private employers pay workers less than their productivity warrants, they lose those workers to competitors who will pay them more.

That is not the case in the federal government. The federal government has a monopoly over federal services and federal tax collections, as well as a seemingly limitless line of credit with current and future taxpayers. That translates into the federal government having little incentive to minimize costs or maximize efficiency.

Automatic Pay Increases. In theory, the federal government's pay scale is supposed to approximate private-sector, market-driven wages. In practice, however, many government wages bear little resemblance to similar private-sector wages.

The 2011 Heritage study found that much of the unexplained wage premium in the federal government comes from more rapid raises and promotions particularly in the lower-level steps when increases are more frequent.[20] This helps explain why the federal pay premium is generally highest for lower-earning workers and lowest for higher-earning workers.

Instead of performance-based pay increases, federal workers receive two effectively automatic pay increases. First, is an annual cost-of-living increase—something that rarely exists in the private sector—and second, is an allegedly performance-based pay increase every one, two, or three years for employees in the lower steps (and less frequent increases for employees in higher steps).

The bar is very low, however, for receiving "performance"-based increases—all that is necessary is a rating of at least three out of five—and employees who receive lower ratings have access to and actively utilize multiple procedural tools to contest their low ratings. Consequently, virtually all federal employees—more than 99.9 percent—receive "performance-based" pay increases.

Failure to Reward High Performers. In the private sector (aside from union-negotiated compensation packages), performance drives pay. That is not so in the federal government. Although managers can award performance-based bonuses (on top of the two aforementioned raises), these bonuses are limited both in availability and use. The 2011 Heritage analysis found that less than one-quarter of federal pay increases are meaningfully tied to performance.[21]

Failure to Penalize Poor Performers. While the federal government does little to incentivize workers to perform their best or to reward those who go beyond their call of duty, it also does almost nothing to penalize poor performers. In some ways, it actually incentivizes poor performers by shifting part of their work to higher-performing workers.

Federal managers are supposed to be able to establish performance improvement plans for low-performing workers, but it is so difficult and time consuming to do so that most federal managers consider it a waste of their time. According to a study by the Office of Personnel Management (OPM), almost 80 percent of all federal managers have managed a poorly performing employee, but fewer than 15 percent issued less than fully successful ratings for problematic employees and fewer than 8 percent attempted to reassign, demote, or remove problematic employees.[22] Among

[20]Sherk, "Inflated Federal Pay."
[21]Ibid.

[22]Office of Merit Systems Oversight and Effectiveness, "Poor Performers in Government: A Quest for the True

those who attempted action against problematic employees, fully 78 percent said their efforts had no effect.[23] That means that in a pool of 50 poorly performing federal employees, only one will experience any significant consequences.

It is no wonder that the federal government's annual 0.4 percent firing rate is only one-third that of the private sector.[24] The federal government's failure to encourage and reward high performance along with its failure to discipline poor performers is a recipe for driving out the most productive employees and retaining the least productive ones. That is the exact opposite of what business schools teach and what successful private businesses practice.

3. How to Bring Federal Compensation in Line with the Private Sector

The impetus for bringing federal compensation in line with that of the private sector is not just to cut costs; it is also about improving the effectiveness and accountability of the federal government and turning unproductive resources and practices into productive ones. The government can accomplish this by piggybacking on the way private employers respond to market forces.

Hiring and Firing Procedures. The current federal employment system shelters bad employees by forcing managers to navigate an excessively burdensome process that takes a year and a half, on average, to fire a federal employee.[25] Consequently, the federal government terminated only 0.3 percent of its tenured workforce for performance or misconduct in 2013.[26] This results in higher-than-necessary employment as agencies must hire additional employees to get the job done.

Congress should make dismissing federal employees less difficult by: extending the probationary period from one year to three years; requiring employees to appeal their dismissal through only one forum (instead of the current four); lowering the burden of proof necessary to fire federal workers; and expediting the dismissal process for hindering, threatening, abusive, or negligent employees.

The Pay Scale. Congress should reduce the pay gap between public and private employees by condensing the within-grade pay variance from 30 percent to 20 percent. Some of the savings from reduced step increases should go towards larger budgets for performance bonuses to help encourage and reward high-performers. To address the problem of managers giving virtually all employees pay increases, Congress should only require managers to develop performance improvement plans for workers it wants to fire (instead of all those for whom it does not approve a pay increase) and it should limit the appeals process for employees who do not receive pay increases.

Shifting from Defined Benefit to Defined Contribution Retirement Benefits. With the federal government providing as much as

---

Story," Office of Personnel Management, January 1999, https://archive.opm.gov/studies/perform.pdf (accessed May 9, 2017).

[23]Ibid.

[24]Bureau of Labor Statistics, Economic News Release, "Table 5. Layoffs and Discharges Levels and Rates by Industry and Region, Seasonally Adjusted," https://www.bls.gov/news.release/jolts.t05.htm (accessed May 9, 2017).

[25]James Sherk, "IRS Abuses: Ensuring that Targeting Never Happens Again," testimony before the Oversight and Government Reform Committee, U.S. House of Representatives, August 6, 2014.

[26]Heritage Foundation calculations using data from the OPM's "FedScope." The rate divides FY 2015 terminations for discipline/performance for employees with three or more years of service by December 2015 total federal employment for that same group of employees. U.S. Office of Personnel Management, "FedScope–Federal Human Resources Data," http://www.fedscope.opm.gov/ (accessed June 22, 2016).

three to four times the level of retirement benefits as the private sector, Congress should reduce the overall amount of retirement compensation for federal employees. Additionally, the government should shift towards defined contribution benefits that prevent future taxpayers from having to pay for the compensation of past government employees.[27] Any changes made to retirement benefits should not apply retroactively, however, as federal employees should receive the retirement benefits they have already earned.

A better retirement benefit system for taxpayers and employees would include: shifting all new and non-vested federal employees (those with fewer than five years of service) into an exclusively defined contribution retirement plan; maintaining already accrued benefits for workers with 5 to 24 years of service and allowing them to choose from three options for future benefit accruals; and maintaining the existing system for current retirees and for workers with 25 or more years of federal service.

For new and recent hires, the federal government's current 1 percent automatic contribution to workers' Thrift Savings Plans (TSP) would increase to 4 percent and the full match would rise from 5 percent to 8 percent. Workers with 5 to 24 years of experience could choose one of three options: (1) continue to accrue both FERS and TSP benefits with a higher employee contribution to FERS and other changes to future accruals; (2) maintain a frozen FERS benefit alongside higher government contributions to the TSP (4 percent automatic and up to an 8 percent match); or (3) shift entirely to the TSP by rolling over accrued FERS benefits into the TSP and receive higher TSP contributions. Nothing would change for current retirees or for workers with 25 years or more of federal service.

In addition to forcing the federal government to incur compensation costs immediately instead of shifting them to future taxpayers, defined contribution retirement plans provide workers with actual dollar contributions that they own and control. This allows workers to know their value at every point and time and can help individuals to make more informed decisions about their careers and retirement savings. Also, unlike defined benefit plans that are tenure-based and can be lost or minimized if workers change jobs, workers can carry defined contribution plans from one employer to another without sacrificing any value.

Paid Leave. The federal government provides significantly more total paid leave than the private sector. Federal workers with five years of service receive 20 paid vacation days, 13 paid sick days, and 10 paid holidays, for a total of 43 days per year.[28] Workers in the private sector who have paid leave typically receive 13 paid vacation days, 8 paid sick days and 8 paid holidays, for a total of 29 days per year.[29] The federal government should reduce its paid leave package by about eight

[27] Although agencies make contributions on behalf of their employees to the Federal Employees Retirement system, those contributions are similar to Social Security payroll taxes in that they amount to credits in the FERS fund, but the contributions are actually used to fund other government spending. These inter-government transfers allow the government to increase its gross debt without having to issue any new publicly held debt.

[28] The specified paid leave allowances are provided for employees with between 3 and 15 years of tenure. We use the example of an employee with five years of service because it allows a comparison to data on private-sector employees.

[29] Bureau of Labor Statistics, National Compensation Survey. Figures are mean vacation and sick leave days provided to private-sector workers in 2015 in companies with 100 or more employees, for employees who do not have consolidated vacation and sick leave plans.

days from the current 20/13/10 schedule to 15/10/10. Alternatively, or as an option, it could shift to a Paid Time Off (PTO) allowance of between 16 and 27 days per year, depending on tenure.

Workers' Health Insurance Benefits. The current, predominantly percentage-based subsidy for federal employees' health benefits discourages employees from choosing lower-cost health care plans because employees do not realizing most of the savings from choosing lower-cost plans. Congress should eliminate the requirement that employees pay at least 25 percent of their premium costs and instead provide a flat subsidy amount to workers regardless of the plan they choose.

Retirees' Health Insurance Benefits. In addition to generous health insurance subsidies during employment, the federal government extends those subsidies to certain retirees. A 2002 study by the CBO estimated the accrual cost of retiree health coverage to equal 6.4 percent of workers' pay.[30] Only 15 percent of private employers provide retiree health benefits. The government inequitably provides the retiree health insurance subsidy only to employees who retire directly from the federal government after five or more consecutive years of service leading up to retirement.[31] This can prevent older workers from moving out of federal employment and induce federal workers to begin collecting retirement benefits before they might otherwise desire to claim them. Moreover, with a minimum retirement age of only 57, workers can claim these taxpayer-financed benefits while working at jobs that otherwise would provide their health insurance (resulting in windfall benefits for employers who do not have to pay employees' insurance costs).

The federal government should eliminate the subsidy for retiree health benefits for new hires. Although this would not generate immediate budgetary savings, it would produce significant future savings.

Summary

The federal government provides a significant compensation premium to federal workers. The actual size of that premium is likely much higher than estimated by the CBO and other studies because the government provides significant compensation—thousands, and even tens of thousands of dollars in some cases—that is not included in any of the formal analyses. The federal government's compensation premium not only imposes unnecessary costs on taxpayers; its upside-down structure and lack of incentives or consequences hinders output and efficiency. The private sector offers an efficient model for maximizing productivity and minimizing costs. By shifting its compensation structure towards that of the private sector, the federal government could better protect taxpayer resources, attract and retain a high-value and more productive federal workforce, and make the federal government function better for all Americans.

****

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under

[30]Authors' calculations establish the 6.34 percent of pay cost by comparing the average salary of $54,656 in 2002 to the estimated $3,475 accrual cost of FEHB benefits as reported in Congressional Budget Office, "The President's Proposal to Accrue Retirement Costs For Federal Employees," June 2002, https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/accrual.pdf (accessed May 16, 2016).

[31]Office of Personnel Management, "Continuing FEHB Coverage into Retirement."

section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2016, it had hundreds of thousands of individual, foundation, and corporate supporters representing every state in the U.S. Its 2016 income came from the following sources:

Individuals 75.3%

Foundations 20.3%

Corporations 1.8%

Program revenue and other income 2.6%

The top five corporate givers provided The Heritage Foundation with 1.0% of its 2016 income. The Heritage Foundation's books are audited annually by the national accounting firm of RSM US, LLP.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

Mr. MEADOWS. Thank you so much for your testimony.
Mr. Goldenkoff, you're recognized for five minutes.

STATEMENT OF ROBERT GOLDENKOFF

Mr. GOLDENKOFF. Chairman Meadows, Ranking Member Cummings, and members of the committee, I am pleased to be here today to discuss the Federal employee compensation system and ways to modernize it.

Currently, Federal employees are compensated through an outmoded system that, one, rewards length of service rather than individual performance and contributions; and two, automatically provides across-the-board annual pay increases even to poor performers. At the same time, skills gaps in mission-critical occupations across government are putting agencies and programs at risk while high levels of employees eligible for retirement create both challenges and opportunities for agencies to transform their organizations to better meet mission requirements and also address budgetary pressures.

These trends point to the fact that a careful consideration of Federal pay is necessary for both sound fiscal stewardship, as well as to support the cost-effective recruitment and retention of a high-performing and agile Federal workforce.

In my remarks today, I will discuss key lessons learned in creating a more market-driven results-oriented approach to Federal pay and opportunities in addition to Federal pay that OPM and agencies could leverage to be more competitive in the labor market. The bottom line is that, while the Federal compensation may need to be re-examined, agencies must also make better use of the tools and flexibilities already available to them.

Congressional policy calls for Federal workers' pay under the general schedule to be aligned with comparable non-Federal workers' pay, but while implementing a more market-based and performance-oriented pay system is both doable and desirable, it certainly won't be easy. The experiences of public, private, and nonprofit organizations in rolling out their own results-oriented pay systems provide useful lessons learned for the Federal Government.

Among other things, they told us that it was important to examine the value of employees' total compensation to remain competitive in the labor market; provide training on leadership, management, coaching, and feedback to facilitate effective communication and to link individual performance to organizational results; and third, build meaningful stakeholder consensus to gain ownership and acceptance for any pay reforms.

In addition to competitive compensation, high-performing organizations have found that the full lifecycle of personnel management activities, including workforce planning, recruitment, onboarding, engagement, and training need to be fully aligned and focused on the cost-effective achievement of an organization's mission. In many instances, improvements in these areas are within the control of Federal agencies.

Among other things, our work has shown that the tone starts from the top. Agency leaders and managers should set an example that human capital management is directly linked to performance, and it is not simply a transactional function. Moreover, time and again, our work has shown how a breakdown in one or more personnel functions can erode the performance of Federal agencies and threaten their ability to cost-effectively carry out their missions.

Going forward, key focus areas for OPM and agencies include improving the hiring process by, among other actions, refining, consolidating, or eliminating less-effective hiring authorities; modernizing the classification system so that it keeps pace with the government's evolving requirements; and strengthening performance management and agencies' ability to deal with poor performers through such steps as lengthening the probationary period. Opportunities also exist to improve the capacity of agency human resource offices to better support an agency's requirements.

In conclusion, Federal compensation should enable agencies to cost-effectively attract, motivate, and retain a high-performing and agile workforce necessary to meet their missions. At the same time, our work has also shown that agencies already have a number of tools and flexibilities available to them that can significantly improve executive branch personnel management. Going forward, it will be important to hold agencies accountable for fully leveraging those resources.

Chairman Meadows, Ranking Member Cummings, this completes my prepared statement, and I'll be pleased to respond to any questions that you may have.

[The statement of Mr. Goldenkoff follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 9:00 a.m. ET
Thursday, May 18, 2017

FEDERAL WORKFORCE

Sustained Attention to Human Capital Leading Practices Can Help Improve Agency Performance

Statement of Robert Goldenkoff
Director, Strategic Issues

GAO-17-627T

May 2017

FEDERAL WORKFORCE

Sustained Attention to Human Capital Leading Practices Can Help Improve Agency Performance

GAO Highlights

Highlights of GAO-17-627T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

A careful consideration of federal pay is an essential part of fiscal stewardship and is necessary to support the recruitment and retention of a talented, agile, and high-performing federal workforce. High-performing organizations have found that the life-cycle of human capital management activities—including workforce planning, recruitment, on-boarding, compensation, engagement, succession planning, and retirement programs—need to be aligned for the cost-effective achievement of an organization's mission. However, despite some improvements, strategic human capital management—and more specifically, skills gaps in mission critical occupations—continues to be a GAO high-risk area.

This testimony is based on a body of GAO work primarily issued between June 2012 and March 2017. It focuses on (1) lessons learned in creating a more market driven, results-oriented approach to federal pay, and (2) opportunities, in addition to pay and benefits, that OPM and agencies could use to be more competitive in the labor market and address skills gaps.

What GAO Recommends

Over the years, GAO has made recommendations to agencies and OPM to improve their strategic human capital management efforts. OPM and agencies generally concurred. This testimony discusses actions taken to implement key recommendations to improve federal hiring and classification.

View GAO-17-627T. For more information, contact Robert Goldenkoff at (202) 512-2757 or goldenkoffr@gao.gov.

What GAO Found

GAO's prior work has shown that implementing a market-based and more performance-oriented federal pay system is both doable and desirable, and should be part of a broader strategy of change management and performance improvement initiatives. In 2005, GAO identified the following key themes that highlight the leadership and management strategies high-performing organizations collectively considered in designing and managing a pay system that is performance oriented, affordable, and sustainable. Specifically, they:

1. Focus on a set of values and objectives to guide the pay system.
2. Examine the value of employees' total compensation to remain competitive in the labor market.
3. Build in safeguards to enhance the transparency and ensure the fairness of pay decisions.
4. Devolve decision-making on pay to appropriate levels.
5. Provide clear and consistent communication so that employees at all levels can understand how compensation reforms are implemented.
6. Build consensus to gain ownership and acceptance for pay reforms.
7. Monitor and refine the implementation of the pay system.

While the federal compensation system may need to be re-examined, Congress has already provided agencies with tools and flexibilities to build and maintain a high-performing workforce. They include, for example:

Hiring process

GAO reported in 2016 that the Office of Personnel Management (OPM) and selected agencies had not evaluated the effectiveness of hiring authorities. By evaluating them, of which over 100 were used in 2014, OPM and agencies could identify ways to expand access to those found to be more effective, and eliminate those found to be less effective.

General Schedule (GS) classification system

The federal government has become more highly skilled and specialized than the GS classification system was designed to address at its inception in 1949. OPM and stakeholders should examine ways to make the classification system consistent with attributes GAO identified of a modern, effective classification system, such as internal and external equity.

Performance management

Credible and effective performance management systems are a strategic tool to achieve organizational results. These systems should emphasize "a line a sight" between individual performance and organizational success, and use core competencies to reinforce organizational objectives, among other things.

Human resources capacity

The human resources specialist occupation is a mission critical skills gap area. Chief Human Capital Officers have reported that human resources specialists do not have the skills to lead strategic human capital management activities. Strengthening this capacity could help agencies better meet their missions.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee,

I am pleased to be here today to discuss the federal compensation system and how to modernize it, as well as additional steps beyond pay and benefits that agencies can take to better compete in the labor market. Our work has shown that a careful consideration of federal pay is essential to fiscal stewardship and is necessary to support the recruitment and retention of a talented, agile, and high-performing federal workforce. It is Congress's policy that pay for federal workers in the General Schedule (GS), the pay system covering the majority of federal workers,[1] be in line with pay for comparable nonfederal workers.[2]

High-performing organizations have found that the full life-cycle of human capital management activities—including workforce planning, recruitment, on-boarding, compensation, engagement, succession planning, and retirement programs—need to be fully aligned and focused on the cost-effective achievement of an organization's mission. However, despite some improvements in the federal government's management of its personnel in recent years, strategic human capital management—and more specifically, the need for the Office of Personnel Management (OPM) and agencies to address skills gaps in mission critical occupations—continues to be a GAO high risk area.[3]

Importantly, the impact of skills gaps goes beyond the occupations themselves and can adversely affect the performance of an entire organization. For example, of the 34 areas on our 2017 High-Risk list (excluding strategic human capital management), skills gaps played a

[1]Excluding the U.S. Postal Service.

[2]5 USC 5301.

[3]GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others,* GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

role in making 15 areas high-risk, and included information technology management, and acquisitions, and veterans' health care, among others.[4]

In my remarks today, I will discuss (1) lessons learned in creating a more market-driven, results-oriented approach to federal pay, and (2) opportunities in addition to pay and benefits that OPM and agencies could use to be more competitive in the labor market and address skills gaps.

The bottom line is that, while the federal compensation system may need to be re-examined, it will also be important for agencies to make better use of the management tools already available to them. Indeed, more effective use of hiring flexibilities, adopting leading human capital management practices, and strengthening the capacity of agencies' human resource offices could significantly improve executive branch personnel management, and thus help agencies to better carry out their missions in an era of highly constrained resources.

My testimony is based on our large body of work on federal human capital management issued primarily between June 2012 and March 2017. In addition, we conducted follow-up on recommendations made in prior reports through interviews with agency officials. More detailed information on our objectives, scope, and methodology for that work can be found in the issued report. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[4]The complete list of areas in our high-risk report that feature skills gap findings includes: Management of Federal Oil and Gas Resources; Managing Federal Real Property; Improving the Management of IT Acquisitions and Operations; Department of Defense (DOD) Business Systems Modernization; DOD Financial Management; Strengthening Department of Homeland Security (DHS) Management Functions; Ensuring the Security of Federal Information Systems and Cyber-Critical Information and Protecting the Privacy of Personally Identifiable Information; Protecting Public Health through Enhanced Oversight of Medical Products; Transforming the Environmental Protection Agency's (EPA) Processes for Assessing and Controlling Toxic Chemicals; DOD Contract Management; Department of Energy (DOE)'s Contract Management for the National Nuclear Security Administration and Office of Environmental Management; National Aeronautics and Space Administration (NASA) Acquisition Management; Enforcement of Tax Laws; Managing Risks and Improving Department of Veterans Affairs (VA) Health Care; and Improving Federal Management of Indian Programs.

Background

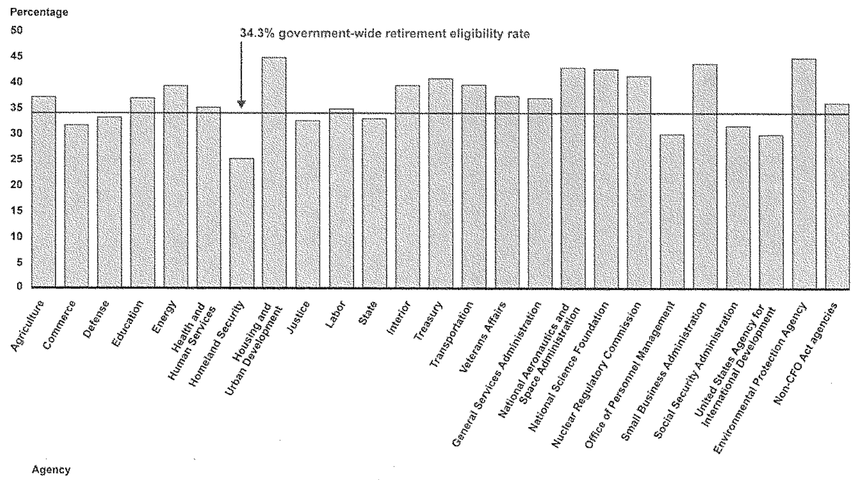
As we reported earlier this year, mission-critical skills gaps within the federal workforce pose a high risk to the nation.[5] Regardless of whether the shortfalls are in such government-wide occupations as cybersecurity and acquisitions, or in agency-specific occupations such as nurses at the Veterans Health Administration, skills gaps impede the federal government from cost-effectively serving the public and achieving results.

Agencies can have skills gaps for different reasons: they may have an insufficient number of people or their people may not have the appropriate skills or abilities to accomplish mission-critical work. Moreover, current budget and long-term fiscal pressures, the changing nature of federal work, and a potential wave of employee retirements that could produce gaps in leadership and institutional knowledge, threaten to aggravate the problems created by existing skills gaps.

According to our analysis of OPM data, government-wide more than 34 percent of federal employees on-board by the end of fiscal year 2015 will be eligible to retire by 2020 (see figure 1). Some agencies, such as the Department of Housing and Urban Development, will have particularly high eligibility levels by 2020. Various factors can affect when individuals actually retire, and some amount of retirement and other forms of attrition can be beneficial because it creates opportunities to bring fresh skills on board and it allows organizations to restructure themselves to better meet program goals and fiscal realities. But if turnover is not strategically monitored and managed, gaps can develop in an organization's institutional knowledge and leadership.

[5] GAO-17-317.

Figure 1: Percentage of Federal Employees on Board by the End of Fiscal Year 2015 Will Be Eligible to Retire by Fiscal Year 2020



Source: GAO analysis of Office of Personnel Management's Enterprise Human Resources Integration (EHRI) database. | GAO-17-627T

Notes: Our calculations include permanent employees in the competitive service, the excepted service, and the senior executive service with all work schedules (e.g. full time, part time, seasonal, and intermittent). Retirement eligibility is not affected by work schedule. Temporary and term employees are excluded.

"Eligible to retire" is defined as the year in which a person is first eligible for retirement with unreduced annuity.

Data are from the OPM Enterprise Human Resources Integration (EHRI) database.

EHRI covers federal civilian employees at most Executive Branch agencies and some Legislative Branch agencies. Among those agencies excluded from EHRI are the Central Intelligence Agency and other intelligence organizations; the U.S. Postal Service; Tennessee Valley Authority; and the White House.

The total number of employees included in our calculations on January 17, 2017 is 1,712,547.

While numerous tools are available to help agencies address their talent needs, our past work has identified problems across a range of personnel systems and functions. For example:

- Classification system: The GS system has not kept pace with the government's evolving requirements.[6]
- Recruiting and hiring: Federal agencies need a hiring process that is applicant friendly, flexible, and meets policy requirements.[7]
- Pay system: Employees are compensated through an outmoded system that (1) rewards length of service rather than individual performance and contributions, and (2) automatically provides across-the-board annual pay increases, even to poor performers.[8]
- Performance management: Developing modern, credible, and effective employee performance management systems and dealing with poor performers have been long-standing challenges for federal agencies.[9]
- Employee engagement: Additional analysis and sharing of promising practices could improve employee engagement and performance.[10]

[6]GAO, *Human Capital: OPM Needs to Improve the Design, Management, and Oversight of the Federal Classification System*, GAO-14-677 (Washington, D.C.: July 31, 2014).

[7]GAO, *Federal Hiring: OPM Needs to Improve Management and Oversight of Hiring Authorities*, GAO-16-521 (Washington, D.C.: Aug. 2, 2016).

[8]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

[9]GAO, *Federal Workforce: Improved Supervision and Better Use of Probationary Periods Are Needed to Address Substandard Employee Performance*, GAO-15-191 (Washington, D.C.: Feb. 6, 2015).

[10]GAO, *Federal Workforce: Additional Analysis and Sharing of Promising Practices Could Improve Employee Engagement and Performance*, GAO-15-585 (Washington, D.C.: July 14, 2015).

Lessons Learned in Creating a Results-Oriented Approach to Federal Pay

Key Elements of General Schedule Pay System

As we reported in 2012, Congress's policy calls for federal workers' pay under the GS system to be aligned with comparable nonfederal workers' pay.[11] Across-the-board pay adjustments are to be based on private sector salary growth.[12] Locality adjustments are designed to reduce the gap between federal and nonfederal pay in each locality to no more than 5 percent. The President's Pay Agent is the entity charged with determining the disparities between federal and nonfederal pay in each locality; it measures federal pay based on OPM records that identify GS employees by occupation and grade level, and nonfederal pay based on U.S. Bureau of Labor Statistics data (BLS).[13] In 2012, the Pay Agent has recommended that the underlying model and methodology for estimating pay gaps be reexamined to ensure that private sector and federal sector pay comparisons are as accurate as possible. As of December 2016, no such reexamination has taken place.

The across-the-board and locality pay increases may be made every year, and are not linked to performance.[14] Pay increases and monetary awards that are linked to performance ratings as determined by the agencies' performance appraisal systems include within-grade increases, ratings-based cash awards, and quality step increases, and are available

[11]GAO, *Federal Workers: Results of Studies on Federal Pay Varied Due to Differing Methodologies*, GAO-12-564 (Washington, D.C.: June 22, 2012).

[12]Specifically, pay rates are to be increased by the 12-month percentage increase in the wage and salary component of the Employment Cost Index for private sector workers, minus one-half of one percentage point. However, the President may decide to provide an alternative pay adjustment based on national emergency or serious economic conditions affecting the general welfare. Additionally, Congress may legislate an increase that is different from the formula increase or the President's alternative adjustment.

[13]Similar to the across-the-board adjustments, instead of following the recommendation of the Pay Agent, the President may provide an alternative pay adjustment based on national emergency or serious economic conditions and Congress may legislate a different increase.

[14]In 2011, 2012, and 2013, there was neither an across-the-board nor locality pay increase due to a government-wide pay freeze.

to GS employees. Within-grade increases are the least strongly linked to performance, ratings-based cash awards are more strongly linked to performance depending on the rating system the agency uses, and quality step increases are also more strongly linked to performance.

The composition of the federal workforce has changed over the past 30 years, with the need for clerical and blue collar roles diminishing and professional, administrative, and technical roles increasing. As a result, today's federal jobs require more advanced skills at higher grade levels than in years past. Additionally, we have found that federal jobs, on average, require more advanced skills and degrees than private sector jobs. This is because a higher proportion of federal jobs than nonfederal are in skilled occupations such as science, engineering, and program management, while a lower proportion of federal jobs than nonfederal are in occupations such as manufacturing, construction, and service work. The result is that the federal workforce is on average more highly educated than the private sector workforce.

As we reported in 2014, a key federal human capital management challenge is how best to balance the size and composition of the federal workforce so that it is able to deliver the high quality services that taxpayers demand, within the budgetary realities of what the nation can afford.[15] Recognizing that the federal government's pay system does not align well with modern compensation principles (where pay decisions are based on the skills, knowledge, and performance of employees as well as the local labor market), Congress has provided various agencies with exemptions from the current system to give them more flexibility in setting pay. Thus, a long-standing federal human capital management question is how to update the entire federal compensation system to be more market based and performance oriented. This type of system is a critical component of a larger effort to improve organizational performance.

[15]GAO, *Federal Workforce: Human Capital Management Challenges and the Path to Reform*, GAO-14-723T (Washington, D.C.: July 15, 2014).

Lessons Learned in Creating a Market-Driven, Results-Oriented Pay System

Our 2005 work showed that implementing a more market-based and more performance-oriented pay system is both doable and desirable.[16] However, we also found that it is not easy. For one thing, agencies should have effective performance management systems that link individual expectations to organizational results. Moreover, representatives of public, private, and nonprofit organizations, in discussing the successes and challenges they have experienced in designing and implementing their own results-oriented pay systems, told us at the time they had to shift from a culture where compensation is based on position and longevity to one that is performance-oriented, affordable and sustainable.

As we have reported in the past, these organizations' experiences with their own market-based and performance-oriented pay systems provide useful lessons learned that will be important to consider to the extent the federal government moves toward a more results-oriented pay system. Lessons learned identified in our 2005 report include the following:[17]

1. Focus on a set of values and objectives to guide the pay system. Values represent an organization's beliefs and boundaries, and objectives articulate the strategy to implement the system.
2. Examine the value of employees' total compensation to remain competitive in the labor market. Organizations consider a mix of base pay plus other monetary incentives, benefits and deferred compensation, such as retirement pay, as part of a competitive compensation system.
3. Build in safeguards to enhance the transparency and ensure the fairness of pay decisions. Safeguards are the precondition to linking pay systems with employee knowledge, skills, and contributions to results.
4. Devolve decision-making on pay to appropriate levels. When devolving such decision making, overall core processes help ensure reasonable consistency in how the system is implemented.
5. Provide training on leadership, management, and interpersonal skills to facilitate effective communication. Such skills as setting expectations, linking individual performance to organizational results,

[16]GAO, *Human Capital: Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems*, GAO-05-832SP (Washington, D.C.: July 27, 2005).

[17]GAO-05-832SP.

and giving and receiving feedback need renewed emphasis to make such systems succeed.

6. Build consensus to gain ownership and acceptance for pay reforms. Employee and stakeholder involvement needs to be meaningful and not pro forma.
7. Monitor and refine the implementation of the pay system. While changes are usually inevitable, listening to employee views and using metrics helps identify and correct problems over time.

Additional Steps Agencies Can Take to Be Competitive in the Labor Market and Address Skills Gaps

Agency Actions Can Help Transform Personnel Management

Our prior work has found that across a range of human capital functions, while in some cases statutory changes may be needed to advance reforms, in many instances improvements are within the control of federal agencies. These improvements include such actions as improving the coordination of hiring specialists and hiring managers on developing recruitment strategies and up-to-date position descriptions in vacancy announcements. Indeed, Congress has already provided agencies with a number of tools and flexibilities to help them build and maintain a high-performing workforce. Going forward, it will be important for agencies to make effective use of those tools and for Congress to hold agencies accountable for doing so.

Among other things, our work has shown that the tone starts at the top. Agency leaders and managers should set an example that human capital is important and is directly linked to performance—it is not a transactional function. As we noted in our 2017 high-risk update, agencies can drive improvements to their high risk areas—including strategic human capital management—through such steps as:

- Sustained leadership commitment, including developing long-term priorities and goals, and providing continuing oversight and accountability;

- Ensuring agencies have adequate capacity to address their personnel issues, including collaborating with other agencies and stakeholders as appropriate;
- Identifying root causes of problems and developing action plans to address them, including establishing goals and performance measures;
- Monitoring actions by, for example, tracking performance measures and progress against goals; and
- Demonstrating progress by showing issues are being effectively managed and root causes are being addressed.[18]

Our list of leading human capital management practices may be helpful as well. Covering such activities as strategic workforce planning, recruitment and hiring, workforce development, and employee engagement, among others, agencies can use this information to strengthen how they recruit, retain, and develop their employees and Congress can hold agencies accountable for using them.[19]

OPM has taken some important steps as well. For example, in December 2016, OPM finalized revisions to its strategic human capital management regulation that include the new Human Capital Framework.[20] This framework is to be used in 2017 by agencies to plan, implement, evaluate, and improve human capital policies and programs.

Our recent work on federal hiring, classification, addressing poor performance, and the capacity of federal human resource functions are illustrative of some of the areas in need of attention.

[18]GAO-17-317.

[19]http://www.gao.gov/key_issues/leading_practices_in_human_capital_management/issue_summary.

[20]*Personnel Management in Agencies*, 81 Fed. Reg. 89,357 (Dec. 12, 2016) (*to be codified at* 5 C.F.R. pt. 250, subpt. B).

Hiring Process Could Be Improved by Refining, Consolidating, or Eliminating Less Effective Authorities

To help ensure agencies have the talent they need to meet their missions, we have found that federal agencies should have a hiring process that is simultaneously applicant friendly, sufficiently flexible to enable agencies to meet their needs, and consistent with statutory requirements, such as hiring on the basis of merit.[21] Key to achieving this is the hiring authority used to bring applicants onboard.[22]

Congress and the President have created a number of hiring authorities to expedite the hiring process or to achieve certain public policy goals, such as facilitating the entrance of certain groups into the civil service. As we reported in 2016, we found that of the 105 hiring authorities used in fiscal year 2014, agencies relied on 20 of those authorities for 91 percent of the 196,226 new appointments made that year.[23] OPM officials said at the time they did not know if agencies relied on a small number of authorities because agencies are unfamiliar with other authorities, or if they have found other authorities to be less effective.

Although OPM tracks such data as agency time-to-hire, we found this information was not used by OPM or agencies to analyze the effectiveness of hiring authorities. As a result, OPM and agencies did not know if authorities were meeting their intended purposes. By analyzing hiring authorities, OPM and agencies could identify opportunities to refine authorities, expand access to specific authorities found to be highly efficient and effective, and eliminate those found to be less effective.

We recommended that OPM, working with agencies, strengthen hiring efforts by (1) analyzing the extent to which federal hiring authorities are meeting agencies' needs, and (2) using this information to explore opportunities to refine, eliminate, or expand authorities as needed, among other recommendations.[24] OPM concurred with our recommendations, and reported it had reviewed hiring authorities related to the entry-level Pathways Program and for hiring seasonal employees.

[21]GAO-16-521.

[22]A hiring authority is the law, executive order, or regulation that allows an agency to hire a person into the federal civil service.

[23]GAO-16-521.

[24]GAO-16-521.

The GS System Could Better Balance Attributes of a Modern, Effective Classification System

The GS classification system is a mechanism for organizing federal white-collar work—notably for the purpose of determining pay—based on a position's duties, responsibilities, and difficulty, among other things. A guiding principle of the GS classification system is that employees should earn equal pay for substantially equal work.

We and others have found that the work of the federal government has become more highly skilled and specialized than the GS classification system was designed to address when it was created in 1949 when most of the federal workforce was engaged in clerical work. While there is no one right way to design a classification system, in 2014, we identified eight key attributes that are important for a modern, effective classification system.[25] Collectively, these attributes provide a useful framework for considering refinements or reforms to the current system. These key attributes are described in table 1.

Table 1: Attributes of a Modern, Effective Classification System

Internal equity: All employees with comparable qualifications and responsibilities for their respective occupations are assigned the same grade level.
External equity: All employees with comparable qualifications and responsibilities are assigned grade levels and corresponding pay ranges comparable to the nonfederal sector.
Transparency: A comprehensible and predictable system that employees, management, and taxpayers can understand.
Flexibility: The ease and ability to modify the system to meet agency-specific needs and mission requirements, including modifying rates of pay for certain occupations to attract a qualified workforce, within the framework of a uniform government-wide system.
Adaptability: The ease and ability to conduct a periodic, fundamental review of the entire classification system that enables the system to evolve as the workforce and workplace change.
Simplicity: A system that enables interagency mobility and comparisons, with a rational number of occupations and clear career ladders with meaningful differences in skills and performance, as well as a system that can be cost-effectively maintained and managed.
Rank-in-position: A classification of positions based on mission needs and then hiring individuals with those qualifications.
Rank-in-person: A classification of employees based on their individual skills and abilities.

Source: GAO analysis. | GAO-17-627T

We concluded in 2014 that the inherent tension between some of these attributes, and the values policymakers and stakeholders emphasize could have large implications for pay, the ability to recruit and retain mission critical employees, and other aspects of personnel management. This is one reason why—despite past proposals—changes to the current system have been few, as finding the optimal mix of attributes that is acceptable to all stakeholders is difficult.

[25] GAO-14-677.

In 2014, we recommended that OPM (1) work with stakeholders to examine ways to modernize the classification system, (2) develop a strategy to track and prioritize occupations for review and updates, and (3) develop cost-effective methods to ensure agencies are classifying correctly.[26] OPM partially concurred with the first and third recommendation but did not concur with the second recommendation. Instead, OPM officials said they already tracked and prioritized occupations for updates. However, they were unable to provide documentation of their actions. In April 2017, OPM officials said they meet regularly with the interagency classification policy forum to inform classification implementation and had reviewed and canceled 21 occupational series that were minimally used by agencies.

Opportunities Exist to Strengthen Performance Management and Deal with Poor Performers

In our 2015 report, we noted how federal agencies' ability to address poor performance has been a long-standing issue.[27] Employees and agency leaders share a perception that more needs to be done to address poor performance, as even a small number of poor performers can affect agencies' capacity to meet their missions. More generally, without effective performance management, agencies risk losing (or failing to utilize) the skills of top talent. They also may miss the opportunity to observe and correct poor performance.

Among other things, we found effective performance management helps agencies establish a clear "line of sight" between individual performance and organizational success and using core competencies helps to reinforce organizational objectives. Agencies should also make meaningful distinctions in employee performance levels. However, we found that 99 percent of permanent, non-senior executive service employees in 2013 received a rating at or above fully successful, with around 61 percent rated as "outstanding" or "exceeds fully successful."[28]

Importantly, in 2015 we found that good supervisors are key to the success of any performance management system. Supervisors provide the day-to-day performance management activities that can help sustain and improve the performance of more talented staff and can help

[26]GAO-14-677.

[27]GAO-15-191.

[28]GAO, *Federal Workforce: Distribution of Performance Ratings Across the Federal Government, 2013*, GAO-16-520R (Washington, D.C.: May 9, 2016).

marginal performers to become better. As a result, agencies should promote people into supervisory positions because of their supervisory skills (in addition to their technical skills) and ensure that new supervisors receive sufficient training in performance management. Likewise, a cultural shift might be needed among agencies and employees to acknowledge that a rating of "fully successful" is already a high bar and should be valued and rewarded and that "outstanding" is a difficult level to achieve.

Further, in 2015 we found that probationary periods for new employees provide supervisors with an opportunity to evaluate an individual's performance to determine if an appointment to the civil service should become final. However, some Chief Human Capital Officers (CHCO) said supervisors often do not use this time to make performance-related decisions about an employee's performance because they may not know that the probationary period is ending or they have not had time to observe performance in all critical areas. In our prior work, we recommended that OPM educate agencies on ways to notify supervisors that an individual's probationary period is ending and that the supervisor needs to make a decision about the individual's performance and also to determine whether there are occupations in which the probationary period should extend beyond 1-year to provide supervisors with sufficient time to assess an individual's performance. OPM concurred with the first recommendation and partially concurred with the second. In January 2017, OPM issued guidance to agency about supervisors notification of a probationary period ending, but officials said OPM had not taken action on extending the probationary period.

Opportunities Exist to Address Human Resources Capacity Challenges

In 2014, we found that many agency CHCO said their offices did not have the capacity to lead strategic human capital management activities such as talent management, workforce planning, and promoting high performance and a results-oriented culture.[29] Instead, these offices remained focused on transactional human resource activities like benefits and processing personnel actions. As a result, officials said agency decision makers often did not seek out and draw upon the expertise of human capital experts to inform their deliberations. Perhaps further reflecting the varying capabilities of agency human capital offices across

[29]GAO, *Human Capital: Strategies to Help Agencies Meet Their Missions in an Era of Highly Constrained Resources,* GAO-14-168 (Washington, D.C.: May 7, 2014).

government, some CHCOs at the time said that agency leaders did not fully understand the potential for strategic human capital management and had not elevated the role of the human capital office to better support an agency's operations and mission.

The human resources specialist occupation continues to be one of six government-wide, mission-critical skills gap areas identified by OPM. Our recent work on the Veterans Health Administration (VHA) demonstrates how capacity shortfalls in an agency's personnel office can adversely impact an organization's mission.[30] Among other things, we found that the recruitment and retention challenges VHA is experiencing with its clinical workforce are due, in part to attrition among its human resource employees and unmet staffing targets within medical center personnel offices. We concluded that until VHA strengthens its human resource capacity, it will not be positioned to effectively support its mission to serve veterans' healthcare needs. We made 12 recommendations to Veterans Affairs (VA) to improve the human resource capacity and oversight of human resource functions at its medical centers; develop a modern, credible employee performance management system; and establish clear accountability for efforts to improve employee engagement. VA concurred with nine recommendations and partially concurred with three recommendations to improve VHA's performance management system.

Under OPM's leadership, several steps have been taken as part of a cross agency group focused on improving the capacity of human resource specialists. For example, OPM reported that it increased registration in its Human Resources University and validated career path guides for classification, recruitment and hiring policy, and employee relations. As part of our ongoing oversight of OPM's and agencies' efforts to close government-wide mission critical skill gaps, we will continue to assess the progress being made in improving the human capital infrastructure within agencies needed to better support agencies' planning and programmatic functions.

In conclusion, given the long-term fiscal challenges facing the nation and ongoing operational and accountability issues across government, agencies must identify options to meet their missions with fewer resources. The federal compensation system should allow the

[30]GAO, *Veterans Health Administration: Actions Needed to Better Recruit and Retain Clinical and Administrative Staff*, GAO-17-475T (Washington, D.C.: Mar. 22, 2017).

government to cost-effectively attract, motivate, and retain a high-performing, agile workforce necessary to meet those missions. At the same time, our work has shown that agencies already have a number of tools and flexibilities available to them that can significantly improve executive branch personnel management and do so sooner, rather than later. Going forward, it will be important to hold agencies accountable for fully leveraging those resources.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions you may have at this time.

GAO Contacts and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact Robert Goldenkoff at (202) 512-2757 or e-mail at goldenkoffr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

GAO staff who made key contributions to this testimony include Chelsa Gurkin, Assistant Director; Dewi Djunaidy, Analyst-in-Charge; Ann Czapiewski; Karin Fangman; Krista Loose; Susan Sato; Cynthia Saunders; and Stewart W. Small.

Mr. MEADOWS. Thank you.
Ms. Simon, you are recognized for five minutes.

STATEMENT OF JACQUELINE SIMON

Ms. SIMON. Thank you for the opportunity to testify today.

The CBO's study answers a very peculiar question: How much could the government save if it paid its workforce the average of what private employers pay broken down by demographic criteria? It's a strange question. It's more the kind of thing that might be asked on a graduate school midterm in labor economics but only to find out whether the students get the idea behind human capital theory.

The human capital approach CBO takes is basically a capital asset pricing model that applies the logic of finance to human beings. Wages, salaries, and benefits are the price, and workers are the asset. The asset's attributes are the race, sex, education, industry, and whatever else might be a source of value.

When you compare the compensation the government provides to averages in the private sector measured through a human capital lens, you find the government both overpays and underpays depending on demographics, not surprising because the government employs people to work in an enormous range of jobs.

The human capital approach has been used successfully to show how jobs that mainly employ women and racial minorities pay less than jobs that mainly employ white men even though the jobs require similar levels of education. But here we are using the human capital approach to complain about pay and benefit systems that do not discriminate.

When CBO assessed the accuracy of the capital asset pricing of the conglomeration of human capital known as the Federal workforce, it was clear they'd find the price too high. This is because on average the private sector pays men more than women, whites more than blacks, old more than young. The Federal Government does not reproduce all these inequities because in its pay systems demographic traits are irrelevant. Federal pay is an attribute of the job, not the traits of the individual holding the job. As a result, men and women with the same Federal job are paid roughly the same amount.

The demographic traits that comprise a human capital model's independent variables are completely irrelevant to the salary and benefit package the Federal Government applies to any given Federal job. Had CBO used the proper method for making the comparison, the one used by the Federal Salary Council, its conclusions would have lined up with the Council's findings: that Federal employees are underpaid, whether they're top professionals like doctors and lawyers, technical experts like engineers and scientists, healthcare providers like VA nursing assistants and dietitians, or administrative workers who handle claims for Social Security or veterans' benefits.

My written statement describes the inappropriateness of the human capital approach for comparison of non-cash compensation. Here, I will focus on the failures of the CBO study with regard to retirement costs.

The Federal Government finances its employees' retirement benefits by setting aside funds in the Civil Service Retirement and Disability Fund, CSRDF. All agency and employee contributions are assigned to this trust fund, and its assets are invested exclusively in U.S. Treasury bonds. These bonds are budget authority and thus can be redeemed to pay earned annuities to Federal retirees. The rate of return on these assets—on the assets of the fund is just like the Social Security trust fund, a combination of all the interest rates of the treasury bonds held by the fund.

Historically, the rate of return on treasury bonds has been lower than the rate of return on private equities. Private sector and some state and local governments are free to invest the assets of their pension plans in a mix of public and private equities. Because the law prohibits the government from investing the trust fund's assets in any form of equity other than treasuries, it costs more to produce each dollar of Federal retirement benefit. The Federal Government must spend more for each employee's benefit regardless of the employee's salary, education, race, age, or occupation.

CBO's updated report makes no useful contribution to the discussion on Federal pay and benefits. Frankly, it's implications are horrid. If the government were to compensate its employees so that its cost reflected average private sector costs by demographics, it would reproduce all the inequities we deplore in the private sector. Compensation for women and racial minorities would decline immensely.

Regardless of the relative complexity, difficulty, and responsibilities of different jobs, what would matter would simply be the educational attainment of the person doing the job. A bachelor's degree from Trump University would merit the same rate of return as a bachelor's degree from Duke or Chapel Hill. The salary of a Border Patrol agent whose job requires only a high school diploma would have to match the abysmal pay of retail workers whose jobs also only require a high school diploma.

The Federal Government should be proud of its pay system. Few in the private sector can match its fairness and internal equity. Its principle of market comparability and its authority for managers to reward high performers and punish poor performance are more than adequate. All that's missing is funding. The government should never adopt any kind of pay system that allows discrimination on the basis of demographics. Market comparability, adherence to the merit system principles for—of equal pay for substantially equal work and fairness must continue to be the principles on which Federal pay is based.

Thank you.

[The statement of Ms. Simon follows:]

AFGE

CONGRESSIONAL TESTIMONY

STATEMENT BY

JACQUELINE SIMON
POLICY DIRECTOR
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE

THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

ON

FEDERAL EMPLOYEE COMPENSATION: CONGRESSIONAL BUDGET OFFICE REPORT COMPARING THE COMPENSATION OF FEDERAL AND PRIVATE-SECTOR EMPLOYEES

May 18, 2017

Introduction

Mr. Chairman and Members of the Committee: My name is Jacqueline Simon and I am the Policy Director of the American Federation of Government Employees, AFL-CIO (AFGE). Thank you for the opportunity to testify today. AFGE is proud to represent almost 700,000 federal and District of Columbia employees who work hard every day on behalf of the American people. Along with AFGE's National President J. David Cox, I represent AFGE on the Federal Salary Council, a statutory advisory body that makes recommendations to the President's Pay Agent on how best to implement the locality pay system created by the Federal Pay Comparability Act (FEPCA).

Federal Pay

FEPCA governs the federal government's largest pay system for salaried workers and is often referred to by is basic pay scale, the General Schedule (GS). The law provides for annual salary adjustments tied to market rates in the private sector and state and local government. Congress and the President almost always alter the adjustments provided for under the law. GS pay levels are also affected by many administrative decisions involving the boundaries that define local pay areas and how market comparability is calculated.

Federal wages and salaries continue to lag those in the private sector and state and local government. Although federal pay adjustments are, by law, supposed to reflect changes in the cost of labor rather than the cost of living, it is important to note how much the purchasing power of federal pay has declined as federal employees have become an all-purpose ATM for budget austerity. Since 2010, the inflation-adjusted value of federal wages and salaries has fallen by 6.5 percent, leaving all federal employees with lower purchasing power from their salaries than they had just five years ago. The first step in reversing the substantial decline in living standards should be to restore the purchasing power of federal wages and salaries by providing for substantial real, inflation-adjusted, increases that make progress in closing the pay gap as measured by Bureau of Labor Statistics data.

Federal employees, more than any other group of Americans, have borne the brunt of budget austerity that followed the Great Recession and have so far been forced to suffer $189 billion in compensation cuts as a result. We have learned recently that the President's budget, which will be released next week, continues to punish federal employees with proposals to impose massive reductions in federal retirement benefits. AFGE has been told that the President's budget will propose the following: a shift from calculating annuities based on the highest 3 years' continuous salary to the highest 5 years' salary, no cost of living adjustments (COLAs) for FERS participants and just 0.25% COLAs for CSRS participants, a reduction in the rate of return to the Thrift Savings Plan's G Fund to reflect all outstanding government debt, and requiring FERS employees to contribute anywhere from 7 to 9 percent of salary to the defined benefit plan, depending upon the date of hire. These proposed cuts are unwarranted. They cannot be justified by budget necessities or by reference to private sector practice. They have but one purpose, to immiserate the federal workforce and fund tax cuts for wealthy individuals and corporations.

Pay Adjustments for the General Schedule: The Market Comparability Standard

Under the Federal Employees Pay Comparability Act (FEPCA), federal employees who are paid under the General Schedule are supposed to receive salaries that are 95 percent of "market comparability." This bipartisan law, enacted in 1990, established the principle that federal pay should be governed by the market, and salaries set at levels just five percent less than those in the private sector and state and local government.

FEPCA requires that the government produce a measure of market comparability on a regional basis, and provide annual adjustments that simultaneously close any measured gaps and make certain that no existing gap becomes larger. This was to be accomplished by providing federal employees with annual pay adjustments that had two components: one nationwide adjustment, and one locality-based gap-closing adjustment. The nationwide adjustments are based on the Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), a broad measure of changes in private sector wages and salaries from across all industries and regions (the FEPCA formula is ECI – 0.5 percent). The locality adjustments are based on measures of pay gaps that use Bureau of Labor Statistics (BLS) data from surveys that compare, on a job-by-job basis, salaries in the federal government and those in the private sector and state and local government. But FEPCA has loopholes, allowing alternatives in times of "economic emergency" which, according to three successive administrations (1995-2016) is apparently a permanent condition in the United States.

The relevant nationwide measure for January 2018 is the 12-month period ending September 30, 2015, during which time the ECI rose by 2.4%. The law governing the General Schedule pay system calls for an annual across-the-board adjustment to base salaries equal to the ECI measure minus 0.5 percentage points. Thus, the January 2018 ECI adjustment should be 1.9%.

Locality adjustments are meant to close gaps between federal and non-federal pay on a regional basis. The Federal Salary Council, the advisory body established in law to make recommendations to the President's Pay Agent on locality pay, uses a weighted average of the locality pay gaps, based on a BLS model using data from both the National Compensation Survey (NCS) and the Occupational Employment Statistics (OES) to measure the average disparity between federal and non-federal salaries for the jobs federal employees perform. As of March 2015, the overall remaining pay gap was 34.92%, based on the BLS model.

Had the schedule for closing the pay gaps put forth in FEPCA been followed, comparability would have been realized 15 years ago in 2002. But in each year since 1995, Congress and successive presidents have found reason to reduce or freeze the size of both the nationwide (ECI-based) and locality adjustments dictated by the law, variously citing economic emergency and deficit-cutting as rationales. The most recent data from BLS show the 2015 average remaining pay gap is 34.92%, compared to 35.18% for 2015 (the relevant year for the January

2016 adjustments). In spite of the repeated use of alternatives to the terms of FEPCA, there has been strong, consistent and broad bipartisan support for the goal of paying federal salaries that are comparable to those paid by private firms and state and local governments that employ people for the same kinds of jobs, this hearing notwithstanding.

The Federal Salary Council's Recommendations

In addition to measuring regional pay gaps and calculating the annual nationwide (ECI-based) adjustments under FEPCA, the Federal Salary Council makes recommendations regarding data, and changes to the boundaries of existing pay localities and the establishment of new localities. These changes reflect new data from the decennial census and focus on changes in commuting patterns and rates, the most important criteria in defining a local labor market. In each of the past five years, the Federal Salary Council has recommended some or all of the following:

- Drop from the criteria for establishment or maintenance of a GS locality any reference to the number of GS employees, since concentration of GS employment does not define a local labor market or indicate economic linkage among counties in a commuting area.
- Restore full funding for the BLS National Compensation Survey (NCS), particularly the wage survey portion that was specifically designed to match private sector and state and local government jobs to federal jobs.
- Use all commuting pattern data collected under the American Community Survey in determining areas for inclusion in locality pay areas.
- Use new criteria for evaluating counties adjacent to Core Based Statistical Areas (CBSAs) (7.5% employment interchange) and adjacent single counties (20%).
- Use micropolitan areas if they are part of any Combined Statistical Area, whether or not a Metropolitan Statistical Area was included, and recognize multi-county micropolitan areas for locality pay.

The President's Pay Agent has not implemented these recommendations. AFGE urges adoption of all of these Council recommendations, as they will improve the market sensitivity of the pay system, and align the boundaries of pay localities with contemporary commuting patterns. In addition, responding positively to the recommendations of the Federal Salary Council would demonstrate respect for the law governing federal pay, a law intended to de-politicize federal pay setting.

Comparing what private sector and state and local government employers pay for the jobs federal employees perform to what the federal government pays, the Federal Salary Council has found consistently that federal employees are underpaid. The Federal Prevailing Rate Advisory Committee (FPRAC), which performs a similar function for the blue collar FWS system, finds the same result. The amounts of underpayment vary by locality and other factors, but the advantage in all places goes to the private sector.

Distorting the Truth on Federal Pay

In the past several years, propagandists have published "studies" that twist the facts surrounding federal pay to pretend that federal employees are overcompensated. The propaganda compares gross averages in the private sector to average salaries of the current federal workforce, uses manufactured data on the dollar value of private sector fringe benefits and distorts data on the cost of federal benefits, and sensationalizes the fact that a growing number of federal salaries have exceeded $100,000 per year.

To bolster the false impression of federal employee overcompensation even more, the Heritage Foundation's James Sherk published a deeply flawed econometric study (http://www.heritage.org/research/reports/2010/07/comparing-pay-in-the-federal-government-and-the-private-sector) with a headline-grabbing claim that the government "overtaxes all Americans" by providing federal employee pay and benefits "on the order of 30 percent to 40 percent above similarly skilled private sector workers." Heritage claimed that federal salaries are "22 percent above private sector workers." In an odd coincidence, Heritage's numbers are the mirror opposite of the calculations performed by the economists and pay experts from the Bureau of Labor Statistics (BLS) and the Office of Personnel Management (OPM), whose data for the same year showed federal pay lagging behind the private sector by 22 percent.

Why do Heritage and OPM/BLS come up with opposite numbers? The simple answer is that the Heritage study has highly politicized assumptions, and is based on data that are entirely inappropriate for use in salary comparisons. The BLS and OPM results derive from objective calculations and high quality data from the BLS's National Compensation Survey (NCS), a survey designed specifically for use by private and public employers to gauge salary rates and differences by occupation and location. Heritage used Current Population Survey (CPS) data from interviews with random individuals who were asked how much they made, how much their employer spent on their benefits, and what their occupation was. Another source of data used by purveyors of the myth of the overpaid federal employee is the Bureau of Economic Analysis (BEA), part of the Commerce Department. The BEA itself warns the public not to use its data for comparing federal and non-federal salaries, noting on its website that "federal compensation estimates include sizable payments for unfunded liabilities that distort comparisons with private-sector compensation. For example, in 2006 the value of these payments for unfunded liability were\ $28.6 billion or 10.7 percent of total federal civilian compensation" (http://www.bea.gov/faq/index.cfm?faq_id=320&start=0&cat_id=0). The "unfunded liabilities" refer to liabilities of the now-closed Civil Service Retirement System (CSRS), not the current Federal Employees Retirement System (FERS). Further, both these data and Heritage's are "bounded" at the top and bottom and exclude private salaries lower than $21,544 and higher than $190,119. Thus, even though salary and bonuses for those working in Wall Street securities and financial industries routinely run into the millions, the BEA dataset artificially caps salaries at under $200,000.

CBO's Updated Study of Federal vs. Private Sector Pay Compensation

The Congressional Budget Office updated its 2012 study last month. Its extremely misleading title "Comparing the Compensation of Federal and Private Sector Employees 2011 to 2015" does not tell us whether federal salaries are too high or too low. It answers the highly peculiar question: If the current federal workforce were replaced with a new one with the same demographic profile as the current one, and the new one were paid average private sector rates for this group's demographic profile, how much would it cost? How much would it save?

From this question came an answer that was a foregone conclusion. If taken one at a time and categorized by race, gender, education, and other "demographic traits," of course some of them will appear "overpaid" compared to private sector averages. Why? Because the private sector wage data show large variations by "demographic trait" and for the most part, federal pay systems avoid this kind of discrimination.

The CBO study used what's called a "human capital model;" basically a "capital asset pricing model" that applies the logic of finance to human beings. Wages, salaries, and benefits are the "price" and the worker is the "asset." The "asset" has attributes upon which the market places a value, either negative or positive. In such a model, being white, male, and/or highly educated are positive sources of value, while the absence of these attributes means a relatively lower value.

When CBO assessed the accuracy of the "capital asset pricing" of the conglomeration of human capital known as the federal workforce, it was clear that they would find the price too high. This is because, on average, the private sector pays men more than women, whites more than blacks, old more than young, and higher rates in big cities than in rural areas.

But the federal government does not reproduce all of these differentials, because in its pay systems, demographic traits are irrelevant. Federal pay is an attribute of the job, not of the demographic traits of the individual holding the job. As a result, men and women with the same federal job are paid roughly the same amount. The demographic traits that comprise a human capital model's independent variables are completely irrelevant to the salary and benefit package the federal government applies to any given federal job.

Had CBO used the proper method for making the comparison, the one used by the Federal Salary Council, its conclusions would have lined up with the Council's findings, that federal employees are underpaid whether they are top professionals like doctors or lawyers, technical experts like engineers and scientists, health care providers like VA nursing assistants and dieticians, or administrative workers who handle claims for Social Security or Veterans' benefits.

The Federal Salary Council is required by law to measure the gap between federal salaries and salaries in the private sector as well as state and local government, together referred to as the "non-federal sector." On average, the Council's method finds the nationwide gap between federal and non-federal pay remains about 35 percent in favor of the non-federal sector, but varies by locality. This is largely because the job comparison methodology used by the Council requires finding comparable positions before making pay comparisons, and many jobs found in the federal government are uniquely governmental. Useful pay comparability measures require data from job matches. The Federal Salary Council/BLS/OPM approach actually matches jobs and level of work.

The CBO study is flawed not only because it relies so heavily on "demographic traits", but also because it uses broad occupational categories and industrial categories as proxies for job matches. And that error compounds the noxious comparison by race, gender, and age. Indeed, the headlines describing the findings of the CBO study emphasized pay differences by education, and the most attention was given to the claim that the federal government allegedly overpays those whose highest level of education is a high school diploma. But consider some of the numerous federal jobs that have similar educational requirements, and are in similar broad industrial categories as those in the private sector, but which do not have nearly the same level of responsibility, or day to day duties or risks.

- A federal Correctional Officer might be compared with someone who works in the broadly defined, private sector "security services industry": But a "mall cop" does not perform the same function as an officer guarding convicted felons/dangerous inmates in our federal prisons. Same industry, same education, different job.
- A VA Nursing Assistant caring for a wounded warrior suffering a Traumatic Brain Injury might be compared with someone who works in a doctor's office, calling prescriptions into pharmacies. Same industry, same education, different job.
- An electrician working at an Army Depot who builds and repairs sophisticated electronic weaponry might be compared with an electrician running wires at a construction site. Same industry, same education, different job.

Shockingly, the CBO report suggests that the Federal Salary Council job-to-job comparisons might be inaccurate because of alleged "title inflation" in the federal workforce. CBO references an unpublished 2002 essay by Melissa Famulari, then associated in some way with the University of Texas, in which she speculated private sector workers had greater education and experience than federal employees who held the same jobs. She concludes from this that, assuming pay is a function of education and experience, federal employees are overpaid rather than underpaid. Again, the notion that pay is a function of education and experience rather than job duties is wrong. Elementary school teachers and computer programmers both require Bachelors's Degrees. According to BLS, the median (not average) salary for an elementary school teacher in 2016 was $52,620; the median (not average) salary for a computer programmer was $79, 840. Using the human capital model, the computer programmers are overpaid or elementary school teachers are underpaid, depending on your preference, because both jobs require just a Bachelor's Degree.

Benefits Comparisons

The new CBO study is actually substantially worse than the earlier study when it comes to the comparison of benefits. CBO qualifies its own findings by acknowledging that their comparisons failed to account for the enormous reduction in compensation that recent hires suffered as a result of higher mandatory retirement system contributions and low starting salaries. They noted that this group's small size would have a "only a minor effect on average compensation for all federal employees." But that barely begins to address the shortcomings in their cost-of-benefit calculations.

Not only are their data shaky, as they acknowledge, but their human capital methodology is also spectacularly inappropriate for assessing health and retirement benefits. The federal government provides health insurance and retirement benefits to all its employees on the same terms – regardless of pay, pay system, education, race, occupation, or tenure. And a huge part of the alleged benefits gap the CBO calculated derives from the employer cost for the defined benefit pension. As is well known, many of America's largest and most profitable corporations (such as Wal-Mart) do not provide defined benefit pensions at all. It was inappropriate for CBO to include data from such corporations, as they are not the standard to which the government should be compared. If CBO had restricted its comparison to federal and private sector workers performing similar jobs (e.g. aerospace engineers at NASA compared to aerospace engineers at Boeing), given their human capital methodology, they would have found a much smaller gap since both employers provide comprehensive benefits.

The BLS publishes findings from the National Compensation Survey under the heading of Employer Costs for Employee Compensation. The NCS is the dataset that the federal government uses for pay adjustments. Both the across-the-board Employment Cost Index (ECI) based increase and locality increases are based, in part, on NCS data. Although BLS publishes employer costs for retirement and savings programs for employees as a percentage of total compensation costs (4% as of December 2016, on average, including all employers that pay zero), BLS also includes more expansive data on employers' actual costs, and covers differences by occupation, industry, sector (private vs. state and local government), full-time vs. part-time, establishment size, census region, and union vs. non-union.
BLS warns: "Compensation cost levels in state and local government should not be directly compared with levels in private industry. Differences between these sectors stem from factors such as variation in work activities and occupational structures. Manufacturing and sales, for example, make up a large part of private industry work activities but are rare in state and local government. Professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, compared with one-half of private industry." https://www.bls.gov/news.release/ecec.toc.htm

But even that warning doesn't explain the large difference between the federal government's cost of providing retirement benefits to the costs faced by private and most other public employers. The federal government finances its employees' retirement benefits by setting aside funds in the Civil Service Retirement and Disability Fund (CSRDF). All agencies' and employees' contributions are attributed to the CSRDF, and the assets of the CSRDF are invested exclusively in United States Treasury bonds. These bonds are "budget authority" and thus can be redeemed to pay earned annuities to federal retirees. The rate of return on the assets in the CSRDF is a combination of the interest rates of Treasury Bonds held by the fund.

Historically, the rate of return on U.S Treasury bonds has been lower than the rate of return on private equities. Private sector and some state and local governments are free to invest the assets of their pension plans in a mix of private and public equities. Because the federal government is prohibited by law from investing the CSRDF's assets in any form of equity other than Treasury bonds, it costs more to produce each dollar of retirement benefit. This is true on an absolute and relative level. The federal government must spend more for each employee's benefit, regardless of the employee's salary, education, race, age, or occupation; the federal government must spend more for each employee's benefit regardless of retirement system.

The human capital approach taken by CBO is also completely irrelevant to the federal government's benefit structure. Although there is variation in the terms of employment among agencies, with the most significant variations based on whether the agency is funded by appropriations or other means, for the most part, whether an employee receives coverage or access to a non-salary benefit does not depend on occupation, education, race, gender, or length of service. Almost all career federal employees are covered by the Federal Employees Retirement System, the Federal Employees Health Benefits Program, the same formula for paid leave, the same formulas for life insurance, shift differentials, and overtime, and have access to the same advantaged savings under the TSP. Eligibility for performance, retention, relocation, and recruitment bonuses vary considerably. But because the federal government acts as a single employer for most of its workforce, it does not provide superior retirement or health benefits to those with professional degrees as compared with those whose highest educational attainment is a high school diploma. Like President Trump, the federal government "loves the poorly educated."

The CBO study on federal pay does a great disservice to those who seek objective analysis on questions related to federal pay and benefits. Except for a brief footnote buried in the middle of the report, the study neglected the work of the Federal Salary Council, which provides an accurate measure of difference between federal and non-federal pay using BLS data and adjusting for the specific characteristics of federal jobs, including the level of work required by the jobs federal employees actually perform. The demographic traits of the federal workforce are irrelevant to the adequacy of their pay, and irrelevant to any measure of pay comparability. And the notion of varying the provision of non-wage, non-salary compensation to federal employees based on occupation and education should be unthinkable.

Just because private sector employers, on average, appear in the CBO study to discriminate in the provision on non-cash compensation does not mean the federal government should follow suit.

One Bright Spot for Federal Pay and a Threat to Extinguish It

In April 2014, the Office of Personnel Management (OPM) published a report entitled "Governmentwide Strategy on Advancing Pay Equality in the Federal Government." It is the most informative, objective, and important examination of the federal pay system published by any entity in several years and deserves close attention, especially in light of the fanfare given over to the many extremely poorly-performed "studies" of federal pay from conservative think tanks. The OPM report was prepared in response to the President's request for a gender pay-equity analysis of federal pay systems that paid close attention to the General Schedule's classification system and its transparency. The President also asked for recommendations for administrative or legislative action that would promote "best practices" that were found to minimize inequities.

Although the report focused on just one outcome of the federal pay system – its success in advancing gender pay equity – the study provides important insight into the General Schedule system's strengths as a whole. Any pay and job classification system must be judged on attributes such as internal and external equity, as well as transparency and effectiveness. External equity refers to whether a pay system meets market standards. We know that the General Schedule fails the external equity test, but not because of any kind of systemic flaw but rather because successive Congress' and administrations have not funded it even before the pay freezes. We have the annual reports of the Federal Salary Council since 1995 to prove that.

But this OPM report on one aspect of internal equity, gender equity, is extremely telling. It compares data on federal employment over the past two decades and finds great progress on the part of women in ascending to higher-graded positions. But the most important finding was that there is no significant gender pay differences by grade level among GS workers. That is, at each pay grade, there was no real difference between the salaries paid to women and men doing the same jobs. This is a great virtue of the federal pay system.

The study showed that, depending on methodology used, from 76 to 93 percent of the observed pay gap between federally employed men and women is attributable to women being concentrated in lower-graded occupations. Indeed, the only real observed inequities arose where managerial discretion operates, such as in the awarding of quality step increases, promotions, and starting salaries. While women are more frequent recipients of promotions and quality step increases, managers have exercised discretion in providing higher starting salaries to men. But even starting salaries were mostly equivalent; it was in just four occupational categories that male starting salaries exceeded those provided to women by more than ten percent. Among members of the non-General Schedule Senior Executive Service, women's salaries were 99.2 percent of men's, a remarkable achievement.

These findings constitute a ringing endorsement of the current pay system, a system that assigns salaries to the position, not the individual. In the jargon of pay-setting, the General Schedule is oriented more toward a "rank-in-position" rather than a "rank-in-person." And that orientation is the secret to having a pay system that avoids discrimination.

The Threat to Revive the Discredited NSPS: Performance Pay and Force of the Future

The federal government's disastrous experience with the National Security Personnel System (NSPS) in the Department of Defense during the George W. Bush administration is a cautionary tale on the dangers of abandoning an objective "rank-in-position" system like the General Schedule for federal agencies. From 2006 to 2009, 225,000 civilian workers in DoD were subject to a system that based salaries and annual salary adjustments on supervisors' assessments of employee performance. NSPS also granted managers tremendous "flexibility" on classification of jobs, hiring, assignments, promotion, tenure, and "performance management." The system's only additional funding relative to the General Schedule payroll base was for outside consultants who had a large role in designing, implementing, and training DoD managers in their new system.

It was not surprising that even in its brief three-year reign, NSPS damaged the federal government's excellent record of internal equity on race and gender. Data on salaries, performance ratings, and bonuses showed marked advantages to being white and male, and working in close geographic proximity to the Pentagon. Those in the Office of the Secretary of Defense, the Defense Finance and Accounting Service and Tricare were found to be higher performers, on average, than civilian employees in the Departments of the Army, Navy or Air Force.

NSPS was a system conceived in a highly politicized context. The Department of Homeland Security (DHS) had been established two years earlier, in 2002, and its secretary was granted broad personnel authorities, construed by the agency to include the right to unilaterally abrogate provisions of collective bargaining agreements and replace them with agency directives. The rationale for DHS' grant of authority to create a new pay and personnel system was the war on terror and the administration's belief that union rights and national security were mutually exclusive. So in 2003, Defense Secretary Rumsfeld used the same rationale to seek personnel authorities similar to those granted to the Secretary of the Department of Homeland Security.

Now, the Defense Department is contemplating NSPS 2.0 under the title "Force of the Future." Early drafts of the Force of the Future proposals for civilians included the notion of moving virtually all DoD civilians from Title 5 to Title 10. This was the original plan for NSPS. Title 10 governs the Department's uniformed personnel, but includes a few provisions for civilians in intelligence and Defense universities. A move from Title 5 to Title 10 would eliminate most civil service protections, and give the hiring authority complete discretion to set and adjust pay. AFGE strongly opposes any and all efforts to restore NSPS, whether under the guise of Force of the Future or by any other means. Its flaws were well-documented and there is certainty that a revival would reproduce all the discriminatory effects of its earlier incarnation.

The Department of Homeland Security's personnel system, named MaxHR, never really got off the ground, thanks to a lawsuit that successfully argued that its undermining of collective bargaining rights violated the law. But NSPS did move forward in part because its focus was not on eliminating the union per se, but rather on creating a pay system that allowed managers to reward themselves and their cronies, and punish others. NSPS could only have continued if Congress had been indifferent to its discriminatory outcomes. Fortunately, when faced with data that showed NSPS gave systemic advantages to white employees and other relatively powerful groups at the direct expense of other DoD civilians, and that the venerated Merit System Principles had been undermined, Congress voted to repeal the system in 2009.

But the architects of NSPS never give up on the dream of a subjective pay system for the federal government, one in which managers can decide each employee's salary and whether and by how much that salary will be adjusted each year. Prior to the recent Force of the Future proposal, the contractor Booz Allen Hamilton ($5.41 billion in revenue in FY 2016, 98 percent of which is from the federal government) endowed the publication of a report under the imprimatur of the Partnership for Public Service.

The report trod the well-worn path of those seeking lucrative contracts to revamp the federal personnel system. It employs many of the hackneyed tropes that have become all too familiar among the enemies of fair pay for federal employees: the General Schedule is "stuck in the past," "broken," "rigid," and "fragmented." It conveniently neglects to acknowledge the fact that numerous flexibilities and modernizations have been enacted over the past few decades. In the 1990's, the General Schedule went from having one nationwide annual cost-of-living adjustment to a city-by-city, labor market-by-labor market cost-of-labor salary adjustment system. Special rates were authorized as well. In the 2000's, Congress passed legislation that introduced broad new hiring authorities, managerial flexibilities in salary-setting, and a program for substantial bonuses for recruitment, relocation, and retention. Congress enacted legislation to allow student-loan repayment, new personnel system demonstration projects, and phased retirement. The list of new flexibilities is long, and in many cases, these new authorities have improved the General Schedule. In any case, the list stands as a refutation of the myth that the General Schedule is a relic, untouched by modernity or that Congress has failed to address needed changes in the civil service system for decades on end.

Up until now, however, Congress has been careful not to go so far as to undermine the Merit System. Unlike a private firm, the federal government is spending the public's money in ways that are meant to promote the public interest. NSPS was an object lesson in what happens when the Booz Allen Hamilton plan is implemented in a federal agency. Despite good intentions, Merit System Principles are undermined, particularly the principles that promise "equal pay for work of substantially equal value," and that "employees be protected against arbitrary action, personal favoritism, or coercion for partisan political purposes." Veterans Preference in hiring, retention and promotions is also inevitably undermined. These are the lessons of NSPS.

To make its plan sound less "scary," Booz Allen Hamilton assumes dramatic increases in funding for federal pay so that no one would be any worse off than they would be with the protections of the General Schedule. As naïve and unrealistic as this assumption is, it is also based on a profound misunderstanding of the Merit System Principles. It is not enough to ensure that no one would be worse off. It remains wrong to distribute the system's hoped-for additional monies in a way that favors some demographic groups over others on the flimsy grounds of a manager's subjective assessment of performance. In the public sector, there is too much risk of political favoritism, and too much risk that unconscious bias will result in greater rewards for those with good connections or the preferred gender or skin color. And the General Schedule's pay and classification system, as the most recent OPM report amply demonstrates, bests the private sector and any other type of split, "rank-in-person" system on equity time and again.

AFGE does not suggest that either the Partnership or the architects of Force of the Future advocate discrimination in pay. They likely have good intentions. But we also know that the road to hell is paved with good intentions, and federal employees have no desire to revisit the hell of NSPS. To be clear: Force of the Future and/or the Booz Allen Hamilton blueprint are not just cut from the same cloth as NSPS, they are NSPS redux.

While NSPS and its would-be successors fail the internal equity test, there is no question that when it comes to external equity, Congress and the Clinton, Bush, and Obama administrations have all failed to perform their role. It is preposterous to blame the current system for failing to produce external equity. External equity is a funding issue, and the General Schedule cannot fund itself. It relies on budget authority and appropriations. To pretend that Congress would magically provide billions more each year to fund a new civil service system identical to one it repealed in 2009 on the grounds that it was discriminatory is folly.

The cost of living has risen 10 percent from 2010 to the present. So even before the salary reductions for new employees of 2.3 percent and 3.6 percent, the purchasing power of federal salaries had declined by 4.6 percent. The degree to which they lag the market varies by city, but the nationwide average is 34.92 percent according to the most recent estimates from OPM, using data from BLS. And that number includes current locality payments which were frozen for five long years. https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/pay-agent-reports/2015report.pdf

Inequality, the Decline of the American Middle Class, and Wages and Salaries of Federal Employees

The decline in living standards for America's middle class and the ongoing misery of the poor have been much in the news recently. Even as the rate of unemployment has dropped, wages continue to stagnate as do household incomes. On one side are those who deny the numbers, attribute changes in the distribution of income and wealth to changes in educational attainment or willingness to exert effort. On another side are those who recognize that the decline of unions, the rise of outsourcing and global free trade agreements, and the deregulation of the 1990's and other factors are better explanations. Median incomes for middle class American families, adjusted for inflation, are lower than they were in the 1970's and the very rich have benefited so disproportionately from economic growth over the decades that America is now more unequal than it was in the 1920's. Both middle incomes and the incomes of the poor are now higher in several European countries and Canada than they are in the U.S. After adjusting for inflation, median per capita income in the U.S. has not improved at all since 2000.

Federal employees are typical middle class Americans. They work hard and have historically received modest, but fair pay from their employer. It has been recognized that the nation benefited from having an apolitical civil service governed by the merit system principles. The pay and benefits that derived from those principles were supposed to be adequate to recruit and retain a high-quality workforce, capable of carrying out important public sector functions, from law enforcement to guaranteeing care for wounded warriors to protecting public health.

The government would not be a bottom-of-the-barrel employer, paying the lowest possible wages and forgoing health care and retirement benefits, like so many of today's most profitable corporations. Likewise, the government would not be a place where anybody went to get rich at taxpayer's expense (that role is assumed by government contractors like Booz Allen Hamilton). The government as an employer would be a model when it came to ideals of internal equity and non-discrimination, promoting both fairness and seeking employees devoted to the public interest. And on pay and benefits, it would aim at "comparability," defined in the pay law as no less than 95 percent of what private and state and local government pays on a locality basis.

We recognize the politics behind the pressure to constantly reduce federal spending. We understand the vast power of those who would protect the low tax rates of the wealthy at any cost Regardless of one's position on austerity and sequestration, both Force of the Future's pay proposals and the Booz Allen Hamilton plan deserve strong opposition because they introduce subjectivity and politicization into federal pay, undermine veterans' preference and violate the merit system principles. These plans are also objectionable because they would reallocate salary dollars away from the lower grades toward the top, increasing inequality and decreasing opportunity for advancement. Even if the direct attacks on federal employees' pensions were to stop and funding for salaries were enhanced, it would be important to reject Force of the Future and the Booz Allen Hamilton approach, because they quite explicitly advocate greater inequality between the top and the bottom of the federal pay scale.

The elitism of Force of the Future and the Booz Allen Hamilton plan is striking. They ignore the federal government's hourly workforce altogether. Apparently blue collar workers are so bereft of the qualities DoD and contractors want to reward in their pay schemes that they are not worth notice. The implied segmentation of the General Schedule or salaried workforce is also highly elitist. Employees in the lower grades, like hourly workers, are excluded entirely, again because, presumably, trying to measure their contribution to excellence would be a pointless exercise. But excluding the lowest paid federal workers is only one part of the inequality enhancement exercise that Force of the Future and Booz Allen Hamilton propose for DoD and the rest of government. Like their NSPS forbearer, the plans would divide the workforce by occupational category, reserving the highest raises for the highest earners. Those in the midlevel occupations would stagnate or decline, while their betters would be provided with both higher salary increases and a larger pool of funds from which to draw performance-based adjustments.

Force of the Future and its government-wide twin from Booz Allen Hamilton should also be opposed because they both would undo the tremendous achievement of the current system with respect to eliminating discrimination in pay. AFGE urges Congress to treat the findings of the OPM study on pay equity as important accomplishments worth protecting. We should be celebrating this success, not considering replacing the system that produced it. And that celebration must include full funding, so that federal employees can restore their status in the middle class.

The Federal Salary Council Approach

The Federal Salary Council uses BLS data gathered by trained data collectors who visit businesses and government agencies and record detailed information about the job duties assigned to workers at each salary level and at each location. The dataset used by Heritage asks individuals to identify their occupations by broad industrial categories; e.g., a lawyer would have an occupation called "legal services" as would many others with jobs in that industry. In contrast, the BLS data records, for example, a salary for a "senior attorney with at least ten years of experience in administrative law and litigation in the area of securities law." The legal profession includes a broad range of salaries, with the majority of lawyers earning modest salaries for providing routine services such as title searches, real estate closings, preparation of simple wills, and representation in small claims court. While some attorneys employed by the government perform similarly routine functions, many more are responsible for complex litigation and regulatory oversight. The data in the National Compensation Survey capture these differences and applies them to the calculation of the gap between federal and private sector pay exactly according to their weight in the overall distribution of federal jobs.

Another difference that explains the opposite results of Heritage and the BLS and OPM is methodological. Heritage uses the "human capital" approach, comparing the pay of individuals on the basis of personal attributes such as age, industry, geographical location, gender, race, ethnicity, educational attainment, occupation and tenure. One appalling result of Heritage's approach is the interpretation of the fact that the federal government is less likely to discriminate against women and minorities in terms of pay than the private sector: It is viewed as evidence that the government "overpays" relative to the private sector, rather than the other way around.

In contrast to Heritage, the BLS and OPM use a method that matches federal jobs with jobs in the private sector that are similar not only in terms of occupation but also that match levels of responsibility, and levels of expertise required. The personal attributes of the job holder are not included in the calculation, only job description, duties, and responsibilities. In this careful analysis, which focuses on the jobs of the actual federal workforce, the universal and consistent finding is that federal employees are underpaid relative to their counterparts in both the private sector and state and local government.

While the human capital approach is a valid way to reveal patterns of discrimination against individuals, it is not appropriate for pay-setting. Unfortunately, it has proved to be extremely valuable for scoring cheap political points, as the pay freeze and subsequent budget deals' cuts to federal retirement attest.

Conclusion

On paper, the General Schedule pay system is a model of market sensitivity and budget prudence that upholds the government's merit system principles and guards against discrimination. It has extensive flexibility that allows recognition for exceptional performance and special rates for jobs that are hard-to-fill. But what's on paper and what occurs in practice have become two very separate things.

The CBO's updated report makes no useful contribution to the discussion on federal pay and benefits. Its implications are horrid. If the government were to compensate its employees so that its costs reflected average private sector costs by demographics, it would reproduce all the inequities that we deplore in the private sector. Compensation for women and racial minorities would decline immensely. Regardless of the relative complexity, difficulty, and responsibilities of different jobs, what would matter would simply be the educational attainment of the person doing the job. A bachelor's degree from Trump University would merit the same "rate of return" as a bachelor's degree from Harvard.

The federal government should be proud of its pay system. Few in the private sector can match its fairness and internal equity. Its principle of market comparability and its authority for managers to reward high performance and punish poor performance are more than adequate. All that's missing is funding. The government should never adopt any kind of pay system that allows discrimination on the basis of demographics. Market comparability, adherence to the merit system principles of equal pay for substantially equal work and fairness must continue to be the principles on which federal pay is based.

Mr. MEADOWS. I thank you for your testimony.

The chair recognizes the gentleman from Ohio for five minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Goldenkoff, I am looking at a chart, and I have some graphs from your 2016 Federal Employees Performance Rating Report, and it is a pie chart, pie graph I should say. It says 38.8 percent of Federal employees were fully successful, 27.4 percent exceeded fully successful, and 33.1 percent were outstanding. It said only .1 percent of all Federal employees were unacceptable performance. Are you familiar with this chart, this pie chart?

Mr. GOLDENKOFF. Sure. The—so the Lake Wobegon approach to performance management where everybody is strong and above average ——

Mr. JORDAN. Not everybody—well, yes, you are right, everybody. Ninety-nine-point-nine percent of all Federal employees got—I mean, if you think about back in school, it looks like, you know, got an A-, an A or an A+. I mean, I have never seen a classroom like that ever.

Mr. GOLDENKOFF. Exactly. And we have so that that is problematic and certainly inconsistent with some leading practices on performance management that we have developed. One of them is making meaningful distinctions in performance. And I think, you know, the root cause of this and what's so important is that, you know, you could make it easier to fire poor performers, and obviously, there needs to be some improvements there. But on the front end, the performance management process need to be improved. Supervisors need to do their jobs for one thing. They need to be able to realistically rate employees ——

Mr. JORDAN. Well, I ——

Mr. GOLDENKOFF.—based on their performance.

Mr. JORDAN. Yes, and I am just looking from the practical constituent kind of perspective that I would think the good folks in the Fourth District of Ohio would look at it. If you have got 99.9 percent of the workforce getting an A, I think our constituents want to know why they have to wade eight weeks to get their passport or why when they call the IRS only 30 percent ever got to talk to an actual person when they called into the call center. I mean, if we have got the greatest workforce in history, you would think the taxpayers would get a little better treatment than they do.

Let me turn to Ms. ——

Mr. GOLDENKOFF. Sure.

Mr. JORDAN.—Greszler. Ms. Greszler, is it true that—so if I got the gist of what you guys said, overall pay for Federal employees is higher than that in the private sector. Is that accurate?

Ms. GRESZLER. Yes.

Mr. JORDAN. Significantly higher, like 17 percent? Wasn't that what someone said, one of the studies, one of your studies?

Ms. GRESZLER. The CBO compensation was 17 percent total.

Mr. JORDAN. Seventeen percent. All right.

Ms. GRESZLER. I believe we found about 22 percent just for the pay component. We found about 30 to 40 percent for total compensation.

Mr. JORDAN. So they get paid better. Are their benefits better for the folks that work in the Federal Government?

Ms. GRESZLER. The benefits are the significant part of the compensation bonus, yes.

Mr. JORDAN. Right. So ——

Ms. GRESZLER. A lot of that is the healthcare and the pensions.

Mr. JORDAN. Yes, so they get cheaper health insurance than the average American gets?

Ms. GRESZLER. Yes, and significantly greater pension benefits.

Mr. JORDAN. They get paid better, better pension, cheaper healthcare, better overall benefit package, sick leave, all those kind of things, right? And you can't fire them, right?

Ms. GRESZLER. Yes.

Mr. JORDAN. And 99.1 percent of them get an A-, an A, or an A+ ——

Ms. GRESZLER. Yes.

Mr. JORDAN.—in their performance? Wow. That is amazing. And yet ——

Ms. GRESZLER. And that's one of the reasons that you see the quit rate among Federal employees is one-fifth that from the private sector.

Mr. JORDAN. Yes.

Ms. GRESZLER. Once they're in there, they're not going to leave.

Mr. JORDAN. Well, yes. You can't blame them for that I guess, but this is just phenomenal for me to think—and then it to add insult to injury, all that, better pay, better benefits, better and cheaper health insurance, they can't get fired. My guess is the reason you got 99.9 percent getting these successful, you know, more than fully successful and these ratings is because that allows them to jump up in pay quicker, right? You have got to ——

Ms. GRESZLER. That's the biggest thing we found is that moving up those with those effectively ——

Mr. JORDAN. You need that ——

Ms. GRESZLER.—automatic pay increases, they move up more quickly.

Mr. JORDAN. Exactly. And all that is going on and at the same time you had an agency I would like to cite from time to time, the IRS, which, again, targeted people. I mean, so the folks like Lois Lerner were getting all this and targeting Americans exercising their First Amendment liberties. And just on a practical side, people calling in trying to get customer service trying to get answers to their questions during tax season, only a third of them could even talk to a real person. Yes.

Ms. GRESZLER. And I would just add that for Federal employees, yes, they have a big compensation premium but they're not all just sitting there happy and taking in this premium. I think a lot of them are really frustrated with the structure because ——

Mr. JORDAN. Sure.

Ms. GRESZLER.—it's not rewarding those good performers. And because it's so difficult for Federal managers to get rid of a poor performer or to even demote them or do anything to improve their performance, those people sit there, and it's the high performers that are having to do their job. You know, they're doing the work of two people to make up for that fact, and they're not rewarded for it.

Mr. JORDAN. Yes. Yes. All right. Thank you.

Thank you, Mr. Chairman. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

This committee has a long and strong history of really delving into some of the most important issues facing the American people, and it just mystifies me that we have chosen this topic. You know, we could be investigating, you know, the Russian interference in the democratic elections. We could be investigating whether the FBI Director was fired because he actively was investigating that Russian connection. We could be investigating whether the President asked the former FBI Director for a pledge of loyalty a few weeks back. We could have looked at whether the President specifically asked the former FBI Director to quash the investigation of the former NSA advisor Mr. Flynn.

So rather than keeping the politics out of this committee, I think the leadership of this committee is actually suppressing a lot of the important issues that really should and in history have been grappled with by this committee. Instead, we are trying to figure out why the Federal employees, the ones with the bachelor's degree, are getting paid less than their counterparts in the private sector and why the lowest-paid Federal employees are being paid a little bit more than their counterparts in the private sector.

I think we have got misplaced priorities, we really do, on this committee, and I think there is a hell of a lot more we could be doing about issues that are real.

Now, I know this hearing comes up once every year basically or once every two years to look at the wages of Federal employees, but what I have got from the testimony so far is that Federal employees are treated better because they get tuition reimbursement. But as far as the Federal Government as an employer, we should be doing that. We should be encouraging private sector to provide tuition reimbursement so we can educate our workers. That is a good thing.

They get childcare. You know, that is an advantage that some Federal employees have. They have a childcare facility right in the building, and that is a good thing. But we are being told you should take that away so that they would be more like the private sector or you should take the tuition reimbursement away because that would make them more like the private sector and close that gap. Or they have flexible hours, and we can't have people have flexible hours, so take those flexible hours and make those Federal employees more like the private sector.

Or take away their pensions. So let me get this straight. We have got a pension crisis. We have a retirement crisis in this country because everyone is on a 401(k). And after working for 30 years or 35 years, at the end of their working lives they don't have enough money in their retirement to have a decent living, so they go on Federal benefits, and they have the taxpayer have to support them because they have to have Meals on Wheels. They have to have all kinds of subsidies because they weren't allowed to accrue enough benefits in their retirement plan during their working lives that they have to rely on government. They qualify for government benefits.

So we are supposed to make Federal employees more like that, take away their pensions, take away their pensions and just give them 401(k)'s so at the end of their lives they won't have enough money to retire with dignity and they can go on government benefits and we will pay them that way. That is ridiculous. That is ridiculous.

And the COLAs that we give people have been pitiful. Wages are flat in this country. So with all we have got going on, with everything we have got going on at the White House, we are focusing on this. You have got to be kidding me.

So I have got docs at the VA that are making about 75 percent what they could be making in the private sector. I got nurses at the VA that have way too many patients, and they are making about 60 percent what they could be making at a private hospital. I have got therapists at the VA that have way too many patients, and they are making about half of what they would be making if they went over to the Mass General or Tufts or one of the private hospitals in my district. And so we are going after these people.

I think our priorities are misplaced, Mr. Chairman, and I thank him for his indulgence, and I yield back the balance of my time.

Mr. MEADOWS. I thank the gentleman. I would remind the gentleman on some of those issues he and I are not apart. And ——

Mr. LYNCH. No. Let me just make that clear. I have worked with the chairman on many, many issues, and we are in harmony with much of what I just said.

I yield back. Thank you.

Mr. MEADOWS. All right. I thank the gentleman.

The chair recognizes the gentleman from Alabama, Mr. Palmer.

Mr. PALMER. Thank you, Mr. Chairman. I just want to make a couple points about wage stagnation since our colleagues have brought that up.

Wage stagnation has—there are many causes for that, and I would like to point out the National Small Business Association's annual survey of their members, employers reported the average cost of their monthly health insurance premiums per employee increased from $590 in 2009 prior to the Affordable Care Act to $1,121 in 2014. And I would like to point out that is before the major increase in premiums that we have seen in the last year or so. And in addition to that, they paid out another $458 a month just in other healthcare-related costs per employee. So when you are spending that kind of money on increases in health insurance premiums and healthcare costs, it will necessarily reduce the amount that you have to pay in wages. And it still is compensation.

The other thing I want to point out is the American Action Forum, which tracks the cost of regulation, reported that the Obama administration levied $181.5 billion in regulatory costs just in 2014. That is $692 per capita for each American, which drives down people's spending power. And that is a hidden cost.

Ms. Greszler, get back to the topic—and by the way, if we want to have a discussion about stolen elections, I think it would be appropriate to bring Senator Sanders in. Thank you, Mr. Chairman.

What would shifting to a defined contribution retirement system look like for Federal Government workers, Ms. Greszler?

Ms. GRESZLER. So the way that I've envisioned it is anybody with 25 years or more service would be grandfathered into the current system. Nothing's going to change for them. For all new hires or anybody that has fewer than five years of service, those people who have not yet become vested in their pensions, they'd be shifted to defined contribution system just playing on the existing Thrift Savings Plan that Federal employees already have. And so the contribution to that for the government currently is between 1 percent and 5 percent. That would increase to between 4 percent and 8 percent.

Existing Federal employees with between 5 and 25 years of service would have three different choices. They can do the same thing that the new hires are doing and they can shift entirely to that defined contribution system with a much higher match and overall contribution, and they can choose to take essentially a lump sum benefit. Everything that they've accrued in their pension, they take that value and it goes into their Thrift Savings Plan.

Alternatively, they could choose to basically freeze their defined benefit pension as it is. They keep everything that is accrued. They'll still have a defined benefit pension in retirement, but going forward, they're in that new system and they have the higher contribution to their Thrift Savings Plan. Or they can stay in the existing system, you know, can keep the same level of defined benefit but there will be some changes going forward only, nothing taken away because this was part of their compensation, and I would never argue that we should take away something that was really a past—it was essentially in their paychecks. So we don't take that away, but going forward, they would probably pay a little bit higher percentage of their overall contribution, the retirement age may increase, and some other small changes along those lines.

Mr. PALMER. Can you give me a fairly brief answer on what kind of cost savings we could expect for making those changes?

Ms. GRESZLER. Well, the pensions is the biggest component. Adding in everything altogether, we've estimated $330 billion over 10 years.

Mr. PALMER. Mr. Kile or Mr. Biggs, one of you, if you could answer this. Do you have any way to measure productivity in the Federal workforce as you would, say, in the private sector? I mean, when you have 99-point-something percent of people who are excellent, wouldn't that indicate that productivity is off the charts?

Mr. BIGGS. It is difficult—when I was at the Social Security Administration, we made efforts to measure productivity but it tended to be a measure of outputs, the number of cases handled. A true measure of productivity measures the cost of inputs, the labor costs, the compensation costs, in order to then figure out the improvement of the outputs. I don't think the Federal Government does a particularly good job of measuring productivity, although I will say it is not an easy thing.

Mr. PALMER. Can you answer it in the context of the point Mr. Jordan made about they were only responding to 30 percent of the calls? I think that was the number he gave. Wouldn't that indicate a productivity problem?

Mr. BIGGS. What you want to know is how productivity grows over time and how many calls they're getting in. It's not a straightforward thing to answer. And I'll admit I don't know the IRS very well so I don't want to act as if I know more than I do.

Mr. PALMER. All right. Mr. Kile, last question. What effect does the outdated nature of the current GS schedule have on hiring?

Mr. KILE. So that's actually one of the things that we would like to know more about. We don't have a very good sense of the data on hiring and retention and recruitment, and I think that in understanding the—both the current compensation system and others that might take its place, we would need to look further into that.

Mr. PALMER. Okay. Thank you, Mr. Chairman. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes Mrs. Watson Coleman.

Mrs. WATSON COLEMAN. Thank you, Mr. Chairman. I think I want to concentrate a little bit on the issue of benefits, particularly healthcare benefits.

An article published in New York Times last year found, and I quote, "The first full year of the Affordable Care Act brought historic increases in coverage for low-wage workers and others who have long been left out of the healthcare system." The New York Times also found, and I quote, "Part-time workers gained insurance at a higher rate than full-time workers, and people with high school degrees gained it at double the rate of college graduates." Unfortunately, Republicans now want to take away health care from the most vulnerable citizens, including working Americans who gained health care thanks to the Affordable Care Act. And the latest Trumpcare bill would do just that.

Mr. Kile, House Republicans forced the revised Trumpcare bill through the House before the CBO could even come up with the score. However, CBO's score of Trumpcare as it was first introduced found that under that bill, and I quote, "In 2018 by CBO and JCT estimates, about 14 million more people would be uninsured relative to the number under current law. That increase would consist of about 6 million fewer people with coverage obtained in the nongroup market, roughly 5 million fewer people with coverage under Medicaid, and 2 million fewer people with employer-based coverage."

I know you didn't work on the score, but am I understanding this correctly? In addition to ripping away health care from the millions of people who buy coverage in their individual market and rely on Medicaid, that the Trumpcare bill, as originally proposed, would also reduce the number of working Americans who get their health care through their employers by 2 million by 2018? Yes or no?

Mr. KILE. Congresswoman, I'm afraid that you've left my area of expertise. I'd have to refer you back to both CBO's cost estimate of that bill and my colleagues back in the office.

Mrs. WATSON COLEMAN. Good. Good thing we have a record of it.

CBO also found that the number of people obtaining health care through their employers would fall by, and I quote, "roughly $7 million by 2026." And some of this reduction in employer-based health coverage in the U.S. would occur because employers would simply stop offering healthcare insurance. Trumpcare also reduces the amount of tax credits people receive to help them pay for insurance, so in addition to losing their employer-provided health care, these workers may be left with less financial support to purchase insurance on their own.

Finally, I think it is important to keep in mind that repealing the ACA would harm all Americans, including those who get insurance through their employers, by doing away with important consumer protections like no annual and lifetime limits on benefits, free preventive care, and out-of-pocket spending limits.

Ms. Simon, is it true that all workers have benefited from the Affordable Care Act?

Ms. SIMON. I believe the answer is yes, but I can really only talk about Federal employees and the Federal Employees Health Benefits Program. Immediately, the Federal Employee Health Benefits Program adopted all the benefits of Obamacare that you've just listed and others, including coverage of dependent—or not dependent children, children up to age 26, the essential benefits package, and lifetime maximums and the requirement that ultimately limited the profits that insurance companies can take from premium payments.

Mrs. WATSON COLEMAN. Well, I ——

Ms. SIMON. So Federal employees ——

Mrs. WATSON COLEMAN. Thank you.

Ms. SIMON.—certainly benefited.

Mrs. WATSON COLEMAN. Thank you. And certainly, Federal employees seem to be the target of this discussion today, and I believe that this proposal that we are under right now is both harmful to them, as well as to employees in the private sector.

I think it is also important to note that we should be creating good jobs. We should be encouraging better distribution of all of the sort of revenue that streams through private sector. We should be concerned that lower-wage workers who are working out in the private sector are getting a livable wage. We should be concerned in this country that we have a minimum wage that is a living workable wage. We should not be looking to dummy down. We should be looking to elevate.

And we should also look to the fact that those who represent the very wealthiest and the smallest percentage of people in this country have had no problem with their revenue streams increasing exponentially. And the difference between what a worker gets paid, a good educated worker, an uneducated worker, and a CEO is just un-American.

Thank you, and I yield back.

Mr. MEADOWS. I thank the gentlewoman.

Ms. Simon, I want to make sure that you can hopefully clarify. You didn't mean to say that everybody benefited from the Affordable Care Act. I think that is what you told her, but I wouldn't think that you actually meant that, did you?

Ms. SIMON. I believe—I did mean that, and that's how I understood her question.

Mr. MEADOWS. So your recommendation ——

Ms. SIMON. She asked if ——

Mr. MEADOWS.—then would be that we ought to move all Federal workers into the Affordable Care Act?

Ms. SIMON. That was not my recommendation. I answered the broad question ——

Mr. MEADOWS. But if everybody benefits, wouldn't it be best that everybody is on it?

Ms. SIMON. Obamacare—the law that established what we now call Obamacare ——

Mr. MEADOWS. Well, I am going to recognize the gentleman from Georgia, Mr. Hice ——

Ms. SIMON. Okay.

Mr. MEADOWS.—because he is next, but I will come back to that.

Ms. SIMON. Sure.

Mr. MEADOWS. I will give you some time to think about it.

Mr. HICE. Thank you, Mr. Chairman. I appreciate it. And yes, I would say the previous questioning was totally misguided, realizing that Federal workers are not on Obamacare while the rest of Americans have been forced on that. The Federal Employees Health Benefit Program is quite a bit different, and we can't compare that at all.

I want to shift gears. Mr. Kile, I want to come over to you. I am sure you are familiar with official time, which enables Federal employee union members to be hired by whatever agency they may be hired for, but instead of doing the work they were hired to do, they work for the union in multiple ranges, some 100 percent and some quite a bit less. My question to begin with is did the CBO analysis take official time into consideration?

Mr. KILE. So we didn't measure that specifically. We—our data was from what's known as the current population survey and ——

Mr. HICE. Okay. Why not? Why was official time not considered?

Mr. KILE. In those—data on those types of activities are not available in that data set.

Mr. HICE. Okay. So not available because of reporting problems or what?

Mr. KILE. It's a measurement issue, yes.

Mr. HICE. Okay. So bringing that up, our friend Mr. Ross is not here, but he has a bill that would—that in fact hopefully we are going to be voting on this relatively soon, perhaps even next week, H.R. 1293, that would require some reporting of official time. Are you familiar with that legislation?

Mr. KILE. I'm not, Congressman.

Mr. HICE. Okay. Twelve ninety-three would be worth getting familiar with that. If we have proper reporting requirements for those on official time, if that were available, would that change the CBO's analysis in looking at it?

Mr. KILE. I don't know. We'd have to do that analysis in order to get an answer to that question.

Mr. HICE. Okay. Well, according to CBO's own described definition of official time, it is, quote, "paid time off from assigned government duties to represent a labor union." Now, that is CBO's definition. So how can paid time off not be considered compensation?

Mr. KILE. That—our—the time off is a measure of the benefits that we provide in our analysis.

Mr. HICE. The paid time off is but not when it relates to official time, which many Federal employees are using 100 percent of the time.

Mr. KILE. And what we're measuring is—what we're taking is what's in the data, hours worked, and in that data they don't report the activities that they were doing when they were working.

Mr. HICE. Okay. Well, I am not worried about the activities. The fact is, though, if they are using official time—if official time is not considered compensation, what is it considered?

Mr. KILE. Official time would be considered compensation.

Mr. HICE. Okay. But it is not analyzed because of reporting issues.

Mr. KILE. Well, what we don't have is the breakdown of—the employees report the hours that they work, the number of hours that they work. They don't report what they were ——

Mr. HICE. That is official time. Okay. Well, hopefully, we are going to be able to get that corrected, and I look forward to—I have a bill myself, H.R. 1364, that would prohibit Federal employees who are using 80 percent or more of their time on official time in any given year, that they would not—that year would not be counted as creditable service for retirement benefits at 80 percent or more. I would appreciate you looking at that. And I look forward to CBO including official time, future compensation studies, as part of the analysis. I think all of this is skewed if we are not taking this into consideration.

Mr. Biggs, let me come to you real quickly. It has come up multiple times already, the problem with firing Federal employees, bad actors in this thing. They have multiple avenues of appeal all through the process. There is no way this cannot be considered a job security benefit, is that correct?

Mr. BIGGS. That's correct. If you look at surveys of employees done by human resources consultants, pay benefits and job security are the three most important things ——

Mr. HICE. And if you can't fire someone, that is pretty good job security, or if you make it so difficult that it literally is an act of Congress to fire someone, that is pretty significant job security.

Mr. BIGGS. Sure. And it's—there's two components to it. One is it's very unusual for a Federal employee to be fired for cause. The second is it's very unusual for there to be layoffs. So you can look at unemployment rates for Federal Government employees. They are probably half those of similarly educated and experienced private sector workers.

Mr. HICE. Okay.

Mr. BIGGS. So that's a benefit that's not included in this sort of analysis.

Mr. HICE. Besides lengthening the probationary period, what else can be done to address this problem?

Mr. BIGGS. Well, there—I mean, there's a variety of things. One is, as Mr. Goldenkoff said, of encouraging Federal managers to use the powers that they already have, to not be afraid to use what rights they do have. I think it's also in terms of—I mean, employees deserve due process, but due process should not be so lengthy and costly that it is cheaper to keep on an employee who is not performing than it is to try to fire them. And this is a problem you find throughout the public sector. It is not worth the time and the money and the effort to fire an underperformer. Rather, you simply move them aside so that they don't—or they're not an impediment to the vast majority of workers who are doing a good job.

But, you know, it is—the private sector manages to do this—private sector firms don't want to fire good performers. They don't want to scare their workforce. So I think there's reason the Federal Government can do this, and it's really a question of putting in the effort and really being dedicated to it.

Mr. HICE. Thank you. I wish we had time to hear from each of you on this, but I appreciate your indulgence.

Mr. Chairman, I yield.

Mrs. WATSON COLEMAN. Mr. Chairman? Mr. Chairman, I have a—I seek a right of personal privilege.

Mr. MEADOWS. Okay.

Mrs. WATSON COLEMAN. Thank you very much. I just want to sort of acknowledge my colleague's comments regarding my line of questioning that I have to question his ability to question my line of questioning because he cannot determine for me what is or is not relevant but to discuss the issues of ——

Mr. MEADOWS. The gentlewoman will state ——

Mrs. WATSON COLEMAN.—salaries ——

Mr. MEADOWS. The gentlewoman will state her point of personal privilege.

Mrs. WATSON COLEMAN. This is my point of personal privilege. My point of personal privilege is that the discussion of this ill-advised Trumpcare healthcare initiative as it represents a component of benefits to both employees in Federal Government and outside Federal Government is a line of questioning that is worthy of pursuing and that if my colleagues just feel a need to be able to run away from that whole issue of that ill-conceived Trumpcare bill, I can certainly understand it.

Mr. MEADOWS. Okay. The ——

Mrs. WATSON COLEMAN. But I shan't accept anyone's characterization ——

Mr. MEADOWS. Okay. The chair will ——

Mrs. WATSON COLEMAN.—of the appropriateness of my questions.

Mr. MEADOWS. The ——

Mrs. WATSON COLEMAN. Thank you. With that, I yield back. Thank you, Mr. Chairman.

Mr. MEADOWS. The chair will remind all members on both sides that they are to keep personalities out of their line of questioning. They are to direct their questions to the witnesses without personalities involved.

Ms. Plaskett from the Virgin Islands is recognized.

Ms. PLASKETT. Thank you, Mr. Chairman.

First, I think it is interesting, Mr. Biggs, the notion that job stability is a benefit. It seems to be a very anti-American notion that you are counting as a benefit of a job the fact that someone has the job and is assured of a job when we as Americans are trying to keep our economy stable so that all people can be assured of work. That seems to me a very unusual position for you to be equating and wrapping into data analysis of job benefits.

Mr. BIGGS. If you—you can literally go back to Adam Smith who is the—you know, the first ——

Ms. PLASKETT. Yes, I know who he is.

Mr. BIGGS.—the founder ——

Ms. PLASKETT. Economics.

Mr. BIGGS.—of economics, and what he noted is that certain jobs will have more stability than other jobs. And what he noted then is that jobs that have less stability to them will pay a premium to the worker to compensate them for that risk. You find the same thing, jobs that are more dangerous or more unpleasant pay a compensating differential for that risk. So—and there is research showing that jobs that are in the private sector that are more secure, that have less risk of being fired or laid off will pay slightly less than jobs that have more of that risk. It's a compensating payment for that risk.

Ms. PLASKETT. I don't know if steelworkers would necessarily agree with that, with the amount of pay that they've received, or cotton pickers would agree that that was baked into the analysis of the job ——

Mr. BIGGS. What I—the way ——

Ms. PLASKETT.—skills that they were getting.

Mr. BIGGS.—I'd respond to you is if you were to go looking ——

Ms. PLASKETT. I don't need you to respond ——

Mr. BIGGS. Okay. Then ——

Ms. PLASKETT.—but thank you.

Mr. Kile, CBO recently found that on average Federal employees receive more generous benefits than private sector workers. Your analysis showed that the cost of benefits provided to Federal workers was 47 percent higher than the cost of benefits provided to private sector workers, and benefits for Federal employees with no more than a high school education were 93 percent higher than for similarly educated workers in the private sector. Is that correct?

Mr. KILE. Yes.

Ms. PLASKETT. And CBO also found that the higher cost of the benefits Federal workers receive compared to the benefits private sector workers receive can be attributed mostly to the differences in retirement benefits. Was that how the analysis went?

Mr. KILE. Yes, that's correct.

Ms. PLASKETT. Okay. Your report states that Federal Government provides both defined benefits and defined contribution plans to its employees. And it is my understanding that a defined benefit plan is like a traditional benefit plan, and a defined contribution plan is more similar to a 401(k) or in the case of Federal employees, the Thrift Savings Plan. Do I have that right?

Mr. KILE. Yes.

Ms. PLASKETT. All right. In contrast to the Federal Government, in the private sector employers no longer offer defined benefit plans or pensions. They've been replaced primarily with 401(k) plans?

Mr. KILE. Primarily. There are still some places that offer defined benefit plans, but they're ——

Ms. PLASKETT. Is that percentage ——

Mr. KILE. I don't ——

Ms. PLASKETT.—significant?

Mr. KILE. It's—it—I don't have that number in front of me.

Ms. PLASKETT. Okay. It is my concern and fear of many of us that many of my colleagues, my Republican colleagues will be using CBO's report in this hearing to justify eliminating pensions for

Federal employees. I know that our Chairman Chaffetz has said in the past that he wants to get rid of Federal pensions by shifting to a 401(k)-type plan for new employees in the Federal Government. We have information that retirement experts have warned that the vast majority of Americans are not saving enough for such a savings plan.

Ms. Simon, do you agree that the Economic Policy Institute's findings, which state that the shift from pensions to account-type savings plans have been a disaster for lower-income, black, Hispanic, non-college-educated, and single workers who together add up to the majority of American population, but even among upper-income, white, college-educated married couples, many do not have adequate retirement savings. What are your feelings about that conclusion?

Ms. SIMON. I think it's entirely accurate, and it's warranted. The most recent data I've seen is that less than half of all private sector workers are covered by any kind of employer-sponsored pension plan or retirement plan at all. And among those who have some kind of a 401(k)-type savings plan as part of their employment get no employer match or no employer contribution at all to their 401(k).

So of course this is a horrible retirement crisis in the making, as Representative Lynch was describing earlier. At the same time that private employers have abandoned providing any kind of financial subsidy for their employees' retirement, wages and salaries have stagnated for the vast majority of workers, bottom 80 percent ——

Ms. PLASKETT. Thank you.

Ms. SIMON.—of the income stream. So absolutely, the EPI's findings are accurate and ——

Ms. PLASKETT. And concerning to you as an organization ——

Ms. SIMON. Absolutely.

Ms. PLASKETT.—representing Federal employees?

Ms. SIMON. Absolutely.

Ms. PLASKETT. Thank you. And with that, I yield back. Thank you.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Well, thank you, Mr. Chairman. And I did get to hear your opening statement and the opening statement of the ranking member, but I had some other meetings I had to go to so I apologize if I get into an area that has already been covered.

But I will say this. I agree with the chairman and the ranking member and others that we have many good, dedicated, wonderful Federal employees. I will say, though, that I saw a statistic not long ago that said 58 percent of the people in this world have to get by on $4 or less a day. We have got hundreds of millions who would like to come here and get minimum wage jobs, so all of us are very blessed to live in this country.

And I was asked by a school group last year one time, did I like my job? And I said yes, I have always felt very lucky to have my job. And I said I had read a brief Bible study the day before that said if you don't feel very lucky to have your job, just think how you would feel if you were fired that day.

And so what I see as sort of unfortunate, almost everybody wants to make themselves to be some kind of victim today. And so I have heard and seen articles about the low morale of Federal employees and so forth and how tough they have it, yet compared to the great majority of the people, they are pretty well off.

So let me ask you this. So we have some stuff in the briefing material that says there are too many appeal options. And I noticed that Mr. Hice had just I think gotten into that maybe it being too difficult to get rid of a bad employee, says "too many appeal options lead to unearned pay increases and poor performer retention." Is that accurate, do you think? Does anybody have a comment about that? Do you think we have too many appeal options and that that does lead to some unfairness?

Ms. SIMON. I'd like to answer that question.

Mr. DUNCAN. Yes, ma'am. Go ahead.

Ms. SIMON. I think that there are numerous ways that Federal managers can get rid of poor performers or employees who engage in misconduct. The GAO, OPM, the MSPB have all done very comprehensive studies of those questions and found that it is not legal authority that's lacking; it's willingness to take on the responsibility that Federal managers have to their agencies, to taxpayers to document evidence to make sure that people who are—that the allegations of poor performance or misconduct are valid. That's all that's required.

If we don't have the protections as taxpayers to know that our Federal agencies are being staffed by people who have their jobs on the basis of their objective qualifications rather than their political affiliation or any other kind of non-merit factor are, then we'll have a corrupt government. These protections that Federal managers whine and complain about actually protect the public from corrupt government, from agencies hiring people ——

Mr. DUNCAN. Well, before I ——

Ms. SIMON.—for non-merit reasons.

Mr. DUNCAN. Before I run out of time, let me ask you this. Does anybody know what—can anybody tell me what percentage of Federal employees are fired or removed in any one year? Ms. Greszler?

Ms. GRESZLER. Yes, I believe it's .3 percent ——

Mr. DUNCAN. Point three percent.

Ms. GRESZLER.—are dismissed or fired.

Mr. DUNCAN. What percentage of Federal employees leave each year to go into the private sector? Do we know that figure?

Ms. GRESZLER. I don't know that one. I would add, though, on here that a big impediment here is the performance improvement plan process. And yes, I recognize that managers are choosing not to follow a lot of these procedures that they would need to do in order to fire or even to demote or write an employee less than fully successful. They're choosing out of experience. I've had Federal managers call me and say, yes, there are some avenues we can do here, but the legal hurdles are so high, such a high burden of proof.

On average, it takes a year-and-a-half to fire a Federal employee. Now, if you're running a private business, that's absurd to have an employee there that is a poor performer or actually sometimes impeding the mission of the organization or harming it, and yet you can't get rid of them for a year-and-a-half? I mean, that's ridiculous.

Mr. DUNCAN. Let me go in one more direction ——

Ms. SIMON. That is not true.

Mr. DUNCAN. My time is up, but just let me ask this. I have heard for years that Federal agencies spend 60 percent of their money in the first 11 months, and then they scramble around and try to spend the rest of it so that their budgets will be cut. Do you think that—in fact, I have introduced a bill to give bonuses to Federal employees if their department or their agency saves money, we would split half the money for bonuses and half the money would go back towards the deficit. Does anybody have an opinion as to that type of—a bill similar to that? Do you think that would be feasible or would work?

Ms. GRESZLER. I think that you definitely need greater ability and greater performance-based budgets to factor in there. The one thing you just want to be careful of is, is there going to be a push for those managers to get a higher budget next year so that he can ——

Mr. DUNCAN. Right.

Ms. GRESZLER.—then use some of that towards the performance-based bonuses.

Mr. DUNCAN. Well, the problem ——

Ms. GRESZLER. But certainly, they do need more ——

Mr. DUNCAN. The problem is that people get paid the same whether they work hard or whether they work easy, so you need to have some incentives or pressures that—they don't have the same pressures that are out there in the private sector.

Thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Virginia for a very generous five minutes.

Mr. CONNOLLY. I thank the chair. And I do want to say—I want to compliment the chairman. I hope this doesn't hurt him, but he has gone way beyond ideology on Federal employee issues. And we have worked together. He has made it his business to visit places of employment and listen to employees, to listen to what is happening in the workplace. And I think he would say it has informed him and given him some perspective. I wish more of our colleagues would take—I have done the same, and I really salute him. He has taken his job here seriously. I have got to get to know the territory, you know, the old line from The Music Man. You have got to know the territory. And I salute Mr. Meadows for that effort.

Ms. Greszler, I take your point that sometimes we have got a troubled employee, may be ethically challenged, behaviorally disruptive, whatever it may be, and it takes a year-and-a-half, a process that seems never-ending, an appeal may restore them, drives all of us crazy, but isn't there another side to the coin and the balance is what we are trying to get at? We want to streamline that, but we also want to be fair. There is something called due process. Courts have upheld it, that Federal employees are entitled to due process even though sometimes that may aggravate us in terms of how long it takes or even the end result. And we need to respect that, too, do we not?

Ms. GRESZLER. No, we do, and they need due process. But I think what we have now is an overly burdensome hurdle. The proof required for firing Federal employees exceeds that of the private sector, and I think there are things that we can do to streamline and make that possible. I mean ——

Mr. CONNOLLY. Yes, I understand, and I am not unsympathetic, but I will tell you as someone who represents a lot of Federal employees and Federal contract employees, there is still a lot of discrimination, favoritism, nepotism, outright outrageous discriminatory behavior, sexual harassing behavior, racially hateful behavior that goes on in a workforce as large as the Federal Government.

And trying to make sure there are some protections for the victims of that and trying to hold people to account are really important because sometimes the perpetrators make the victims, you know, the employees who get discharged or demoted or exiled to, you know, Nome, Alaska, or someplace where they are sort of out of sight and out of line. I don't mean to pick on Alaska; it is a beautiful State.

So I just want to suggest to you that it is a complicated picture, and some of the protections, though they have become may be more brittle than we would like over time and very juridical on the other hand are there for a reason.

Ms. Simon, I wondered if you wanted to comment on that? Because I see both sides of this in the job I have got.

Ms. SIMON. First of all, it doesn't take a year-and-a-half to fire a Federal employee. In most cases, certainly in cases of misconduct, an employee is off the payroll in 30 days or, you know, an even shorter period of time depending on the circumstances. If it takes a year-and-a-half and if the agency fails in its efforts to remove a poor performer or someone who has been proven to have engaged in misconduct, that is not a problem with the process. That is not a problem with the evidentiary burden. That is a problem with the agency and its managers and their own abilities to document what they allege. They make procedural errors. They do all kinds of things that are wrong. They propose a penalty that does—is not commensurate with the alleged offense.

Mr. CONNOLLY. And if I may interrupt because I have experienced this. And sometimes people who are sort of a problem are in positions of power and they just stonewall ——

Ms. SIMON. Well ——

Mr. CONNOLLY.—which takes time.

Ms. SIMON. As—we had a Senate hearing yesterday in the VA Committee, and our national president asked rhetorically if anyone thought that the firing that's been in the news this last week was an unusual occurrence, if they thought it never happened in other Federal agencies where people were fired in order to—an executive fired a subordinate in order to cover up that executive's own misdeeds. There are all kinds of miscarriages of justice that would occur in the absence of high—the current evidentiary standards for allegations of misconduct. And it is very, very foolish to consider lowering those standards so that people can just be fired willy-nilly. We'll get a very, very bad and corrupt Federal Government if we do so.

Mr. CONNOLLY. I thank you. Is the Chairman going to give me one more minute? I thank the chair. See, if you compliment the chair, you get extra time, a wonderful chair, have you all noticed?

So I just have one more. Thank you both.

Mr. Goldenkoff, you stated the Federal compensation system should allow the government to cost-effectively attract, motivate, and retain high-performing agile workforce necessary to meet these missions. You know, my impression from years of working in and with the Federal Government and representing so many Federal employees is that we are nowhere near that standard. We have got a long way to go in streamlining hiring process, making it easier, less bureaucratic, less paper-dominated, and frankly figuring out how do we attract that new generation that is going to replace a third of the Federal workforce that is eligible for retirement in the next three or four years? How do we appeal to millennials? I mean, how do I say to Ms. Greszler I see a 30-year Federal career in your future, you know? And we are part of the problem up here.

And I just wonder if you could expand on that a little bit. What we need to do to be more flexible and to attract and retain the talent of the future, which is the immediate future I might add, not far away.

Mr. GOLDENKOFF. It's—well, as you mentioned, I think flexibility is the key. It's not a one-size-fits-all approach so, you know, I know the focus of this hearing is pay, but pay is not the only thing. You know, even if we could assume for the moment that we could come up with the ideal pay system, it still does no good if your onboarding processes are inadequate, if you don't make effective use of their talents, if you don't aggressively recruit them, if once they do come on board if you don't develop them, if they're not given effective supervision, and it's also a matter of work-life balance programs. And it needs to be tailored to individual labor markets. It needs to be tailored to individual occupations. So—and we're just not doing that effectively right now.

Mr. CONNOLLY. I thank the chair for his indulgence. Thank you all so much for being here today.

Mr. MEADOWS. I thank the gentleman for his kind remarks, and I would let the record reflect that his additional time was really in the spirit of fairness because Mr. Duncan went over and not because of any wonderful embellished remarks to my benefit.

Mr. CONNOLLY. Well, yes, and for the sake of the media back home in North Carolina, I wish we could work with Mr. Meadows. He is just too conservative for all of us.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes Mr. Grothman for five minutes.

Mr. GROTHMAN. Okay. First of all, I would like to thank Mr. Connolly for the comments. I don't have a lot of Federal employees in my district. I haven't heard complaints from him, but if he says Federal Government is a hotbed of racism and sexual harassment, I will take him at his word. I mean, it is something you have got to look out for.

Mr. CONNOLLY. Would my friend yield just for a second?

Mr. GROTHMAN. Sure.

Mr. CONNOLLY. I know my friend knew I was simply pointing out that in a big workforce, you know, there are some bad apples. I in no way was characterizing or meant to characterize that as the Federal workforce. My experience is the opposite. The Federal workforce is a dedicated group of workers, as the chairman said at the beginning of the hearing.

I thank my friend for yielding.

Mr. GROTHMAN. Okay. Okay. I just wanted to clarify that. Okay. I went a little bit overboard.

Okay. Now, I have got a question for you guys to lead off, and I don't really see it in here, but one thing that I always find when I deal with government employees, obviously, many of them are regulatory and many of them seem to just be—I assume they are nice people in their own lives, but they seem to be completely out of touch with dealing with the public, be it individuals or businesses, you know, putting burdens on them that they would never think to put on themselves. And I always wish more of them had spent some time in the private sector so they would realize how they look when they come across to the public.

Does anybody have any information, say, on the number of—particularly on the regulatory agencies the number of government employees who spend, say, at least five years in the public sector before being hired or how many just came straight out of college, which would lead to the lack of common sense that you sometimes see in the Federal Government?

Mr. BIGGS. I don't have data on that directly, but I completely agree with you that there is not very much flow from the private sector to government and back. And I think that leads to some of the bigger misperceptions that we sometimes see here. Ms. Simon cited some statistics claiming that Federal employees are underpaid by 34 percent. If you were to ask most Federal employees, most believe they can make more money in the private sector than they do in government.

I have done some work where we tracked the—you know, the relatively small number of people who shift from Federal employment to private sector jobs. Rather than getting a big pay increase, most of them actually got a pay reduction. We also tracked people who went from Federal—from private sector jobs to the Federal Government. Most of them got pay increases.

I think the lack of shifting between the two, though, leads to an insularity where you're not aware of what's going on in jobs outside the private sector but also the concentration of Federal employees within the Washington, D.C., area may lead to, you know, lack of understanding or knowledge of what's going on outside of Washington, D.C. The—five of the 10 richest counties in the United States are in the Washington, D.C., suburbs, and that's not to say anything bad about people who live in Washington, D.C., but you may not understand exactly what's going on in the rest of the country.

Mr. GROTHMAN. Yes.

Mr. BIGGS. But most of the Federal workforce is outside of D.C.

Mr. GROTHMAN. Right, right. Maybe I will ask Ms. Simon. You see what I am getting at. Okay. If you work for a company and somebody from the EPA comes in and says, oh, here, you know, I know you just put in this new equipment four years ago, but the rules have changed, times have changed, you know, spend another

$10 million or whatever, you know, and that is maybe an exaggeration. But that is the sort of thing you hear. And you wonder, my goodness, do you know what it feels like to be on the other end of the phone?

Is there any effort made to say before we hire a new person in a regulatory agency to see if they spent, you know, five or 10 years on the other end of the phone? I think particularly older people, people in their 50s, sometimes it's harder to find a job but they have a lot of experience, they get downsized, is an effort being made to hire those people above somebody who just came out of college and may have no point of reference as to how the real world works?

Ms. SIMON. I don't have any data that would indicate one way or another how—the percentage of the current Federal workforce that has spent time working in the private sector or for employees in a regulatory agency that have worked in the same industry that their agency regulates.

I would tell you that it is always expected that Federal employees act in a courteous manner with any member of the public that they are dealing with. Obviously, in—when you're in a law-enforcement context and the law enforcement may be—the laws that people in the Environmental Protection Agency are paid to enforce, businesses might not like the, you know, restrictions on their ability to use ——

Mr. GROTHMAN. Yes.

Ms. SIMON.—certain chemicals or ——

Mr. GROTHMAN. Yes, I don't mean to cut you off, but they limit us on time ——

Ms. SIMON.—equipment ——

Mr. GROTHMAN.—so may I just make one comment for my good buddies in the think tank world? You know, I think in the future when they hire people, I am sure they have a scale and there might be a test that people take and blah, blah, blah. I would hope time spent in the private sector is a big part of that scale, and that is something you guys could work towards because I think you would get a lot better quality out of the regulatory agencies if you had people that dealt on the other side of things.

Can I ask one more question ——

Mr. MEADOWS. I beg your pardon?

Mr. GROTHMAN.—since I'm the only guy—the only Republican down here?

Mr. MEADOWS. Okay. The gentleman is recognized for 30 more seconds, and we will do the same for the other side.

Mr. GROTHMAN. Super. We have numbers here that were given us. I mean, I just find them hard to believe. We have 108,000 Federal employees making more than $150 grand a year, and where I come from, that is like, you know, the upper crust. And it just keeps skyrocketing up more and more and more. And I don't begrudge anybody making $150 grand a year, but holy cow. I mean, wow.

Ms. SIMON. The vast majority of Federal employees who make salaries like that are physicians and scientists.

Mr. GOLDENKOFF. And you have to understand, too, that the jobs that the Federal Government avails himself—for example, they're doctors, they're engineers. They are higher skilled because the nature of the work is higher skilled than in the private sector, and so that needs to be considered, too. You cannot just look at the salaries alone.

Mr. GROTHMAN. Well, I wonder if we can get for us—I mean, we have got $400,000, $150 and other—over $150, that's $500. I mean, that is just—I wouldn't know if I would have guessed that many people made that much in the country as a whole, but maybe I come from an area that doesn't make as much money. If we could someday get a breakdown by agency and find out, you know, from somebody ——

Mr. MEADOWS. Yes, the gentleman time is expired. If you will try to respond to the gentleman's request to the committee, that would be greatly appreciated.

The gentleman from Maryland, Mr. Raskin, is recognized for a very generous five minutes.

Mr. RASKIN. Mr. Chairman, thank you very much for your flexibility. And I do want to associate myself briefly with the remarks of the gentleman from Massachusetts, Mr. Lynch, who did observe that a time when we just experienced the firing of the FBI Director by the President for apparently refusing to quash the investigation of a paid Russian asset Michael Flynn, the timing of this hearing is at least a bit unusual. But as the Representative of the Eighth Congressional District in Maryland where I have 88,000 Federal employees, this is an issue of great interest and concern to me.

Now, I take the general point to be that high-ranking public employees like doctors at NIH or the Center for Disease Control or lawyers at the Department of Justice or maybe on Capitol Hill or engineers or IT people in the Pentagon are underpaid compared to what they could be making in the private sector. And certainly we know that anecdotally to be true. You talk to people all the time in government who are either leaving to go make double or triple their salaries in the private sector that they could be making or are tempted to do it and complain about the pay and benefits being too low.

And then the suggestion that there are, quote, "lower-ranking employees" who are overpaid compared to their private sector counterparts, and I want to focus on that for a second to figure out who we are really talking about because I don't know to what extent you can really equate particular public sector positions with private sector positions. I think of some people who are lower paid, for example, as soldiers, but, you know, you think back to the Iraq War, there were soldiers leaving the Army when they could and then making double or triple what they could as military contractors in Iraq or in Afghanistan.

Maybe climate scientists, researchers could be making a lot more working in the private sector or maybe they are making more than—but I can't visualize who we are talking about as being overpaid within the government workforce, and I am just wondering if anybody can help me out on that.

Ms. SIMON. I'd like to take a stab at that. I think your comments point to why the CBO study is particularly inappropriate as the basis for a conversation about whether Federal employees are overpaid or underpaid. In my testimony I talked about Border Patrol agents who have a very complex, difficult, and dangerous job. Their job requires only a high school diploma. They receive additional training from the Federal Government before they start their jobs, but their formal education, their educational attainment is ——

Mr. RASKIN. Got you. So basically, when they say ——

Ms. SIMON. All they need is a high school diploma.

Mr. RASKIN.—they are overpaid, we are equating a Border Patrol agent who just has a high school degree to that person taking their high school degree and getting a job at the McDonald's across the street ——

Ms. SIMON. Well, we're ——

Mr. RASKIN.—from the border or something like that.

Ms. SIMON. In the CBO study, we're comparing it with all private sector workers with a—high school education is their highest educational attainment who might work in security services, broadly defined, which could include all kinds of security guards, mall cops, you know ——

Mr. RASKIN. Okay.

Ms. SIMON.—anything in that ——

Mr. RASKIN. Let me ask this. So if that public-private juxtaposition isn't exactly useful to us in terms of thinking about the pay, what about—does anybody have any information on either an international perspective on what workers make in national governments abroad or historically? And the historical context I think is important because I do know that the Federal Government historically has been a place that has been open to people facing serious discrimination in the private sector like women, like African Americans who were able to get jobs their first when they were experiencing rampant discrimination. And so the fact that, you know, a woman or an African American could get hired in the 1920s or '30s at the Post Office or at the Department of Labor but not get hired in the private sector without facing extreme discrimination, that doesn't surprise me that they might be making a little bit more, and that might be something we would celebrate.

But I wonder if anybody has got either any historical perspective or international perspective on it. Mr. Biggs?

Mr. BIGGS. From the international context, the OECD, which is a group of developed countries, has done surveys of government pay for different positions in those developed countries, so the, you know, U.S., UK, Canada, France, whatever. And for a variety of positions they look at the U.S. Federal Government pays more. Just as an example, economists are paid an average of about $150,000 a year in the U.S. Federal Government, about $87,000 per year in other OECD countries. Somebody who's a secretary in the U.S. earns an average about $69,000 in the Federal Government, about $47–48,000 in other OECD countries. So this is not—this is government-to-government among other developed countries.

Mr. RASKIN. Okay. I would love to get that information from you. You are telling me that a secretary in the Federal Government makes an average $69,000 a year?

Mr. BIGGS. For secretaries, it's listed as an average of $69,476. For executive secretaries, it's listed as $98,786.

Mr. RASKIN. Okay. Did anybody have any historical data to see—because of course one of the things we have seen is a decline in unionization for people who would be in high school graduate jobs in a lot of places in the private sector, but an improvement in unionization in the public sector. So that might account for some of the disparity. And I wonder to what extent unionization does help explain it. And, Ms. Simon ——

Ms. SIMON. One of the places you see the impact of the decline in unionization is in the data that are used for the Federal Government's pay system for its hourly workforce, people who work in the skilled trades. They're mostly employed by the Department of Defense in depos and arsenals, and they—on paper anyway we have a prevailing rate system that collects data from all over the country, private sector data on what people are paying—what private employers are paying for similar jobs. And you can see month to month when an auto plant closes in a community, wages in that community go down by 35, 40 percent because the wages paid in a union manufacturing plant are so much higher than the non-union ——

Mr. RASKIN. So on that theory we would not want to allow ——

Ms. SIMON.—wages.

Mr. RASKIN.—extreme inequality in the private sector to become the justification for driving wages down further in the public sector, which I take it is ——

Ms. SIMON. No, but I would say that that is a nice way to describe the subject of this hearing.

Mr. RASKIN. Yes. All right. I think my time is up, Mr. Chairman. Thank you for your indulgence.

Mr. MEADOWS. I thank the gentleman. And in light of the number to my right of potential questioners, instead of recognizing myself, I am going to go to Ms. Kelly and recognize her for a strict five minutes. I am just kidding.

Ms. KELLY. That is all I will need. Thank you, Mr. Chair, and thank you to the witnesses.

When I saw what this topic was, I was really surprised because I have worked on every level of government and outside of government, and when I became a Member of Congress, so many of the people that came to work for me had to take pay cuts. And also their health care wasn't as good as what they had otherwise, so I find that very interesting.

The other thing is—and you don't have to answer the question—but it always seems like people think that if you do government work or you are a public servant or social service that you should make less even though you go to college, you may have your undergrad degree, your master's degree, in some cases your Ph.D., but people think that you should not make more because you are just a government worker or in social service.

Also the other thing is—and I know we talked about Washington versus outside, but how many of our staffers have two, three, four, five, six, seven, eight, nine, yes, nine roommates so they can live off the salaries that we pay them. And they don't work just straight nine-to-five jobs. So to the very staffers in this room, it is shameful that some people make $25,000 and $30,000 despite whatever, you know, the school loans you are saying that they get paid back, but it is still horrific in my opinion.

Ms. Simon, your testimony states that the Federal pay system promotes internal pay equity and prevents discrimination. You state in your testimony that this is because a system, and I quote, "assigns salaries to the position, not the individual." Can you explain how you believe the Federal pay system advances gender and race equity?

Ms. SIMON. Yes. I also in the testimony cite a 2014 study by the Office of Personnel Management that really does focus exclusively on the question you asked, pay equity in the Federal Government. The best number in that study is that well over 90 percent of—or women who are part of the Senior Executive Service on average make almost exactly the same salaries as men in similar jobs, but that's true throughout the Federal Government.

And Representative Raskin was asking about—or asking about historically the Federal Government was the place that was open to hiring women and members of racial minority groups when the private sector refused. Not only did it hire people based solely on skills, but it pays based solely on the job. So if the holder of the job is female or male, black or white, old or young, it doesn't matter. It matters only what the job is. And that's the way that the Federal Salary Council compares private and Federal pay and measures its pay gap, and that's the proper way to take a look at comparisons between Federal and private pay because the attributes of the individual, which is what the CBO study focused on, should always be irrelevant.

Ms. KELLY. Thank you. You also wrote, "One appalling result of Heritage's approach is the interpretation of the fact that the Federal Government is less likely to discriminate against women and minorities in terms of pay than the private sector. It is viewed as evidence that the government overpays relative to the private sector rather than the other way around." Are you saying that the Heritage study found a compensation premium for Federal workers because the private sector is more likely to discriminate against workers than the Federal Government?

Ms. SIMON. If you look at data on, say, African American women with bachelor's degrees in the private sector and what they make on average, an African American woman who hold jobs in the Federal sector that require bachelor's degrees, on average, the Federal Government pays more because it doesn't reproduce the discriminatory pay practices that we find in the nonunion private sector.

Ms. KELLY. And actually, there was a study done in Chicago that reports for African American women in the private sector that the more education you have, the bigger the pay gap grows so ——

Ms. SIMON. In the private sector.

Ms. KELLY. Right, in the private sector. Right. Can you just talk about—I want you to describe the most harmful proposals and explain how they would affect Federal workers when you look at what may be in President Trump's budget.

Ms. SIMON. Well, we have not been privy to what's in President's—President Trump's budget except for one phone call I got earlier this week that described the many, many proposed cuts we can expect to see to Federal retirement. They want to change the basis in which annuities would be calculated. They want to eliminate COLAs altogether for people on FERS and just a quarter of a percent for people in CSRS. They want to eliminate the FERS supplement that would affect law enforcement agents who are—have mandatory early retirement. And—but the biggest and worst and most consequential would be to charge Federal employees who participate in FERS anywhere from 7 to 9 percent of their salaries for their defined benefit. This is a massive pay cut.

It's important to note, although we've been discussing here today that too few private sector employees have access to a defined benefit pension anymore, for those who do in the private sector, about 97 percent of private sector employees with a defined benefit plan don't pay anything toward their pension. The employer pays the entire cost. Federal employees already pay far, far more for their pension benefit than comparable private sector employees.

Ms. KELLY. Okay. Thank you. And I know I went over, but I did want to make a comment that as the ranking member of the IT Subcommittee, and you have been very involved with us, that we can't keep Federal employees in that division and with cybersecurity because we don't pay enough. So thank you for your indulgence.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentlewoman from Michigan, Mrs. Lawrence, for five minutes.

Mrs. LAWRENCE. Thank you so much.

This discussion to me is very troubling on a lot of levels. The arrogance of individuals to target Federal employees where the criticism of Federal employees is, one, that you are a public servant, I am paying your salary; therefore, you should make less, but you have to uphold to so many restrictions when you take that oath of office. And Federal employees are required to take an oath of office for ethics, for the Hatch Act, for so many things that are different from the private sector that you don't even have an expectation or requirement.

There are some plusses that I wanted to go through. When we talk about career employees and why they stay there, most people go into the Federal Government, unlike the millennials of today, thinking that it is a career because there is upward mobility built into Federal employment, so therefore, you can actually grow and get promotions based on education and experience within the agency and it is rewarded.

The highest enforcement of civil rights, employment rights are in the Federal Government. Ladies and gentlemen, the diversity that has historically been demonstrated in Federal Government—and I will say from those who despise the fact that minorities are advancing in salary and the Federal Government is the catalyst to that is some of this displaced minimalism that we see happening with Federal employees. I remember hearing my older relatives saying that when you got a job at the post office, you were considered elite in the community because it was a paid job that you were going to be paid the same amount of money as your white counterparts, that you would be able to have a career, your job was protected, and guess what, they would enforce civil rights laws. So I am a little sensitive when I hear this blanket conversation about Federal employees.

The fact that—why would we not have an appeal system in the Federal Government for employees? You expect that if you are arrested or if you are accused of something, that you would have appeal rights. And instead of saying this is a model that private industry should use, we want to dummy down the Federal Government who are the keeper of our Constitution and our laws and we want to say pay them less, make them be the lowest-paid employee.

And for the life of me I am going to try to find a secretary in the Federal Government that is making $67,000 or $90,000 that you have. As an employee who has been employed for 30 years, moved up in the ranks, but I am sorry, the starting pay—and I want to give you an example. The starting pay of a registered nurse—and this is according to VA. A practical nurse or a medical technician in VA makes about $45,000 a year. Nursing assistants make $35,000 a year.

Now, many of you know I worked for one of the Federal agencies and I was in H.R., and the biggest problems we had were hiring professionals. We needed doctors, and we could not get an active doctor in the system. It was always a retired doctor that would come in because the pay was so low. It was not one that was reflective of the industry but a retired doctor could come and make this lower pay. And we struggled with that.

We struggle with engineers, we struggle with those, and it is nowhere that you can say that a skilled professional makes more money in the Federal Government. They may have career status protection and they may have opportunities within this agency.

The last thing I want to say, and then I am going to get a question in, is this issue about official time. It comes up consistently. And we are dealing with this right now in the military where we have women who are being subjected to sexual harassment in the military. So you are telling me in order for a person who is being discriminated against—and I was an EEO investigator—you are being discriminated against, you are being harassed in the workplace, guess what, take your own personal time, take time off the clock because you are being abused in the workforce to address your complaint.

When we say official time, you cannot go in there and have a cup of coffee and sit there for the whole day. You have to have a complaint. And to protect the rights of individuals in the workforce with official time so that if I feel aggrieved, I have a process to go through. It is something that is—we keep talking about this as we are trying to find a problem.

One thing that you all are saying and I hope we all agree on this, I want every Federal employee to earn their salary. I want efficiencies. I cannot stand fraud. I take the work of a Federal employee—I do place them at a higher level. And I do want to compensate them with a wage that is reflective of their skills, but I don't want, I don't want our employees to be able to disregard the responsibilities that they take an oath to do.

Thank you.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentlewoman from Florida, Mrs. Demings, for five minutes.

Mrs. DEMINGS. Thank you so much, Mr. Chairman.

You know, a few minutes ago I heard a comment that too many Federal employees, particularly those coming in, don't have a point of reference of how the real world works. well, I would venture to say many times Congress acts as if it does not have a point of reference of how the real world works.

As we all know, there have been growing inequality in wages with the highest earners keeping more of the total wages that are paid in this nation. This is likely why the CBO has found a disparity in wages between the public and private sectors, particularly for the least educated workers.

Mr. Kile, workers in the Federal Government, including by our calculations, about 31,700 people in Texas and more than 36,000 people in California with no more than a high school education were paid just about 34 percent more than similarly educated workers in the private sector. Is that correct?

Mr. KILE. We did not look at the breakdowns by State, but we do find on average the differences in compensation by education that we have been talking about today.

Mrs. DEMINGS. So is the percentage based on—the percentage, would you say generally that percentage is correct?

Mr. KILE. I'm—so the percentage difference in total comp for people with a high school diploma or less was 53, and that's a national average.

Mrs. DEMINGS. The Bureau of Labor Statistics and other experts have observed that in some cases benefits inequality between the highest and lowest earners has been even starker than wage inequality. According to the Bureau of Labor Statistics, only 33 percent of private sector workers whose earnings put them in the lowest 25 percent of wage earners had access to employer-provided health care. However, Ms. Simon, every full-time Federal employee has access to the Federal Employee Health Benefits Plan, even the lowest-paid, least-educated employee in the Federal Government. Is that correct?

Ms. SIMON. That's correct, but it also—I just want to add to what was just said. It's not—the problem with the CBO study is not that the employer provides the benefit; it's the differences in the cost of the benefit provided. It costs the Federal Government more to provide the benefit, the same retirement benefit, than it costs a private employer. And that is a necessary piece of information that—to be included in any financial comparison of the cost of benefits. It's not the benefits but the cost of benefits, the employer ——

Mrs. DEMINGS. So the retirement ——

Ms. SIMON.—cost of providing the benefit ——

Mrs. DEMINGS.—health insurance, paid leave ——

Ms. SIMON. The Federal Employee Health Benefits Program also costs the government more than it should, given the benefits it provides. There are structural flaws in FEHBP that make it more expensive than it should be. The actuarial cost of the benefit versus what the premiums are, there is—there's a big—there are flaws in the structure of FEHBP that make it much more expensive than it should be. And I wouldn't call the restriction on the investment of the assets in the Civil Service Retirement Trust Fund a flaw, but it makes it more expensive than a similar private pension plan that would provide the exact same benefit.

Mrs. DEMINGS. CBO found that benefits for Federal employees with no more than a high school education costs about 93 percent more than benefits for private sector employees with no more than a high school education. In other words, the difference between public and private sector benefits for employees with only a high school education were larger, as you have just said, Mr. Kile, than the difference in the wages paid by the public and private sector to these employees. Is that correct, Mr. Kile?

Mr. KILE. Yes, that's correct.

Mrs. DEMINGS. If Republicans cut benefits for Federal workers with no more than a high school education so that they are comparable to benefits paid by the private sector with comparable levels of education, according to your findings, the Federal workers would get to keep about 7 percent of their benefits.

Mr. Kile, has the CBO examined what medical benefits, retirement benefits, and leave Federal workers with no more than a high school education would actually have if they receive only 7 percent of the benefits that they currently receive? Have you examined that?

Mr. KILE. No, that's something we have not examined.

Mrs. DEMINGS. Ms. Simon, would you like to comment on whether the benefits earned by Federal workers with no more than a high school education are 93 percent too generous?

Ms. SIMON. The benefits are not too generous ——

Mr. MEADOWS. Ms. Simon ——

Ms. SIMON.—they're too expensive.

Mr. MEADOWS.—her—Ms. Simon, her time has expired but please answer the question.

Mrs. DEMINGS. Thank you so much, Mr. Chairman. Don't treat me differently.

Mr. MEADOWS. No, I would never treat you differently. Go ahead.

Mrs. DEMINGS. Ms. Simon?

Mr. MEADOWS. No, please answer.

Ms. SIMON. I said I—the benefits are hardly too generous. They are—I think the health insurance benefits are too expensive. I think that we would benefit from self-insured program in FEHBP.

As far as the cost to the employer and cost to the government of providing the retirement benefit, it's—there's very, very good reason for that, as I described in my testimony, because of the rate of return on treasury bonds compared to private equities. And so the provision of benefits can't—has to take into consideration the cost of providing the benefits, not the benefits themselves.

Mrs. DEMINGS. Thank you so much, and thank you so much, Mr. Chairman. I yield back.

Mr. MEADOWS. I thank the gentlewoman.

Ms. Simon, let me make sure I can clarify one thing in following up on her testimony there—or your testimony, her questions. Are you saying that the benefits that Federal workers get are not better; they are just more poorly administered on behalf of the Federal Government? Because you said the Federal Government was not efficient I guess in doing that? I am trying to understand where she was going with and you said it is not better benefits; it is just they are not—it is more costly to administer it in the Federal Government?

Ms. SIMON. Yes. I didn't say because—and it's structural issues. The FEHBP has problems with risk segmentation. It doesn't have one benefits package. It squanders the purchasing power of what is the largest employer-provided plan ——

Mr. MEADOWS. So you are saying the Federal Government is not administering their retirement program as well as the private sector?

Ms. SIMON. No, I was just talking about the Federal Employee Health ——

Mr. MEADOWS. Well, that is what it sounded like.

Ms. SIMON. I was talking about the Federal Employee Health Benefits Program.

Mr. MEADOWS. So they are not ——

Ms. SIMON. I think there are structural ——

Mr. MEADOWS.—implementing it ——

Ms. SIMON.—flaws in that plan. I'm not saying that OPM ——

Mr. MEADOWS. So this gets back to the ——

Ms. SIMON.—implements it poorly.

Mr. MEADOWS.—previous question. You think they ought to go all on Obamacare?

Ms. SIMON. No, sir.

Mr. MEADOWS. Okay. Well, we will follow up on that.

Mr. Sarbanes, you are recognized for five minutes.

Mr. MEADOWS. Oh, I am sorry.

Mr. DESAULNIER. It is close enough, Mr. Chairman. We are both physically close to one another here. And I do want to say the chairman and I share something in common. It is my understanding you started off in the restaurant business, Aunt D's?

Mr. MEADOWS. Boy, you know, you Googled me pretty well there, yes.

Mr. DESAULNIER. Well, we have something in common. I always admire somebody who has owned restaurants, having managed and owned them for 35 years. My mistake was, as opposed to you, I stayed in it. I wished I had gone into real estate because there is more money in real estate than there is in the restaurant business.

But I really think this is too bad. I think it is a reasonable question to ask from my perspective, having been in the private sector in a very competitive field where I needed to compensate and treat my employees well, owning restaurants in the San Francisco Bay area, which was very competitive, low profit margin. If I didn't treat my employees well, I was out of business in no time. And I saw lots of people who invested in lots of businesses who were out of time, particularly the retail business.

So I think the question should be how do we as Americans clearly in this day and age get wages and benefits up for all working Americans? I perceived the last election as being argument about that, that both parties had left that behind.

Today, according to Forbes magazine, the 20 wealthiest Americans possessed as much wealth as 152 million Americans. We have never had that concentration of wealth in this country. There is plenty of good arguments as to why we need to fix that. And I have never understood as a manager of people how blaming rank-andfile people for operational problems is going to solve your management problems. My experience in the public sector, having served at every level of government, usually our problems were cultural or management level. And I have heard that in this committee over and over again.

So forgive me for indulging in that little editorial comment, but I really do think it would serve this committee—and I know a lot of us on this side of the aisle would like to talk about how we get greater efficiencies in government. For those of us who believe in government, we want excellence in government. So the Heritage Foundation, I heard you earlier talk about the good employee who feels trapped. I think that happens in public and private organizations, and I am sure you understand that as well.

So how do we change that? And I really think this committee would be better served trying to figure out what is it we could do based on peer-reviewed, analytical analysis to improve customer service. I think it is really difficult when Members complain about the IRS customer service at the same time when you cut your revenues by almost a third. And I am sure the GAO has done studies on what the appropriate level in each workforce in terms of what wages and compensation should be and what the revenues should be and what that would equate to in terms of customer service. And maybe the GAO can respond to that.

But first, I would like Ms. Simon to respond to that from your experience. How do you get Federal employees from your experience to get compensated well in a competitive market? In the bay area, it is hard to keep Federal employees. I know my district office, I am losing a great person who worked for Google and is going to go back to work for them because he can get paid three times the amount of money in an area of the country that if you make $105,000, you are considered poor vis-?-vis the housing market.

So maybe you could respond to that. What is the right compensation in your view, understanding that you argue as appropriately for your members?

Ms. SIMON. Well, I'm also a member of the Federal Salary Council, and we are given the opportunity to look at large quantities of data that show disparities between Federal pay and non-Federal pay on a locality-by-locality basis. And we see these disparities. We see it by occupation; we see it by location.

My colleagues here today are talking about low quit rates. One of the things that we're—I've seen in my long career representing Federal employees is that salaries—you know, people who go into Federal service expect to have fair compensation but they don't do it to get rich. It's because they are very, very committed to the mission of their agencies. You've got people working in health care in the Department of Veterans Affairs, over a third of whom are veterans themselves, and they have devoted their careers to that kind of work. You've got people working in EPA who care deeply about the future of this planet and care about public health and clean air and clean water. And they have committed their lives to working in those kinds of agencies. Border Patrol agents who put their lives on the line, Federal corrections officers who put their lives on the line every day, but they're very committed to public safety, they also have to raise their families.

And we in the last 10 years or so but really the last nine years have suffered horrendous cuts in compensation, big retirement cuts, three years of pay freeze followed by minuscule pay adjustments, and no other group of Americans has had to bear such a huge burden for the politics of budget austerity. About $189 billion and counting have come out of the pockets of Federal employees partly because they're demonized routinely, partly because of these ridiculous studies that turn into misleading headlines about Federal employees being overpaid. We had reference earlier today to Federal employees who make over $100,000 as if that were some kind of scandal when most of those professionals who are earning that kind of salary, as you point out, could make much, much more in the private sector.

So it's really a matter of funding and changing the conversation in this country away from the idea that only the very, very wealthy deserve to live a decent life.

Mr. DESAULNIER. Thank you.

Thank you, Mr. Chairman.

Mr. MEADOWS. I thank you.

The chair recognizes the gentleman from Pennsylvania, Mr. Cartwright, for five minutes.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

Mr. Kile, thank you for being here. I want to drill down on some of the figures noted in the CBO report comparing the pay of Federal and private sector workers if I may. Your report finds that Federal workers with a bachelor's degree or less receive more total compensation than their private sector counterparts ranging from 21 percent more for employees with a bachelor's degree to as high as 53 percent more for employees with no more than a high school diploma. Am I correct in that?

Mr. KILE. Yes, that's correct.

Mr. CARTWRIGHT. So according to data from OPM, more than a million Federal employees have no more than a bachelor's degree. That is about half of all executive branch employees. And I know that CBO analyzed data from the current population survey. However, assuming CBO's study is correct, we would have to conclude that the compensation of more than one million Federal employees is higher than compensation provided to their private sector counterparts with similar education levels. If our Republican colleagues insist that Federal compensation be realigned with private sector compensation, that would mean that the compensation of more than one million Federal employees would need to be cut. Many employees would see their total compensation cut in half.

But OPM data show also that veterans comprise about 30 percent of the Federal workforce. So if you take those numbers together, it appears that of the one million Federal employees who make more than their private sector counterparts, as many as 300,000 of them may be veterans of the United States military.

Ms. Simon, nice to see you again. What do you think? Do you think veterans in the Federal Government are overpaid?

Ms. SIMON. I think for the most part veterans who serve in the Federal Government are underpaid. And I think that it's—some of the discussion that has occurred in this hearing earlier talking about taking away appeal rights from Federal employees for adverse actions will fall most heavily on veterans and veterans with service-connected illnesses and disabilities because that really has been the focus of attempts to punish Federal employees. They want to punish by taking away their ability to defend themselves when they're—when—against allegations that they haven't performed well enough at their job in spite of their disabilities, and now they want to take away some of their pay.

Mr. CARTWRIGHT. Well, I want to stay on the veterans theme. Unlike the vast majority of the private sector, the Federal Government has made it a priority to hire veterans by giving them a statutory preference in hiring. As a result, nearly one-third of new hires in the Federal Government are United States military veterans. Let's take a look at the VA, for example. About one-third of its employees are veterans. Psychiatric practical nurses and medical technicians in the VA make about $45 grand a year, and nursing assistants make about $35,000 a year.

Ms. Simon, do you believe that these individuals are overpaid by 52 percent or even 21 percent?

Ms. SIMON. They're definitely not overpaid. They're underpaid. And as we talked about before, what seems to raise the ire of some people who look at these data is that in the nonunion sector people who are performing similar jobs or have similar educational attainment receive no health insurance benefits from their employer, receive no retirement benefits from their employer, and they think the Federal Government ought to follow that race to the bottom. And of course that is not something that AFGE supports.

Mr. CARTWRIGHT. Well, now some Members of Congress intend to use CBO's report to justify slashing Federal employee pay and benefits, but I just want to caution that we proceed cautiously in this area because we are all good little capitalists here, and we know that in a free market economy and also wherever you hire people, you get what you pay for.

And if you continue to do, as you mentioned, Ms. Simon, beating up on Federal employees, beat up on your employees, beat them up, beat them up, cut their pay, make them feel bad about themselves, the best ones are going to wander off, and you are going to be left with what is left. And do we really want to do that when we run the Federal Government?

Mr. Chairman, I thank you for your indulgence ——

Mr. MEADOWS. I thank the gentleman.

Mr. CARTWRIGHT.—and I yield back.

Mr. MEADOWS. The gentleman's closing sentence would indicate that you don't always get what you pay for.

I will recognize Mr. Cummings, the ranking member, for a line of questioning.

Mr. CUMMINGS. Let me—first of all, to all the Federal employees who may be watching today, I want to take a moment to thank you for what you do. I want to thank you for giving your blood, your sweat, and your tears to all of us to make our lives better. I have talked to many of you many times and asked why, why is it that you got into Federal employment. And over and over and over again I hear words like I wanted to do something that would last forever. At the end of my day they would say—many of you said it is not the pay I get; it is the deeds I do for other people.

And, you know, every time I hear those words—and then we have people that have come to us many times and I will say, you know, where are you working? Well, I am working at this law firm. They tell me how much they are making, and I will say, well, this job doesn't even pay near that. And this happens to me almost every other month. What are you doing here? You are not going to make that kind of money. And you know what they say? They say, you know what, I have been doing this other job for 15 years, 20 years. I will take a pay cut. I will take a pay cut because I want at the end of my day and at the end of my life to be able to say I gave.

And so I take my moment to thank all of you who may be watching here today.

The other thing that I would say to our Federal employees is something that somebody said to me a long time ago. I know many times you get your paychecks and then you listen to this hearing and you listen to the people who have spoken here today, and you get your paychecks and you go to the supermarket, and you are the ones who have to get the subtotal. You are the ones who are sitting there with your calculator. You are the ones that leave those groceries behind because you don't have enough money.

You are the ones who get up at 4:00 and 5:00 in the morning, dress the baby, and then try to race to work. And then you are worried all day. And then you hear people talking about it is a big bonus because you got some babysitting services. Please.

You are the ones that worry. You are the ones at NIH that when we had the government shutdown, you are the ones who were worried. The nurses I talked to at NIH, she said I am so upset when we had the government shutdown. And I said why are you so upset? She said, because when they did the shutdown, what that does is it stops us from being able to continue some experiments or some research that could have saved lives. It is not about the money. It is bigger than that.

And so I can spend all my time asking a lot of questions, but I am not going to do that. I want to just thank you because you don't get thanked enough. You don't get thanked enough. Over and over again you hear criticism, over and over again you hear people talk about what you are not doing, and I thank you for what you are doing.

Now, before Mr. Meadows—he may think I am talking about him because I am not—Meadows is a good guy. I mean, really. I really believe that he wants balance, and I understand that. He and I have talked many times about whatever we are doing being effective and efficient, period. And in order to be effective and efficient, you have got to have good people. I was telling him a few minutes ago it is very rare that I fire anybody because I try to hire the right people.

And so, you know, I just wanted to take that moment because, you know, this program that they do every year—I forget the name of it—where they honor Federal employees, and every time I go to that program, I have got to tell you, it gets very emotional because usually it is somebody who is unseen, unnoticed, unappreciated, and unapplauded. And somebody took time to recognize what they did or do.

And, you know, I just want Federal employees to know that I think it was Mrs. Lawrence that said all of us want the best. All of us want employees that go the extra mile. All of us want to be—by the way, we are Federal employees. We need to go the extra mile, too. And I think when you look at Members of Congress and the time that we put in, I don't know a Member of Congress that has a nine-to-five job. I don't know any of them. If they do, they are not in office, that is for sure. Or even a—it is usually seven days a week. And so we are all here to serve.

But you know what, your name may never appear on the front page of the Washington Post. Federal employees, your name may never appear in WTOP or even your local gazette. But I want to thank you on behalf of a Congress, a grateful Congress for what you do every day to make our lives better. Thank you for teaching us, by the way, the power of sacrifice. Thank you for giving us examples of people who are not selfish but are about the business of making people's lives better.

And with that, I will yield back, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman for his kind comments and for his diligence in trying to make sure that our Federal workforce is indeed efficient and effective, to use your words.

The chair recognizes himself for five minutes for a series—all right.

Mr. Sarbanes, we are going to go ahead and let you pop in for a very strict five minutes if you would.

Mr. CUMMINGS. Sarbanes from Maryland.

Mr. MEADOWS. From Maryland.

Mr. SARBANES. Thank you, Mr. Chairman. I appreciate it.

Before I move to my comments, I just wanted to ask unanimous consent to enter a document into the record. This is a report from the Center on Budget and Policy Priorities on wage stagnation faced by middle- and lower-wage workers in recent decades.

Mr. MEADOWS. Without objection.

Mr. SARBANES. Thank you. I thank the panel for your testimony today. I want to associate myself with the comments of Ranking Member Cummings, and I also want to salute the chairman because I know that he has brought close attention to the situation faced by our Federal employees. We are all trying to get to the right place in terms of providing the support and resources that are needed. This comparison I think we do on an annual basis between the kind of private sector workforce and the compensation and benefits and so forth that are available in the private sector and how that compares to what is offered to the Federal workforce.

It seems the frame is always reversed from the position that I think makes most sense. We look at the comparison. We get this testimony, which obviously is subject to debate about the fact that the Federal employees have access to a broader set of benefits and compensation and overall have higher compensation in certain categories than what is in the private sector. And oftentimes, the conclusion that people want to draw from that is that we should take something away from the Federal employees, that we should in a sense degrade the package of benefits and compensation that is available to them.

But I think that in fact what we offer our Federal employees is a model and a standard that we ought to be thinking about how we can get the private sector to raise its standards up to that level. I think, Ms. Greszler, you talked about the fact that Federal employees have access to some daycare benefits and some assistance with student loan repayment. Well, okay. If I am somebody working in the private sector and I am listening to this hearing and I am hearing that there is some benefits available to the Federal workforce that help with daycare, the answer to the fact that there is a discrepancy there between the Federal workforce and the private sector shouldn't be to invite the private sector person to say, well, the way to solve the discrepancy is to take it away from the Federal employee. The way to address the discrepancy is for that private sector person to say, well, I would like to have that benefit, too. That is a valuable benefit. How can I add that to the compensation package? And we ought to be trying to promote with private sector employers that that is a legitimate benefit that ought to be offered to people.

When you look at the pensions, and Representative Lynch talked about this at the outset, we ought to be trying to find ways to strengthen and lift up and really in some ways completely overhaul the private pension system in this country so it reflects more of the characteristics of what we have been able to achieve with respect to the Federal workforce. We need to bring up the standards that are out there in the private sector, not knock down the standards of what is a model in terms of the Federal workforce.

A decent wage not subject to bias, as you pointed out, Ms. Simon, is something we ought to be reaching for in the private sector. That is why many of us argue for a national minimum wage. Let's bring up what is happening out there for all of the workers in America, not degrade what is available to the Federal workforce.

And then the last comment I just wanted to make is there is this suggestion that is made that because the phones aren't being answered in a timely way in this agency or there is a casework backup in some other agency, that that reflects a substandard Federal employee. But the fact of the matter is that hiring freezes or the threatening of that or other cuts to resources that should support our Federal workers are often the reason that that is happening. So we have got to be very careful about putting that kind of narrative out.

So as I close, I just want to thank our Federal workforce for the great work that they do, and let's see if we can be enlightened enough to go out and work to get the private sector to embrace some of these standards and benefits that the Federal workforce has.

And I yield back.

Mr. ISSA. [Presiding] I thank the gentleman for yielding back.

I now recognize the chairman, the good morning from North Carolina, Mr. Meadows.

Mr. MEADOWS. I thank the chairman. I thank him for his willingness to fill in in his old seat that is certainly one that has seen a lot of great work from his perspective and the perspective of many others.

So let me go ahead and follow up. I apologize. I have got somebody—actually, I have got someone from the continent of Africa that is here who came for surgery here in America because as much as we are dealing with problems here, it is still the greatest country on the face of this globe. And as we look at this, it is critically important. So I have got to run right after that, but let me go ahead and follow up on a few things.

Mr. Biggs, we are going to have civil service reform. And so the testimony that all of you have here today will play a factor in that. And yet I am at a point of where I have got Ms. Simon saying one thing. I have got the CBO, Mr. Kile, saying another. I have got you and Ms. Greszler saying different things. So I need you to help me understand why, from your perspective, Ms. Simon is wrong. And all I am wanting to get at are the facts.

Mr. BIGGS. If you need to know one thing about the figures that come out of the Federal Salary Council, they claim that Federal employees are—on average receive salaries 34 percent below those of non-Federal employees. Non-Federal doesn't just mean private sector. Non-Federal means state and local government workers. If you look at the BLS data they use, those data show that state and local government workers receive about the same salaries as private sector workers with similar skills, similar job demands.

So what the Federal Salary Council is telling you is that Federal employees on average receive salaries that are 34 percent below those of state and local government workers. Go to anybody in state and local government; they will laugh if you say that. I mean, I've been in similar hearings. We've had people who worked in state government. They say we can't keep employees in state government because they'll go to the Federal Government if they have the chance.

Mr. MEADOWS. All right. So you say ——

Mr. BIGGS. It's just a wrong ——

Mr. MEADOWS.—that you will go to anybody and laugh. I appreciate that. She can come up and go to anybody and laugh with your testimony as well. So here is what I need. I need some facts. Why is it wrong in terms of the comparison? I need data points ——

Mr. BIGGS. Okay.

Mr. MEADOWS.—as we look at this.

Mr. BIGGS. The technical reason that is wrong is a problem we call over-grading in the Federal Government, which both the CBO and the GAO have documented, which means that you have a position that has the skill demands of, say, a GS–8, but you'll be assigned, say, a GS–9 or a GS–10. That's a way of raising pay for the employee. When—the data they use from the BLS to compare to private sector state and local government workers, the BLS itself looks at the job and says by our judgment we think this job is equal to a GS–8 on the Federal Government scale. The BLS does not look at Federal Government jobs and do their own assessment of what the skill demands the job is. They take it for granted that the Federal pay scale is correct, that the job is correctly assigned ——

Mr. MEADOWS. So they come from an assumption that the scale is the benchmark, not the duties that are performed ——

Mr. BIGGS. Yes.

Mr. MEADOWS.—is that correct?

Mr. BIGGS. So what you need to do is have the BLS go look at Federal positions, do their own assessment of the skill demands of the jobs, just like they do with private sector positions, just like they do with state and local government positions. I guarantee you that 34 percent figure will be—shrink considerably.

Mr. MEADOWS. All right. So would AEI and Heritage, would you be willing to look at both the CBO score and Ms. Simon as she has put forth from a Federal workforce and point out both the valid—from your perspectives valid and nonvalid assumptions so that we can hopefully make a more informed decision. Are both of you willing to do that?

Mr. BIGGS. I'd be happy to.

Mr. MEADOWS. All right.

Ms. GRESZLER. I would like to point out one place that I have agreement with Ms. Simon here and that's in the pensions and the fact that the Federal Government is not effectively managing them because that's going into treasuries. Treasuries do not earn the average rate of return that other things do, and so I agree wholeheartedly. And by shifting employees taking that government contribution that's into a defined benefit plan that's not actually invested anywhere; it's used to pay for current government spending. Instead of shifting that that guarantees the lowest possible rate of return into a Thrift Savings Plan, you can actually get greater returns, greater pension or retirement benefit with a smaller contribution there. And so ——

Mr. MEADOWS. But we need to be careful there because as we go into that, if you take that scenario out further and you apply it to other things like Social Security, we run into a number of things that potentially—her argument doesn't hold weight because of—the counterargument that is made in the exact opposite paradigm for Social Security, quote, "privatization." Would you not agree with that?

Ms. GRESZLER. I don't think that the government should be investing the money themselves, but that's why you take it out of a defined benefit plan and you give ownership to the individual because you can look at the state and local pension plans and say, yes, they have the ability to invest in whatever they want. And what they've done with that in large part is play politics with pensions, promise ——

Mr. MEADOWS. Okay.

Ms. GRESZLER.—far more than they can afford to pay.

Mr. MEADOWS. All right. I am running out of time. So let me say this. Mr. Kile, I would ask you to do the same and say—you know, there has been a lot of accusations that CBO is not accurate on this, which I find really interesting because when CBO says something that we like, we use it; when they don't, we really condemn it. Both sides do that. I find that they are condemning you today, but yet, they use the CBO to justify their arguments on the Affordable Care Act at the same time. So I find it a little bit—a little hypocrisy in that. So here is what I would ask you to do is look at your study as it relates to the charges that Ms. Simon made in terms of what you didn't consider. And I heard you loud and clear. And I want you to see if you can address that. I can probably instruct you a little bit more to get back to this committee than I can as a request for the others. What would be a reasonable time period to do that, in 60 days?

Mr. BIGGS. Let me talk to my colleagues and figure out when we can get back to you on that, but ——

Mr. MEADOWS. Okay. If you can give us an update with a time frame within the next 14 days so that way we know what to respond to, that would be great.

Mr. BIGGS. Yes, we can do that.

Mr. MEADOWS. All right. I want to thank all of you, and Mr. Chairman, I will yield back to you.

Mr. ISSA. I thank the gentleman. Thank you for yielding back.

I am going to be brief. I don't anticipate a full second round, but the ranking member may have some additional questions. But I want to just try to bring this to some summation of some things that I hope we agree on. Ms. Simon, I will go to you first. There has been a lot of discussion. If this committee, which certainly has the jurisdiction, the capability, did a modernization of the pension and allowed people, let's say, at their fifth year when they vest under the current system to opt into a rollover to a TSP, all the funds including our portion, would that be something that you believe could be in their best interest if they decide it is in their best interest?

Ms. SIMON. No, absolutely not. The current Federal retirement system really was created in the era of Ronald Reagan. It was a bipartisan compromise ——

Mr. ISSA. No, I understand ——

Ms. SIMON.—and ——

Mr. ISSA. I understand how we did away with the 2.5 percent and no Social Security, went into this ——

Ms. SIMON. That's correct.

Mr. ISSA.—defined benefits, but I would like you to answer the question ——

Ms. SIMON. But the ——

Mr. ISSA.—as to why you would object to essentially people taking control of the entire amount that would otherwise be held by the government for decades and putting it into something that they could borrow against, they could invest against, and they could use as they please, as they do more often in the private sector?

Ms. SIMON. The reason we would oppose that and we would advise our members strongly not to do that, God forbid if Congress did vote to take away people's defined benefit plan is because ——

Mr. ISSA. Ma'am, I don't mind your using a lot of terms, but let's just agree to one. We are saying if Congress decided to give them the option at their option and their option only to opt out so please don't use the word "take away."

Ms. SIMON. Oh, I ——

Mr. ISSA. When we give an option, it is not a taking away of a right.

Ms. SIMON. I was referring to a proposal that would grandfather in people—the option would only be available to existing employees and new employees would have no ——

Mr. ISSA. Right. No, and I am simply ——

Ms. SIMON.—opportunity ——

Mr. ISSA.—asking a question that I think Heritage and AEI were referring to, which is—and I think CBO and GAO would score it as likely neutral in the long run. It might cost us in the 10-year window because the money would disappear even though technically it isn't ours. But leaving all of the technical stuff, simply the question of, as a representative ——

Ms. SIMON. Yes, I ——

Mr. ISSA.—of these employees, do you believe that they should have that choice, and if not, why?

Ms. SIMON. The arguments, as Mr. Meadows said, are the same arguments against Social Security privatization. These retirement savings vehicles put all the risk of future retirement income adequacy onto the worker. If the stock market happens to decline by a substantial amount at the moment that a particular worker is—has chosen or is forced to retire, that will have a huge ——

Mr. ISSA. Okay. I ——

Ms. SIMON.—impact on their ability ——

Mr. ISSA. I have your answer ——

Ms. SIMON.—to support themselves in retirement ——

Mr. ISSA. Thank you.

Ms. SIMON.—yet if they have a ——

Mr. ISSA. Thank you.

Ms. SIMON.—defined benefit ——

Mr. ISSA. Thank you.

Ms. SIMON.—that won't happen to them.

Mr. ISSA. I understand your answer. But I want to ask from a standpoint of CBO particularly. Is it reasonably easy for you to—or maybe GAO would study it, and then there is Heritage, who is so kind to study us. The performance of TSPs on behalf of the workforce over any given period and the performance of their pension plan over the same period of time, 5 years, 10 years, 20 years, I am going to suspect that you can come back to us and show that TSP—which is not an invest in just anything; it is a broad investment base—has outperformed the defined benefit plan and every single Federal worker, given that same amount of dollars moved into the other plan, would get more money over any period of time we could study going back to Reagan. Ms. Greszler?

Ms. GRESZLER. Yes, that's absolutely what you would see. And by definition, if you're giving workers the choice to have this money, the exact same amount, there's really not a way that they would have less. All they have is a choice. As Ms. Simon pointed out, those funds are ineffectively invested in the Treasury. They could be ineffectively invested in Treasury by that worker's own option, and that's the lowest return they would get. If they make other choices, they would have higher returns.

Mr. ISSA. Mr. Kile, I am not going to ask you the same question; I am going to add to it for a moment. And I am not asking you to shoot completely from the hip, but as you know, the Federal workforce has a disincentive to stay past their pension vesting. When you reach—depending upon the scale, let's just say 55 and you have got 25 years, you are really working for a fraction of your pay. And if you leave and go to another job, you can immediately collect both pay and healthcare benefits for life with escalations. If you stay, you essentially have a de minimis accrual. Is that correct?

Mr. KILE. That sounds correct, yes.

Mr. ISSA. Okay. So if—although ——

Mr. KILE. Actually, Congressman, the accrual stays the same, but I understand your point about what is being foregone with the other job.

Mr. ISSA. Right, but—yes. Okay. So the question is if there is a disincentive for the Federal workforce to stay and if we were to go to a system that essentially in perpetuity we say, look, we are going to continue allowing you to roll your money into your own defined benefits plan, we are in a sense—no matter how long you work, your money continues to accrue and compound and outperform, as we have been told—and I think it will be documented—outperform the government's defined benefit plan, would we in your estimation be able to hold onto the Federal workforce longer and as a result have a lower cost that comes with the turnover of experienced Federal employees?

Mr. KILE. That's something that we would have to look into. We haven't studied the—that effect on turnover and—or retirement. There are a fair number of employees who continue on beyond their retirement eligibility and forego some of those retirement benefits that you alluded to.

Mr. ISSA. Okay. Well, to the extent that you have the ability to study it, I would appreciate knowing about it.

Ultimately, this hearing today really is about what is in the best interest of the Federal employment base.

I am going to go to the ranking member in just a moment, but I just want to—I don't expect to do an additional follow-up. I think a lot of areas were dealt with here today. The one that I heard both here and when I was listening in the other room was that we do not currently have a system that determines what the fair compensation is in a region for essentially a like job, meaning what we tell our contractors is they must pay a prevailing wage, and they go out and they advertise and people come in and that establishes a prevailing wage. At least with some regularity that wage would be much less. And when it is more, generally, we are asked to pay when it is more but we don't get the benefit when the prevailing wage is less. And I think I heard that fairly broadly. And it is the inherent nature of a one-size-fits-all step system. Would most or all of you agree to that? Okay.

Ms. Simon, I will note that you shook your head no, that you believe every employee being paid in Mississippi and in Silicon Valley the exact same wage is okay.

Ms. SIMON. Well, in the Federal Government, they aren't.

Mr. ISSA. Exactly. In the Federal Government, in Mississippi if it is too low, there is no process to take it away, but in Silicon Valley, we do pay a COLA premium, right?

Ms. SIMON. Are you asking me if the Federal Government lowers wages ever?

Mr. ISSA. Yes. Is there a negative COLA?

Ms. SIMON. Not that I am familiar with.

Mr. ISSA. Thank you. I go to the ranking member for his comments.

Mr. CUMMINGS. I am going to be very brief. I want to again thank all of you for being here today. And I want to associate myself with what Mr. Sarbanes said, my colleague from Maryland. You know, we can race to the bottom and cut, cut, cut, or we can have a high standard for our employees. So, I mean, if we want to do these comparisons and look to see what we should be cutting, looking at private sector we ought to reverse it because it is not only what we are doing for the employees.

We are also concerned about what the employees are doing for our constituents. And we want employees that want to be around, we want high morale, and I know the lady from the District of Columbia talks about this all the time, that we should have high expectations of our employees, and I have talked about that. And we talk about it because it is so important.

You know, before you got here, Ms. Norton, they were talking about the fact that, you know, some of the employees are able to get maybe discounted babysitting services or the bus fare, being able to get—I mean, those are things that are incentives for people to work for us. Am I right, Ms. Simon?

Ms. SIMON. Yes.

Mr. CUMMINGS. Yes. And so I think we need to be racing to the top as opposed to trying to go the opposite direction of racing in that direction. And again, I am concerned about our customers. I am concerned about the people who sent us here because I want them to have good services.

I remember when I first came to the Congress, I told my office—I still do this—I wanted to run my office like a law firm because I had practiced law for many years. And I wanted to run it like a law firm because I wanted the people that came into the office to feel like they were being treated as if, you know, they were paying us millions of dollars because I wanted them to have high expectations of the staff. And then the staff felt good about what they were doing. We were able to put out a good product.

And again, I talked earlier about how, you know, people come into Federal service, the ones I have talked to, because they really, really want to make a contribution to society.

And so, again, I want to thank you all for being here, and I will yield back.

Mr. ISSA. Thank you. And I would like to close with just a question, which is completely not going to be difficult for three out of the five of you. From CBO, GAO and—are you on FEHBP? Are you a Federal worker? You are not?

Ms. SIMON. No.

Mr. ISSA. You are on the union side. So for two of you, what do you think about the Federal Employee Healthcare Benefit Plan? Do you feel that in this era of everyone—this consternation about health care, do you feel that you are in the quiet of the storm by having hundreds of choices and programs that you can choose from for your health care as a Federal worker?

Mr. KILE. So I think I'd rather go back to the—to what we say in the report where we talk about the cost of benefits by type rather than, you know, providing a personal opinion.

Mr. ISSA. Okay. So you are good with the report. I will ask. Health care as a Federal employee receiving FEHBP with an 80 percent match from the Federal Government, are you pretty happy?

Mr. GOLDENKOFF. I am happy, but I have nothing to compare it to either and, you know, I have no private sector experience on this outside of my area of expertise.

Mr. ISSA. Okay. Well, I am going to close by saying I miss it. I have been in Obamacare now for a number of years, and I truly miss the Federal Employee Health Benefit Plan, which I am proud to say, for all the discussions that may go on, continues to be a program that is able to bid all over the country and try to meet the needs of the Federal workforce. So I say that because this hearing is important.

The ranking member is right about one thing. We do need to motivate the Federal workforce. We do need to remind people that they do serve, and although we get to determine what the fair price is when we employ them, at the same time, it is not their problem if they are, if you will, compensated at a rate that statistics show might not be the same. They came to work, they took the schedule, and they performed the jobs.

And so I want to thank you all for your testimony today. The record will stay open for three legislative days in order to have any extensions or questions answered.

And with that, we stand adjourned.

[Whereupon, at 11:57 a.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Senior Executives Association

the voice of career federal executives since 1980

77 K Street N.E., Suite 2600 • Washington, D.C. 20002 • (202) 971-3300 • Fax (202) 971-3317 • www.seniorexecs.org

May 17, 2017

Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee:

On behalf of the Senior Executives Association (SEA) – which represents the interests of career federal executives in the Senior Executive Service (SES), and those in Senior Level (SL), Scientific and Professional (ST), and equivalent positions – I write to offer perspective to the committee's hearing on federal employee compensation.

SEA does believe the government needs a dramatic overhaul of its personnel systems and management philosophy to ensure it can attract and retain the talent needed to accomplish agency missions in the 21st century. As Congress explores what changes may be necessary, and whether legislation is truly required or if improvement can be achieved through executive action or existing agency authority, Congress must ensure it upholds promises made to current employees and annuitants through their employment contract with the federal government. It would be unfair and would break a contractual bond with those employees to move the goalposts on employees who have worked a career understanding a certain arrangement, only to see that changed. If new compensation systems are required for the federal workforce of the future, that is a fair and appropriate debate for Congress as the Board of Directors of the federal workforce to have.

As the committee examines studies on federal employee compensation, it is critical to retain a focus on the bigger picture – the career civilian employees of departments and agencies of the United States Government are charged by Congress with vast and critical missions that Americans depend on every day. Consequently, Congress must ensure the federal government has the policies and tools in place, including compensation and benefits offerings that enable it to compete in the talent economy for the best and brightest employees.

As highlighted by the Government Accountability Office (GAO), the government has critical skills gaps in several mission-critical areas, many of which require advanced degrees or specialized training. Federal employees today are not green eyeshade wearing bureaucrats of yesteryear when the General Schedule and existing workforce and performance management frameworks were established in law. The government increasingly employs highly educated and technically specialized employees to accomplish agency missions, and needs to do much more to attract, retain, and cultivate these types of future employees and career leaders. While it is true that some new tools are needed, particularly around hiring, agencies also must make better use of existing authorities and flexibilities. GAO and Inspectors General have made many important recommendations that agencies could and should implement today.

In recent years, Congress has viewed the federal workforce largely as a cost to the public, regardless of the important work carried out by federal employees. Successful organizations, however, view their employees as assets who merit investment and development, with the goal of cultivating a high performance organization. The focus of the last several Congresses on "accountability" has completely neglected the fact that accountability is a two-way street, constituting both incentives for exceptional performance as well as consequences for misconduct or poor performance. Lawmakers often speak of their goal of achieving an "effective and efficient" government – if that goal is to be achieved, career employees must be provided the tools and support necessary to fulfil that objective.

In February of this year I had the pleasure of testifying before the Senate Subcommittee on Regulatory Affairs and Federal Management to discuss how empowering federal managers and executives could contribute to a more effective federal workforce. As the House Oversight and Government Reform Committee explores potential improvements to the laws and regulations governing federal compensation or personnel, I encourage Members to review my comprehensive written testimony, as well as that of my colleague and SEA Board member Robert Corsi Jr., who retired last fall from the U.S. Air Force as the Assistant Deputy Chief of Staff, Manpower, Personnel & Services. We each offer insights and recommendations for addressing issues relevant to the discussions I anticipate this hearing will generate.

Thank you for considering SEA's views. If you have any questions or comments regarding SEA's perspective, or would like to speak about these issues in greater detail, please contact SEA Executive Director Jason Briefel at Briefel@seniorexecs.org.

Sincerely,

William Valdez
President

NTEU
The National Treasury Employees Union

Testimony of

Anthony M. Reardon
National President

National Treasury Employees Union

House Committee on Oversight
And Government Reform

"Federal Employee Compensation: An Update"

May 18, 2017

Chairman Chaffetz, Ranking Member Cummings and members of the Committee, thank you for allowing NTEU to share its thoughts on federal employee pay and benefit programs. As National President of NTEU, I represent over 150,000 federal employees in 31 agencies and I appreciate the opportunity to discuss these important issues.

While the impetus for today's hearing is the recently released Congressional Budget Office (CBO) report comparing compensation for federal and private sector employees, I fear the real reason is an effort to justify cuts to the pay and benefits of the middle class federal worker. Numerous reports have confirmed that the middle class is shrinking and that income inequality is becoming a major issue of concern in the US. This begs the question as to why Members are looking to further that inequality by cutting pay and stripping basic healthcare and retirement benefits from middle class workers who work for the federal government?

According to a recent survey by Willis Towers Watson, chief executive salaries increased by 6% in 2016 — more than the 4% increase in 2015 and the highest increase since 2013. At the same time,, the average private-sector employee saw only a 3% raise in their annual salary last year — the same they received the previous three years—which, when taking inflation into account, is essentially stagnant wage growth. However, this is still higher than what federal employees received. Using the relevant Department of Labor Employment Cost Index (ECI) data, private industry wages have increased 12.7% over the last six years. Federal retirement and Social Security benefits have been adjusted by 8.8 % and military pay has risen % during this time period, as compared to a cumulative 5.4% pay increase for GS federal workers. A separate study from Equilar found a far more startling fact: the average CEO pay reached $16.6 million in 2016, which is 135 times greater than the starting pay for a member of the federal government's Senior Executive Service of $123,175. Meanwhile, America's middle class continues to shrink and lost 30% of its wealth over the last four decades.

The federal government employs nearly 2.1 million people across the United States—85% of which are outside of the DC metro area. It currently covers 8.2 million individuals enrolled in the Federal Employees Health Benefits Program (FEHBP) and 2.6 million employee and survivor annuitants with its retirement programs. Given the numerous reports about the shrinking middle class and the significant impact a reduction in pay and benefits will have on local economies, it is inane to try to strip health and retirement benefits from middle class workers and further increase income inequality in the US.

At this time, I'd like to discuss in turn the pay, healthcare, and retirement benefits provided to federal workers featured in the CBO report and express my strong concerns with cutting these vital benefits.

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 (FEPCA), 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 around the country. In practice, the formula set in FEPCA was never fully implemented and Congress (or the Administration) has set annual pay adjustments for federal employees almost every year. In fact, federal employees routinely suffer from pay-freezes and below-market increases.

But one provision of FEPCA that has been implemented requires the Bureau of Labor Statistics (BLS) to conduct surveys across the country 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 (OMB) and the Director of the Office of Personnel Management (OPM), who have the statutory responsibility of submitting a report to the President each year that lists pay gaps in certain locality areas as well as a national average gap. Over the years, the Pay Agent has consistently reported gaps showing lower pay for federal employees to the President.

For example, in 2016 the Pay Agent, consisting of Tom Perez (Labor Secretary), Shaun Donovan (OMB Director) and Beth Cobert (Acting OPM Director), issued its 2015 report for locality pay in 2017 and that report stated the average pay disparity as of March 2015 was 34.92 percent. (p. 22). 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).

Unlike the CBO, which compares professionals based on employee educational attainment, the BLS uses data from the National Compensation Survey and the Occupational Employment Statistics program to compare actual job duties, not just job titles, which is important given the incredibly complex work federal employees are required to do. For example, 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 mechanics work on nuclear submarines? This methodology used by BLS was deemed "impeccable" by Dr. Charles Fay when he testified before this Committee in 2007.

Yet another outstanding part of the GS pay system, which may also account for the discrepancy in federal and private sector compensation in the CBO report, is that the federal pay system does an excellent job of requiring pay equity in the federal government, which can account for the difference in pay and benefits in the CBO report. In 2012, the female-to-male earnings ratio in the U.S. was 0.77, meaning that, in 2012, female full-time, year-round (FTYR) workers earned 77% as much as male FTYR workers. According to OPM, in 2012, women working in the federal government were paid 87 cents for every dollar that a man was paid. OPM also found that men and women in many occupations make comparable pay. The salary gap for supervisors and managers was less than five cents on the dollar, and for women in the Senior Executive Service (SES), the highest level of Federal leadership, the gap is less than one penny on the dollar. Part of the reason for the greater percentage of equal pay is the fact that the rules on federal pay are set in statute with transparent regulations so that everyone knows what the standards and requirements are and what the consequences of actions are. The General Schedule has rules, standards and evaluations, which must be written. It has both merit and market based components, and is a performance-based system. Non-performers can be denied merit pay increases while outstanding performers can be given a variety of rewards, including quality step increases, as well as retention and recruitment awards. With these rules, there is limited ability for favoritism, discrimination or other non-merit determinations to come into play. This is an area where the federal government is leading by example and others should follow.

HEALTH BENEFITS

The FEHBP is the federal government's employer sponsored healthcare program administered by OPM that 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. Enrollees pay on average 30% of the total premium cost, which is higher than the average 18% that private sector workers pay for their premiums for individual plans.

Despite this fact, the federal government is a model employer and should remain so rather than risk the health and financial security of its employees. The Integrated Benefits Institute, which represents major U.S. employers and business coalitions, says poor health costs the U.S. economy $576 billion a year, according to a 2012 report. Of that amount, 39 percent, or $227 billion is from "lost productivity" from employee absenteeism due to illness or what researchers called "presenteeism," when employees report to work but illness keeps them from performing at their best. By being a leader in this area and providing wellness programs, strong healthcare benefits, and adequate leave programs that allow employees to get well and not contribute to the spreading of their illness among the workforce, the federal government has avoided these losses, and strengthened the US economy as well.

RETIREMENT

In the 1980s, Congress, working with federal sector unions, management groups and associations, reformed the federal retirement system. The Federal Employees Retirement System (FERS) was created 24 years ago to replace a defined benefit system (the Civil Service Retirement 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, cost-of-living adjustments (COLAs) and the basic defined pension 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 defined 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.

In 2012, Congress made a significant change to FERS and increased the amount new employees are required to contribute to their defined benefit plan-- by 2.3% to 3.1% of their salaries. Then in 2013, Congress acted again to increase the retirement contributions of federal employees under FERS by requiring new employees as of January 1, 2014, to pay an amount that was 1.3 % higher than the last change, for a total of 4.4%. However, these changes were not made in an effort to improve or strengthen the program, but rather to reduce the federal deficit.

The CBO reports that health and retirement benefits for the majority of federal workers are significantly higher than comparable individuals in the private sector. This seems ridiculous when you consider the fact that under FERS federal retirement pensions are not overly generous. The typical federal employee with a lifetime of service in the federal government will have an annuity from the defined benefit of approximately $1,049 per month. The government's 401(k)-like fund, the Thrift Savings Plan, may provide an annuity of around $400 per month if the average employee is able to fully contribute 5 percent of salary for 30 years.

However, when you consider how corporate America has slashed worker's retirement benefits, it makes sense. According to the Board of Governors of the Federal Reserve System, as of 2013, approximately 31 percent of Americans reported having zero retirement savings and lacking a defined-benefit pension. This finding is not new and means that nearly one-third of people in the United States currently have no money put away in any type of retirement account to supplement their Social Security benefits. Among respondents ages 55 to 64—those nearest to retirement—19 percent still reported having no savings or pension.

Given that so many still lack access to the primary savings vehicles used by workers today: workplace retirement plans, it should not come as a surprise that such a large share of Americans lacks any savings. As of 2014, only 65 percent of private-sector workers had access to a retirement plan through their jobs, and only 48 percent participated in one.

As America's population ages, the economic well-being of retirees and their families will be increasingly important to the overall health of the national economy. To secure economic independence and dignity in retirement for all American families, it is imperative to ensure that working families are able to save for retirement. According to the Center for American Progress, a worker with a hybrid plan, part defined benefit and part 401(k), is nearly 2.3 times as likely to maintain their standard of living in retirement as a worker with a typical 401(k) account making identical contributions. Given the impact adequate retirement plans have on the US economy and the inadequate savings by American workers, it is imperative that the federal government lead by example as a model employer and provide a strong retirement plan—part defined benefit, Social Security, and the Thrift Saving Plan—and not join the race to the bottom—exacerbating income inequality in the US and hurting the middle class.

IMPACT OF HEALTH AND RETIREMENT BENEFITS ON RECRUITMENT AND RETENTION

Despite the CBO report's findings on the difference in the health and retirement benefits between the federal government and the private sector, surveys show that those benefits are key to the federal government's recruitment and retention efforts. This is especially important in the federal government where duties are often complex, have far reaching implications and take time to learn. Whether it is a senior physicist or researcher at the Department of Energy or a scientist or statistician at the Food and Drug Administration, it is important to retain good employees not only for their skills and experience, but also for the morale of the organization, which impacts productivity.

According to the 2016 OPM Federal Benefits Survey, employees expressed that their TSP, FERS/CSRS, retiree and employee health benefits were extremely important to them (90%-95.3% of respondents). The availability of a retirement annuity had the largest self-reported impact on recruitment and retention. The highest scores were seen when participants were asked to rate the extent to which the availability of a retirement annuity through FERS or CSRS had influenced their decision to take a job with the federal government. The same was true when asked how the benefit influences their decision to remain in a federal job.

The FEHBP also has a significant impact on recruitment and retention. More than two-thirds of respondents reported that the availability of health insurance through the FEHBP influenced their decision to take a Federal job to a "moderate" or "great" extent, while 77.5 percent of respondents reported that the availability of health insurance through the FEHBP influences their decision to stay with their job to a "moderate" or "great extent."

These results suggest that health and retirement benefits are major players in recruitment and retention. This is in line with private sector recruitment and retention strategies, according to the Society for Human Resource Management, as health care is the top benefit leveraged by organizations to recruit (85%) and retain (74%) employees. This is followed by retirement savings/planning, which is used by 72 percent of organizations to recruit and by 62 percent to retain employees. However, it is also common for larger private sector employers to provide additional benefits that federal workers do not have: stock options, paid parental leave, and employer contributions to vision and dental benefits. If the federal government were to cut benefits for health care and retirement, it would lose whatever edge it has in recruiting and retaining top talent and adversely impact the important services the federal government provides to the American people.

CONCLUSION

Our nation's federal employees are some of the most dedicated workers in the country. The United States benefits daily from the knowledge and skills of the highly trained individuals who work in public service. Federal workers fight disease and promote better health; protect the environment and parks in the United States; promote economic growth; and serve on the front lines in the fight to defeat terrorism and maintain homeland security. To show our appreciation over the past few years, federal workers faced a three year pay freeze, were asked to pay more towards their retirement, paid more for their FEHBP, and experienced unpaid furloughs. Yet, some of the hardest working people I represent, like Tax Examiners at the IRS or Customs and Border Protection Officers, earn less than $30,000 a year. To consider further cutting the pay, retirement, or health care benefits of these federal workers in order to join the private sector in its race to the bottom will only further squeeze the middle class, increase income inequality in the US, risk the overall economic and retirement security of the nation, as well as the skill-set of our civil servants. I urge the Committee to protect our federal workers and the middle class.

Thank you again for the opportunity to share my views with you today.

Richard G. Thissen
National President

Jon Dowie
National Secretary/Treasurer

May 18, 2017

Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515

Dear Members of the House Committee on Oversight and Government Reform:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to submit our views regarding federal employee compensation in advance of the May 18 hearing, "Federal Compensation: An Update."

NARFE represents the interests of federal and postal employees and retirees, as well as their spouses and survivors, and has more than 215,000 members across the country and abroad.

This hearing is about more than pay. It is about how we value public service, and whether we, as a nation, will support federal compensation strategies that ensure American citizens are served by a competent and well-qualified federal workforce.

Our federal workforce includes the doctors and nurses who care for our veterans, the cybersecurity professionals tasked with protecting critical infrastructure and responding to emerging threats, NASA engineers, NIH scientists, federal law enforcement and intelligence officers, prosecutors and judges. These individuals, and many others who comprise our federal workforce, require adequate compensation. Without it, we cannot recruit the best and the brightest needed to take on the many challenges and address the many threats facing our country.

This hearing also is about hardworking Americans, including postal workers who deliver our mail, TSA agents who ensure safe travels, and many more. All of these workers deserve decent pay, good health insurance and modest retirement security. Should we pursue policies that shrink the middle class, or policies that expand it?

This hearing will focus on a recent report by the Congressional Budget Office (CBO) comparing the compensation of federal and private-sector employees.[1] As the committee with jurisdiction over the federal compensation structure, you should be asking: What policies will this committee and this Congress pursue to ensure competitive federal compensation now, and in the future? Will this committee and this Congress pursue pro-middle-class policies regarding federal employee compensation, health care and

[1] "Comparing the Compensation of Federal and Private-Sector Employees, 2011-2015," Congressional Budget Office, April 2017, available at: https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52637-federalprivatepay.pdf.

retirement security? Or, will you pursue policies that weaken retirement security and promote a race to the bottom?

Unfortunately, recent budget proposals passed by the House of Representatives have supported policies that would undermine the competitiveness of federal compensation, and eliminate or diminish health care and retirement income for hardworking middle-class federal and postal employees. Specifically, the fiscal year 2016 budget resolution passed by the House of Representatives assumed $318 billion worth of cuts over 10 years to the compensation of middle-class federal workers.[2] The budget report supported policies that included increasing retirement contributions for current employees, raising the cost of health insurance for both federal and postal employees and retirees, and decreasing the rate of return on the Thrift Savings Plan (TSP) G Fund. The budget resolution simultaneously encouraged the elimination of the federal government's defined benefit pension, while limiting growth potential of the government's 401(k) plan through the change to the G Fund.

The CBO report does not provide adequate justification or support for these policies. The report includes some insightful statistics regarding federal workforce characteristics, but also contains some analytical flaws and suffers from limitations in its underlying data. This letter provides NARFE's view on the report, and will also discuss our views on the implications of the report for federal compensation policy.

Comparing the Federal and Private-Sector Workforces

The CBO report shows that the federal government employs more individuals in professional or business occupations, and overall, is a more highly educated workforce than the private sector.

Furthermore, it concludes that those with higher levels of education are paid substantially less than their private-sector counterparts – with salaries that are 24 percent lower, on average, for federal employees with professional or doctorate degrees, and compensation that is 18 percent lower, on average.

The report shows that the federal government employs substantially more veterans than the private sector, as veterans account for 22 percent of the federal workforce and only 5 percent of the private-sector workforce. Having served as a U.S. Army civilian supporting our military in the aftermath of the Cold War, I am personally proud of the federal government in this regard.

However, the CBO report also claims that federal employees with a college education or less receive greater compensation than their private-sector counterparts with similar levels of education; and that federal employees receive greater compensation, on average, than their private-sector counterparts.

[2] *See* H.Con.Res. 27; H.Rpt. 114-47 – Concurrent Resolution on the Budget – Fiscal Year 2016 (illustrative policy options).

With respect to differences in pay, the CBO's findings conflict dramatically with the findings of the Federal Salary Council, which reported that federal workers are paid, on average, approximately 34 percent less than their private-sector counterparts, based on data collected by the Bureau of Labor Statistics (BLS).[3]

While the CBO finds greater disparity between the federal and private sectors resulting from differences in benefits, these differences do not explain the conflict with the Federal Salary Council's findings. As explained below, we believe this may be due to limitations in its underlying data, and flaws in the CBO's analytical approach.

Flaws and Limitations of the CBO Analysis

While we do not doubt the good faith efforts of the CBO to provide objective analysis, its report suffers from several limitations and analytical flaws.

First, the CBO uses unreliable survey data derived from the Census' Current Population Survey (CPS). The CPS survey data overstates the number of federal employees by 40 percent, when compared to the actual number of federal employees tracked by the Office of Personnel Management (OPM). While CBO made statistical adjustments in an effort to compensate for this, using such suspect underlying data raises serious questions regarding the validity of CBO's findings.

Second, the CBO analysis contains several flaws, which either overestimate compensation paid to federal employees or underestimate private-sector compensation. Notably:

- CBO excludes stock option and profit-sharing arrangements for private-sector employment from its analysis on benefits. This exclusion likely results in drastically underestimating private-sector compensation.

- CBO omits cost savings to the federal government arising from recent increases in retirement contributions for new hires, a significant policy change that reduces federal pay to these employees by 3.6 percent compared to those hired prior to 2013.

- CBO penalizes federal employees for being shut out of work due to a congressionally caused government shutdown, noting that federal hourly wages were increased due to a "temporary reduction in the number of hours worked by salaried federal employees."

[3] "Level of Comparability Payments for January 2018 and Other Matters Pertaining to the Locality Pay Program," Federal Salary Council, December 14, 2016, available at: https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/federal-salary-council/recommendation16.pdf . (This memo found a 34.07 percent gap between comparable private-sector jobs and federal jobs.)

- CBO does not control or adjust for the length of time a private-sector employee has been with his or her employer. Federal employees generally have longer tenures with their agencies, and recent reductions in federal hiring have led to increased average federal hourly pay, as longer-tenured employees earn more than newer hires.

These flaws and limitations of CBO's analysis may explain why its findings conflict with the findings of the Federal Salary Council, which shows that federal employees are significantly underpaid, on average.

Implications of CBO Analysis for Policymakers

The CBO report finds that for the most highly educated individuals, federal workers have salaries that are 24 percent less, and total compensation that is 18 percent less, than private-sector workers with other similar characteristics. Reducing compensation across the board for all federal workers, as proposed by some members of Congress, would widen this gap even further. This would harm recruitment and retention of the best and brightest employees that the nation needs.

Federal policy should reflect public values, such as rewarding hard work adequately. If federal compensation were based solely on the claims of the CBO report, it would mean eliminating basic health benefits and retirement security for the lowest-paid employees. We suggest that Congress reject such a race-to-the-bottom approach, and instead focus on improving both retirement income security and the quality and affordability of health care for middle-class workers across the country.

Furthermore, implementing policy based on the CBO's findings could mean eliminating the veterans' hiring preference the federal government provides to reward the men and women who served in our military and seek to continue their national service as civilians. This preference reflects the value we place on serving in our military, and while it may result in a veteran with a slightly lower level of formal education receiving a higher paying federal job than he or she could obtain in the private sector, we believe this is a just reward for their service and an appropriate recognition of the value of their experience through serving in uniform.

It is worth noting that, both with respect to total compensation and benefits, the CBO's findings do not support across-the-board pay or benefit cuts. If implemented, these cuts would fail to distinguish between varying geographic and occupational labor markets, and result in pay cuts for employees the CBO report concludes are underpaid compared to their private-sector counterparts.

Admittedly, the federal government's primary job classification system, the General Schedule, is decades old, and should be re-evaluated and modernized to better reflect the work of today's federal professionals and administrators. Such an endeavor should not be an across-the-board attack on the pay and benefits of the entire federal workforce, which has been the approach taken thus far in policy proposals endorsed by the House of Representatives in its fiscal year 2016 budget resolution.

Conclusion

We urge members of the committee and Congress to take a measured and thoughtful approach to policies related to federal employee compensation. Such policies should ensure we are offering competitive compensation to the millions of individuals seeking to advance the interests of the American people; and such policies should reflect public values that support decent pay, affordable health care, and a secure retirement for hardworking Americans in both the federal and private sectors.

Thank you for considering NARFE's views. If you have any questions or comments regarding this request, please contact NARFE Legislative Director Jessica Klement at 703-838-7760 or jklement@narfe.org.

Sincerely,

Richard Thissen

Richard G. Thissen
National President

Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

5-18-2017

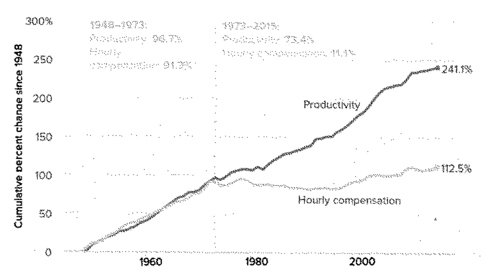
Wage Stagnation Faced by Middle- and Lower-Wage Workers in Recent Decades

Testimony of Jared Bernstein, Senior Fellow, Center on Budget and Policy Priorities, Before the House Committee on Oversight and Government Reform

For decades in post-WWII America, the incomes of many middle-class and poor households grew with the rest of the economy. Yes, key groups were excluded from that growth, but if we look at broad measures of middle-class incomes or compensation, we see that they grew at the rate of overall productivity growth. For example, the figure below shows that both productivity and the real compensation of the median worker both just about doubled between 1948 and 1973.

The gap between productivity and a typical worker's compensation has increased dramatically since 1973

Productivity growth and hourly compensation growth, 1948–2015



Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

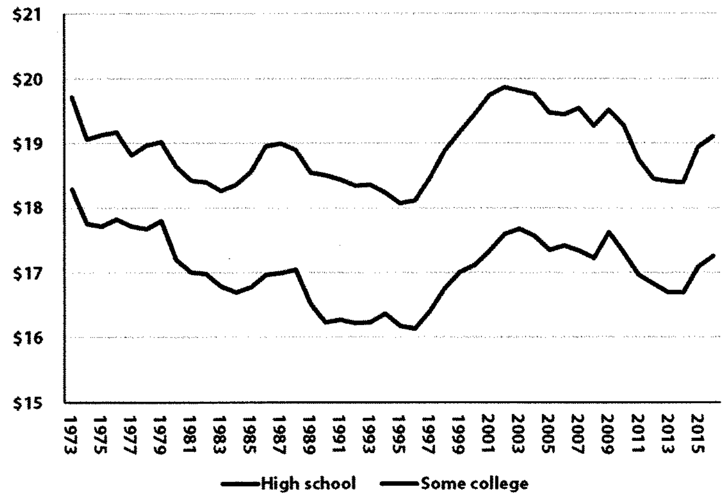
Source: EPI analysis of data from the Bureau of Economic Analysis (BEA) and the Bureau of Labor Statistics (BLS) (see the technical appendix of Bivens and Mishel 2015 for more detailed information)

Economic Policy Institute

Since then, however, the figure shows that productivity is up about 70 percent while compensation is up only about 11 percent. The inequality-driven wedge between productivity and the pay of the middle-class worker is both clear and persistent.

Real hourly wage trends since the 1970s offer a closer look into these dynamics. The next figure shows real wages for workers with a terminal high-school degree and those with some college but not a BA. Though these workers got a boost from the full employment period of the late 1990s, their real hourly wage is lower than it was in 1973. And yet, as shown above, the economy is far more productive.

Real hourly wages for workers with a high school but no college degree have been stagnant



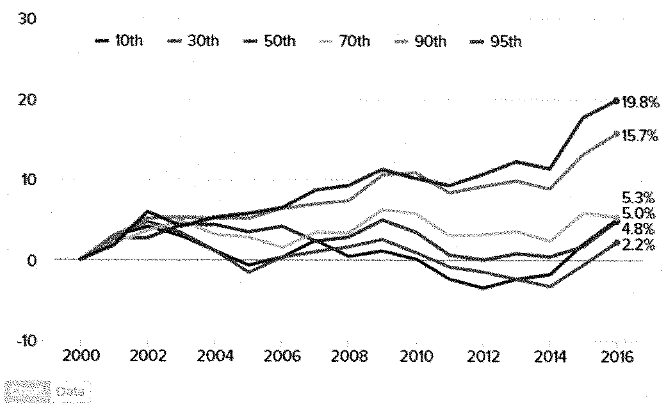
Source: Economic Policy Institute

Low-wage workers are potentially more productive, too. Analysis from the Economic Policy Institute shows that they're older and more highly educated than was the case decades ago. In 1968, just under half of all workers in the bottom fifth of the wage distribution had high school degrees, but by 2012, 79 percent were high school graduates. The average age of workers who would be affected by a federal minimum wage increase to $15 an hour by 2024 is 36, and more of those workers have college degrees (13 percent) than are teenagers (10 percent). In other words, these workers have increased their skills while continuously failing to benefit from their contributions to the economy.

Most recently, economist Elise Gould found continuing wage inequality since 2000, as the pay of low-wage workers has been largely flat (except in 2016, when unusually low inflation led to strong, one year gains across the board). As the figure below shows, wages for the highest-wage workers grew almost 20 percent over the past decade and a half while wages for the bottom 30 percent of workers hardly grew at all.

High-wage earners have continued to pull away from everyone else in the 2000s

Cumulative percent change in real hourly wages, by wage percentile, 2000–2016

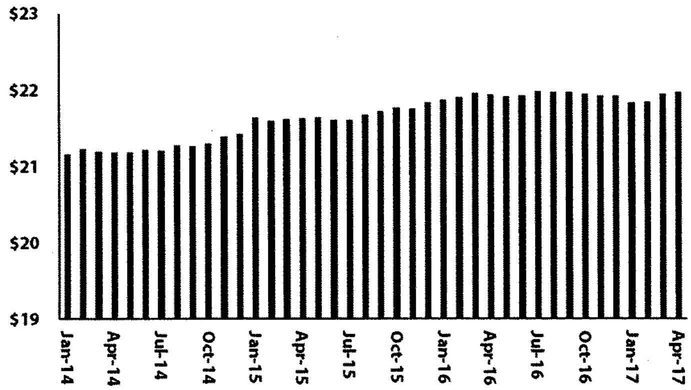


Note: Sample based on all workers age 18–64. The xth-percentile wage is the wage at which x% of wage earners earn less and (100 - x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

Finally, as energy prices have normalized and inflation has climbed back up a bit, the underlying growth in nominal pay for private-sector non-managers and blue collar workers has failed to accelerate. As a result (see figure below), real wages have remained flat in the past year for these workers, even as unemployment has continued to fall.

Real average hourly earnings of private-sector non-manangers and blue-collar workers have remained flat recently



Source: Bureau of Labor Statistics

In short, the earnings of these middle- and low-wage workers have often stagnated in both recent and longer-term history. A full accounting of the causes of these trends is beyond my scope here, but research suggests that these factors, which reduce the bargaining power, clout, voice, and political representation of the many households facing the costs of higher inequality, help explain the wage results:

- Technology, or unmet skill demands, putting upward pressure on the wages of more highly educated workers;
- Globalization, or persistently imbalanced trade in industries where blue-collar, production workers are disproportionately employed, and the consequent loss of manufacturing employment;
- The absence of full employment – i.e., the fact that, since 1979, the labor market has been at full employment only about 30 percent of the time;
- The decline in unions;
- The erosion of labor standards, including the minimum wage and overtime rules, which haven't even kept pace with inflation;
- Increased misclassification (the classification of regular workers as self-employed to avoid granting them various protections);

- "Financialization," or the increase in occupations within industries (like finance and real estate) wherein workers claim exorbitant "rents" (profits that go well beyond the actual economic value of their work);
- Regressive tax policy, including tax cuts to high marginal income tax rates, "preferential" rates on non-labor income, and tax avoidance associated with foreign earnings by US multinationals;
- The interaction between high levels of wealth concentration and money in politics, leading to the legislative success of inequality-inducing policies (e.g., deregulation and regressive tax cuts) and the failure of policies aimed at reducing inequality (e.g., increases in the federal minimum wage).

Policymakers who wish to push back on these wage suppressors and inequality inducers must consider a robust agenda that helps the labor market get to and stay at full employment and returns some long-lost bargaining clout to middle- and low-wage workers. I suspect that will involve direct job creation to help those stuck in places facing weak demand even when the rest of the job market is much improved, the elevation and maintenance of labor standards, progressive trade policy that helps boost net exports, progressive tax policies, and unfettered opportunities to bargain collectively for those who chose to do so.

Congressional Budget Office

JUNE 30, 2017

Answers to Questions for the Record
Following a Hearing on Federal Employee Compensation
Conducted by the House Committee on Oversight and Government Reform

On May 18, 2017, the House Committee on Oversight and Government Reform convened a hearing at which Joseph Kile, the Congressional Budget Office's Assistant Director for Microeconomic Studies, testified on the agency's comparison of compensation between federal civilian employees and private-sector employees (www.cbo.gov/publication/52707)*. After the hearing, Chairman Meadows of the Subcommittee on Government Operations submitted questions for the record. This document provides CBO's answers.*

Question. The American Federation of Government Employees (AFGE) has critiqued aspects of the Congressional Budget Office (CBO) study, saying it is not an accurate portrayal of the federal employee compensation differential. According to information provided to Committee staff, you will be engaging with AFGE in the coming weeks to discuss the methodology used in your report. After such meeting and pursuant to my request at the hearing, please respond to the criticisms leveled at your report by AFGE. Please discuss CBO's treatment of demographic traits, including education, in the report. What was the reason for sorting employees by educational attainment? What are the benefits of doing so? Please respond to any additional criticisms of your report you discussed with AFGE.

Answer. On June 12, 2017, CBO discussed the concerns raised in the AFGE testimony with Jacqueline Simon and another AFGE staff member.[1] Those concerns related to CBO's adjustments for differences in demographic traits between the federal and private-sector workforces, its comparison of federal and private-sector compensation by workers' level of education, and the approach it used to compare benefits between the sectors.

In its analysis, CBO adjusted for differences between federal and private-sector employees in various demographic traits (age, sex, race, ethnicity, marital status, immigration status, and citizenship) as well as education, years of work experience, occupation, size of employer, geographic location, and veteran status. Adjusting for differences in demographic traits is common practice when comparing compensation between two groups because some demographic traits are correlated with unobservable characteristics that can affect compensation. For example, if immigrants tend to be less proficient in English than native-born workers, then adjusting for immigration status will account for some of the differences in English proficiency between federal and private-sector workers even though English proficiency was not observable in the data. If adjustments for demographic traits had substantially changed the estimated differences in compensation between the sectors, then it would have been

1. See testimony of Jacqueline Simon, Policy Director, American Federation of Government Employees, before the House Committee on Oversight and Government Reform (May 18, 2017), https://go.usa.gov/xNGud.

important to understand why that was the case, as such results might suggest that differences between the public and the private sector in average compensation reflected discrimination in one of those sectors on the basis of race, sex, immigration status, or other nonmerit factors. However, adjusting for demographic traits did not have much effect on CBO's estimates of the differences between federal and private-sector compensation.

Reporting results by workers' level of educational attainment reveals differences between federal and private-sector compensation that would not have been evident if CBO had averaged the results for workers at all levels of education. CBO categorized workers by educational attainment because education plays a particularly large role in determining compensation—in CBO's analysis, it was the most important explanatory factor.

CBO estimated the cost of private-sector benefits using data from the Bureau of Labor Statistics' National Compensation Survey (NCS), which has been used by economists at that agency to compare private-sector compensation with that of the employees of state and local governments.[2] Because the NCS does not survey federal employees, CBO used data from the Office of Personnel Management to estimate the cost of federal employees' benefits. CBO then compared the costs of the benefits provided to federal and to private-sector employees, accounting for the same differences in workers' characteristics that were used to analyze wages (education, years of work experience, occupation, size of employer, geographic location, veteran status, and demographic traits). To do that accurately, the agency adjusted the costs of defined benefit pension plans drawn from the NCS data so that they were comparable to the estimates of those costs for the federal government. Before 2006, many private-sector employers calculated the costs of their pension plans as though the risky assets that funded them would accrue returns at the rates they had in the past. The Pension Protection Act of 2006 generally requires private-sector employers to discount future annuity payments at lower rates, but those rates are still higher than recent rates of return for Treasury bonds. For that reason, CBO increased the costs reported by the NCS so that they were consistent with the Treasury bond rates used for federal pension obligations.[3]

Question. Were there any important cost drivers of federal compensation that could not be included in your study due to lack of data? If so, please state which benefits were excluded and explain the data barriers that prevent CBO from factoring such benefits into a federal employee's total compensation package.

Answer. CBO's analysis included wages and the costs of benefits such as retirement income, health insurance, paid leave, and other, legally mandated, benefits. In the agency's judgment, those are the most important drivers of the cost of federal compensation. The analysis excluded certain benefits some workers receive—for example, the above-market rate of return the federal government offers its employees through the G Fund (one of the investment options in their retirement plan) and the stock options that some private-sector businesses provide to their employees. Because such benefits are less costly to provide or less commonly available than those included in the analysis, CBO expects that their effect on the cost of

2. See Maury Gittleman and Brooks Pierce, "Compensation for State and Local Government Workers," *Journal of Economic Perspectives*, vol. 26, no. 1 (Winter 2012), pp. 217–242, www.aeaweb.org/articles?id=10.1257/jep.26.1.217.

3. For additional information, see Justin Falk, "Comparing Benefits and Total Compensation in the Federal Government and the Private Sector," Working Paper 2012-04 (Congressional Budget Office, January 2012, updated March 2012), pp. 9–12, www.cbo.gov/publication/42923.

federal compensation and on the difference between federal and private-sector compensation would be limited.

Additional factors can affect the cost of recruiting and retaining a highly qualified federal workforce. For example, compared with the private sector, the government may be able to attract and retain highly qualified employees at lower levels of pay because federal jobs offer greater job security. Conversely, because federal employees' total compensation includes a greater share of retirement benefits, which workers might find less valuable than an equivalent amount of cash received today, total compensation might need to be higher in the government than in the private sector. However, quantifying the extent to which such factors affect the amount of compensation the government needs to provide to workers was beyond the scope of CBO's analysis, and the agency is not aware of data sets that could be used to accurately quantify such effects.

Question. CBO found the dispersion of federal wages is constrained relative to those in the private sector. What may be causing this? What are the practical implications of these constraints?

Answer. The difference between the wages of the highest- and the lowest-paid employees was smaller in the federal government than in the private sector, even after accounting for employees' education and other observable traits. The narrower dispersion of wages among federal employees may reflect the constraints of federal pay systems, which make it harder for managers to reward the best performers or to limit the pay of poor performers. Such constraints probably both limit the government's ability to attract and retain highly qualified workers and cause the government to pay more than necessary to retain workers who are less productive.

Andrew G. Biggs, Ph.D.
Resident Scholar
American Enterprise Institute
Washington, D.C.
June 26, 2017

Responses to Questions for the Record from Chairman Mark Meadows
Subcommittee on Government Operations
Hearing: "Federal Employee Compensation: An Update," May 18, 2017

1. Please describe the concept of "over-grading" in the federal government.

> In the federal government's General Schedule (GS) pay system, a job is assigned a level on the GS scaled based on the skill demands of that job. Overgrading occurs when a given job is assigned a higher GS level than the demands of that job merit. When that occurs, such a job would pay a higher salary than its skill demands merit.

a. Why does "over-grading" happen?

> The most common reason speculated for over-grading is that it allows the manager to pay more for a given job, thereby making it easier to attract a new employee or to reward an existing work. Overgrading may in part be a response to inflexibility in the federal pay system.

b. To what extent does "over-grading" occur in the federal government?

> Recent work on overgrading has been scant. However, a 1984 CBO study concluded that the average federal worker resides two-thirds of one pay grade above a similar private sector employee.[1] In a 1995 study, the GAO found that about 57 percent of the occupations it analyzed were overgraded, 17 percent appropriately graded, and 26 percent were under-graded.[2] Overgrading was more common in higher-GS positions and for positions occupied by a minority employee, while undergrading was more common in positions occupied by a female employee. A 2002 study by University of California economist Melisssa Famulari 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."[3] Famulari finds that these differences play out through federal hiring and promotion practices:

---

[1] Congressional Budget Office. "Reducing Grades of the General Schedule Workforce." September, 1984.

[2] Government Accountability Office. "Federal Job Classification. Comparison of Job Content with Grades Assigned in Selected Occupations." November 1995.

[3] 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*.

"The Federal government, particularly in Washington, DC, hires workers at initially higher levels of work. These differentials are so large that, even after a number of years on the job, private sector workers are employed at substantially lower levels of responsibility than the starting levels of responsibility for DC Federal government workers. In addition, the Federal government, particularly in DC, promotes workers more quickly than in the private sector, conditional on observed worker characteristics."

Famulari concludes: "The large private sector premium paid to workers in an occupation and level is largely explained by the more valuable skills of private sector workers within an occupation and level." Earlier work by Famulari found that federal jobs are assigned GS levels about three-quarters of a grade higher than similar private sector occupations.[4]

c. What are the implications of "over-grading" for studies, such as that of the Federal Salary Council, conducted using Bureau of Labor Statistics data?

The key point to remember is that overgrading does not take place in the BLS data itself, which concerns pay and work levels only for private sector and for state and local government jobs. The BSL analyzes those jobs and its economists assign each job a position on the federal GS scale. There is no suggestion of either over- or undergrading in the BLS analysis, and the BLS GS-scale assignments are good predictors of wages within both the private and state-local government sectors.

The possibility of error is introduced because federal positions are *not* graded by BLS economists to determine their work level on the GS scale. Rather, GS designations as assigned by federal agencies are assumed to accurately reflect the work demands of the federal position. If a federal position is not accurately graded on the GS scale, then a pay difference with an accurately-graded private sector or state-local government job could be attributed to the federal government "under-paying" a position when in fact it is due to differences in the jobs being compared. As CBO notes, "unless the job matches are identical, differences that an analysis reveals may be caused by differences in the jobs and the people who hold them rather than by the pay structures of the employing governments."[5]

d. What could the Bureau of Labor Statistics do to control for "over-grading"?

One improvement to the Federal Salary Council's pay comparison would be for the BLS to independently assign GS-scale work levels to *all* jobs being analyzed, including federal jobs. At present, BLS only analyzes the work requirements of private and state-

[4] See Famulari, Melissa. "Maintaining a Labor Force Under Wage Controls: The Case of the Federal Government." Working paper. University of Texas at Austin, 1997.

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

local government jobs. Having BSL also assign GS levels to federal jobs would reduce the chance that over-grading of federal positions by federal agencies creates an apparent pay difference where none actually exists.
In addition, other agencies or offices, such as the Congressional Budget Office and the Government Accountability Office, could revisit the issue of over-grading in federal employment to see if the problems isolated in earlier work have continued.
Finally – and this is important – policymakers should recognize that pay for a job is not merely a function of the job's requirements but of the skills of the employee that fills that job. For instance, two employees might both fulfil the basic skill requirements for a job, but one employee has greater education, experience or other attributes that make that employee more productive on the job. One would expect pay differences to exist between those two employees, even if the formal work requirements of their job are identical. Thus, while it is possible to improve the Federal Salary Council's pay analysis, one should not expect it to produce perfect results.

2. Based on your understanding of the Federal Salary Council's pay comparison study, what are the valid and invalid assumptions the Council uses to arrive at its results?

The Federal Salary Council makes two assumptions that are only *partially* valid:

First, that pay will correlate with the skill requirements of a job. This assumption is correct, in that jobs demanding greater skills do on average tend to pay more than jobs demanding fewer skills. However, it is incorrect to assume – as the Salary Council appears to do – that the skill requirements are the *only* determinants of a job's pay. In addition, the skills of the employee occupying a job are extremely important and explain why the pay can differ significantly even within the same occupation.

Second, that federal GS-scale designations are an accurate reflection of the skill requirements of a federal job. This assumption is true on average, in that higher-GS jobs will tend to have greater skill requirements than lower-GS jobs. But there appears to be a documented skew to the GS levels assigned to federal jobs, such that more federal jobs are overgraded than undergraded. This net overgrading will make federal jobs appear underpaid relative to private sector jobs.

A more accurate comparison of federal to private sector wages would attempt to factor in differences in education and experience between federal and private sector workers in the same type of job, acknowledging that such differences in human capital can generate pay differences even within the same job. Second, a more accurate comparison would use the BLS to assign GS-scale work levels to federal employees, which ensures that such work levels are assigned to federal workers using the same standards as are applied to private sector and state-local government employees.

3. Based on your understanding of the Congressional Budget Office's (CBO) compensation comparison study, what are the valid and invalid assumptions the CBO uses to arrive at its results?

The CBO's study focuses on the skills of employees rather than the skill requirements of jobs. This "human capital" approach is consistent with most academic studies of pay, whether it be public-private, male-female, black-white, etc. It tacitly assumes that employees with a given level of skills with gravitate to jobs that pay them the most for their skills. This assumption allows for comparisons of pay for employees with similar skills even if they work in different jobs.

The CBO also correctly values pension benefits based upon the value of the benefits to employees – that is, the level and the risk of those future benefits – rather than on the amount that the government chooses to contribute for those pensions today. This approach does not allow a government to understate the cost of the benefits it promises for the future by not sufficiently funding them today.

However, in valuing benefits paid in the future it is crucial that they be correctly "discounted" back to the present at an appropriate interest rate. The correct interest rate is one that matches the risk of the benefit being discounted. If the benefit is risky it should be discounted using a high interest rate to reflect that risk, which produces a lower present value of that benefit. Likewise, a low-risk or guaranteed benefit should be discounted using a low interest rate, just as guaranteed investments such as U.S. Treasury bonds pay a low interest rate.

The CBO study values future federal pension benefits using a 5 percent discount rate. This is a higher rate than the corporate bond yield of approximately 4 percent that is used to value private sector defined benefit pension liabilities, even though private pensions are likely to be *less safe* than federal retirement benefits. While the CBO's approach isn't unreasonable, I believe a more reasonable approach would treat federal benefits as at least as safe as private sector pensions. Such a treatment would increase the value of federal employee pensions by a significant amount – perhaps 15 to 20 percent – and increase the overall federal employee compensation premium by a several percentage points.

4. The CBO report attempts to look at the benefits of federal employees in addition to pay. Are there additional benefits received by federal employees that were not included in the CBO's analysis?

a. If so, please list the benefits and your estimate of the value of the additional benefits to federal employees. If no estimate can be created, please explain what barriers exist to assigning a value to such benefits.

Employees will adjust the cash compensation they demand from an employer in response to other positive or negative characteristics of the job. For instance, jobs that carry physical danger or financial risk pay higher salaries than otherwise-similar jobs without such risks. Likewise, jobs with positive attributes – such as good working conditions, job security, or positive intrinsic rewards – can pay lower cash compensation than jobs lacking those characteristics.

In most cases, federal jobs appear to have positive non-pecuniary characteristics. Job security is significantly greater in federal employment than in the private sector; both layoffs and terminations for cause are unusual in federal employment. Employees place great value on job security. In my own work, I have estimated that the additional job security for federal employees is equivalent to a salary increase of about 2 percent.

On the other hand, federal employment may carry downsides, such as greater bureaucracy. It is not clear how much value employees place on factors such as this.

One approach used to measure the value of the whole federal job package, including non-financial benefits, is to track the demand for federal jobs. For instance, if federal jobs attract many applicants and if federal employees have low quit rate – which they do – that may indicate that workers regard federal employment as attractive relative to private sector jobs. This approach merits additional consideration from researchers.

5. The CBO report finds that the best-educated federal employees receive lower total compensation than in the private sector. Can you explain how the federal government can attract and retain highly educated employees while seemingly paying well below private sector levels?

The CBO finds that the very best-educated workers – those with professional degrees such as law and medicine and with doctoral degrees – receive lower total compensation in the federal government than they would likely receive in the private sector. Among all other educational groups, from high school graduates through workers with Master's degrees, average federal compensation exceeds private sector levels.

One possibility is that below-market pay for the best-educated federal workers prevents the federal government from attracting or retaining employees of sufficient quality. This might exhibit itself in terms of low numbers of applicants for federal jobs demanding high skills or high quit rates among such jobs. It may be possible to confirm this theory via OPM data on the number of applicants per federal job opening, broken down by the

GS level of the job opening. Similarly, one might look at separation rates broken down by GS level.

Another possibility is that highly-educated federal employees are qualitatively different from private sector workers with similar credentials *as measured by the CBO*. The CBO's analysis treats every worker with a professional or doctoral degree as identical from the standpoint of educational attainment. We know that this isn't true: some degrees have higher value than others; some employees performed better in graduate school than others, or attended graduate schools with stronger reputations in the labor market. By itself this doesn't invalidate the CBO's findings. What might undermine the CBO's results is if there are *systematic* differences between federal and private sector employee in these regards. For example, if one sector's professional/doctoral degree held predominantly degrees with lower value in the labor market relative to the other sector's, this would produce a skew in the measured compensation between the two sectors that was really a function of the characteristics of the employees themselves. That is, one sector's employees could appear underpaid even if they are not.

The problem outlined above is a function of the data available to the CBO. Most household survey datasets contain only information on the highest degree an employee has received, but does not indicate what field the individual studied, what college he attended or what grades he received. It is possible that an analysis using a specialized dataset, such as the Baccalaureate and Beyond dataset produced by the Department of Education, could shed light on these questions.

The Heritage Foundation

CONGRESSIONAL TESTIMONY

Responses to Additional Questions for the Record from Rachel Greszler

Testimony before the
Committee on Oversight and Government Reform

United States House of Representatives

June 13, 2017

Rachel Greszler
Research Fellow in Budget and Entitlements
The Heritage Foundation

My name is Rachel Greszler. I am a Research Fellow in Budget and Entitlements 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.

1. Based on your understanding of the Federal Salary Council's pay comparison study, what are the valid and invalid assumptions the Council uses to arrive at its results?

Although the Federal Salary Council's Pay Agent Report incorporates some components of legitimate compensation comparisons, its exclusion of others and inappropriate methodology corrupts its results. The Council's findings are widely out of line with other compensation comparisons; the Council has questioned its own methodology; and the federal government's significantly higher employee-retention level demonstrates that it provides above-market compensation.

For starters, the Federal Salary Council's Pay Agent Report only considers pay and not benefits. Benefits represent a significantly greater part of federal employees' compensation than private-sector workers. The CBO report found that even its limited inclusion of benefits showed that federal workers receive 47 percent higher benefits than private-sector workers. Another study that used the same methodology as the Pay Agent report of trying to match job characteristics using a more limited number of occupations—the Project On Government Oversight (POGO)—found a total compensation premium for federal employees of 20 percent.[1]

Second, the Council's Pay Agent Report fails to account for factors that drive private-sector compensation. In the private sector,

[1]U.S. Government Accountability Office, "Federal Workers: Results of Studies on Federal Pay Varied Due to Differing Methodologies," Report to Congressional Requesters, GAO-12-564, June 2012, http://www.gao.gov/assets/600/591817.pdf (accessed June 8, 2017).

compensation is a function of output. The more value an employee produces, the more compensation they will receive. That is why labor economists use a "human capital" model to capture worker's productive characteristics. While most studies that compare compensation in the public versus private sector control for factors that play a significant role in compensation, such as education, experience, occupation, location, and age, the Council's methodology ignores workers and instead compares job positions, including their occupation, level of work, and location. In the public sector, compensation is largely a function of job title and tenure, so the Council's methodology may be sufficient for a comparison between state and local government workers versus federal government workers, but it fails to account for primary factors that drive private-sector productivity.

Third, the Council's methodology of trying to match characteristics of jobs is particularly inappropriate for many federal jobs that lack private-sector comparisons. The CBO report notes that two-thirds of federal civilian employees work for the Departments of Defense, Homeland Security, and Veterans Affairs. At least with the former two departments, which make up 43 percent of all civilian federal employees, similar job functions do not exist in the private sector as the federal government has an exclusive role in defending our country and protecting the safety and security of Americans from outside forces.

As my former colleague, James Sherk, testified about the Pay Agent Report in 2011:[2]

> 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."[3]

2. Based on your understanding of the Congressional Budget Office's compensation comparison study, what are the valid and invalid assumptions the CBO uses to arrive at its results?

The CBO report provides a valid analysis using somewhat limited components of compensation. In particular, the CBO only included the value of wages, health insurance, retirement benefits, and paid leave in total compensation. Some other components of compensation (such as the value of job security and work schedules or flexibility) are difficult to measure, but others (such as student loan repayments and transportation benefits) have more defined values that may have been included in the CBO study.

One difference between the CBO study and the 2011 Heritage study is that the CBO does not appear to use an Oaxaca decomposition, which allows the effect of independent control variables (such as education and years of experience) to vary between two comparison groups. The Oaxaca decomposition is helpful for comparing public-sector versus private-

[2] James Sherk, "The Federal Pay System: Inflated Compensation, Ignored Performance," testimony before the Committee on Oversight and Government Reform, U.S. House of Representatives, March 9, 2011, http://www.heritage.org/testimony/the-federal-pay-system-inflated-compensation-ignored-performance?_ga=2.216149776.708572624.1496935217-989915377.1489765797 (accessed June 13, 2017).

[3] The President's Pay Agent, "Memorandum to the President: Annual Report on General Schedule Locality-Based Comparability Payments," December 2, 2008, http://www.opm.gov/oca/payagent/2008/2008PayAgentReport.pdf (accessed June 13, 2017).

sector employees because the federal government's pay scale includes seniority-based pay increases that lead age and experience to have a different effect on wages than in the private sector where productivity as opposed to age and experience drive wages.

3. Are there additional benefits received by federal employees that were not included in the Congressional Budget Office's analysis?

Yes, the CBO analysis excluded many components of compensation. Some of these are difficult to measure and include while others could have been included.

a. If so, please list the benefits and your estimate of the value of the additional benefits to federal employees. If no estimate can be created, please explain what barriers exist to assigning a value to such benefits.

Student Loan Repayment. The federal government provides eligible employees with up to $10,000 a year and $60,000 total in student loan repayments. In 2015, federal agencies provided more than $69.5 million in repayments to 9,610 federal employees—an average annual benefit of over $7,200 per employee.[4] Student loan repayments were non-existent among private-sector benefits until recently. Although student loan repayments benefits are on the rise, only 4 percent of private-sector employers offer them and even the most generous private-sector plans provide only 10 percent to 20 percent as much in annual and maximum repayments as the federal government.[5]

Student Loan Forgiveness. Beginning in 2007, federal employees (as well as public-sector or nonprofit workers) became eligible for student loan forgiveness. Federal employees can have their student loan payments limited to as little as 10 percent of their income, and after 10 years (120 months) of on-time student loan payments, their remaining debt can be forgiven.[6] At the end of 2016, more than 550,000 student loan borrowers were approved for Public Student Loan Forgiveness (PSLF).[7]
The Government Accountability Office (GAO) provided an estimate of the value of the PSLF at nearly $70,000 for its median beneficiary who has $60,000 in student loans and a $40,000 income.[8]

Transportation Benefits. Federal employees are typically eligible for either free parking—something that can cost hundreds of dollars in cities such as DC—or tax-free mass transit benefits of up to $255 per month ($3,060 per year). Most private employers allow employees to claim transit subsidies, but employees typically pay their transit costs.

Retiree Health Benefits. Federal employees who have five or more years of federal service

[4]Office of Personnel Management, "Federal Student Loan Repayment Program, Calendar Year 2015," October 2016, https://www.opm.gov/policy-data-oversight/pay-leave/student-loan-repayment/reports/2015.pdf (accessed May 9, 2017).
[5]Among the top firms providing student loan repayments, most cap benefits at $1,200 to $2,000 per year and some cap total benefits at about $10,000. Zack Friedman, "Student Loan Repayment: The Hottest Employee Benefit of 2017," *Forbes*, December 19, 2016, https://www.forbes.com/sites/zackfriedman/2016/12/19/student-loan-repayment-benefit/#3d69b0191d6f (accessed May 9, 2017).

[6]Federal Student Aid, "The Public Service Loan Forgiveness Program," U.S. Department of Education, https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (accessed May 11, 2017).
[7]Student Loan Hero, "A Look at the Shocking Student Loan Debt Statistics for 2016," https://studentloanhero.com/student-loan-debt-statistics/ (accessed June 13, 2017).
[8]U.S. Government Accountability Office, "Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates," November 2016, http://www.gao.gov/assets/690/681064.pdf (accessed June 8, 2017).

and who go directly from federal service to retirement are eligible (at a minimum age of 57) to receive the same health insurance subsidy during retirement that they received while working.[9] A 2002 study by the Congressional Budget Office (CBO) estimated the accrual cost of this benefit at $3,475 per year, or 6.4 percent of workers' pay.[10]

Childcare. Some federal employees who earn less than about $70,000 a year can receive significant childcare payments—up to $35,000 per year—from the federal government.[11] Additionally, federal employees have greater access to on-site childcare. While most federal employees still pay for childcare, they pay less than they would absent the rent subsidy typically provided to on-site childcare providers. Where significant shortages exist for licensed childcare centers in areas such as Washington, DC, federal employees enjoy preferential access to these centers. The value of preferred access is difficult to value. The value of the subsidy could be derived using comparisons of costs between non-subsidized, private childcare centers and those housed in federal buildings.

Preferable Work Schedules. Most workers recognize federal government jobs as requiring fewer total hours than similar private-sector positions, and as offering greater flexibility in schedules. Work schedules and flexibility are hard to estimate and their values differ significantly across employees. A recent economic study of Uber drivers found that the ability to adapt their work schedule entirely to their desires was worth 40 percent of expected earnings, or $150 per week.[12] Although it is not feasible for most workers to have nearly 100 percent flexibility as working for a company such as Uber provides, schedules and flexibility have significant value to many employees.

Job Security. Federal employees receive significantly greater job security than private-sector workers.[13] A study by Andrew Biggs and Jason Richwine pegged the value of federal workers' job security at between 1.3 percent and 6.4 percent of compensation (between $1,600 and $7,900, based on average compensation of about $123,000).[14] Accounting for federal employees' wage and benefit premium increased the value of the

[9]Office of Personnel Management, "Continuing FEHB Coverage into Retirement," FAQ, https://www.opm.gov/faqs/topic/insure/?cid=880bfba8-8f8b-4e64-9a72-fae98408fd0e (accessed May 10, 2017).
[10]Authors' calculations establish the 6.34 percent of pay cost by comparing the average salary of $54,656 in 2002 to the estimated $3,475 accrual cost of FEHB benefits as reported in Congressional Budget Office, "The President's Proposal to Accrue Retirement Costs For Federal Employees," June 2002, https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/accrual.pdf (accessed May 16, 2016).
[11]Childcare subsidies are available to federal workers at select agencies and departments, and who make less than a certain amount per year. The maximum earnings amount below which workers qualify for childcare subsidies ranges from about $50,000 and $70,000 per year, depending on the agency and program. Financial Shared Services, "Child Care Subsidies for Federal Employees," U.S. Department of Agriculture, https://nfc.usda.gov/FSS/clientservices/Child_Care_Subsidy/ (accessed May 11, 2017), and Financial Shared Services, "General Services Administration (GSA) Child Care Subsidy: Program Eligibility Determination and Financial Consideration," U.S. Department of Agriculture, https://nfc.usda.gov/FSS/clientservices/Child_Care_Subsidy/subsidies/GSA/eligibility.php#etable (accessed May 10, 2017).
[12]M. Keith Chen, Judith A. Chevalier, Peter E. Rossi. and Emily Oehlsen, "The Value of Flexible Work: Evidence from Uber Drivers," National Bureau of Economic Research *Working Paper* No. 23296, March 2017.
[13]The layoff and discharge rate for federal employees is only one-third that of the private sector and it takes an average of a year and a half to fire a federal worker.
[14]Andrew Biggs and Jason Richwine, "Comparing Federal and Private-Sector Compensation," American Enterprise Institute *Economic Policy Working Paper* 2011-02, revised June 2011, https://www.aei.org/wp-

job-security premium to 17.3 percent of compensation.

4. The main argument for defined benefit pensions is that they are more safe, reliable, and secure because they provide a guaranteed level of income, while defined contribution plans fluctuate based on investment returns. Do you agree, and should we be concerned that federal workers would be less financially secure in their retirements without defined benefit pensions?

No, I do not agree that defined benefit plans are more safe, reliable or secure than defined contribution plans. In theory, defined benefit and defined contribution should be equally safe, reliable, and secure because they have access to and typically follow similar investments. However, the flawed structure of certain defined benefit plans—particularly those with lax or non-existent regulations such multiemployer or union plans and state and local government ones—makes them less secure than defined contribution plans because the union leaders and trustees running the plans have strong incentives to put personal and short-term gains above pension beneficiaries' long-run interests.[15]

In large part, defined benefit pensions make similar investments as those offered and chosen by individuals in defined contribution plans. While individual contributions and returns vary across individuals in defined contribution plans, defined benefit plans essentially equalize contribution rates and investment returns across a particular cohort of workers. This does not, however, result in higher or more safe returns—it simply means some people experience lower returns than they otherwise would while others experience higher returns. A unique feature of defined benefit plans is that they effectively provide longevity insurance by providing lifetime benefits. While this provides important protection for individuals who live longer than average or than expected, it does so at the cost of short-changing workers who live shorter than average or expected. (More specifically, it short-changes their heirs.) To some workers, the potential of losing out on accumulated benefits is worth the added security of knowing benefits will be there for their entire lifetime. However, this should be a choice for individuals to make and defined benefit pensions do not provide individuals with that choice. Defined contribution plans allow individuals to annuitize their accounts upon retirement to provide a guaranteed income for life similar to defined benefit plans.

5. What advantages do federal employees, especially younger millennials just entering the workforce, receive by using a defined contribution plan?

Defined benefit plans are particularly preferable to younger workers just entering the workforce because these individuals: will likely change employers and even occupations many times throughout their careers; face greater student loan debts and housing costs that alter the optimal timeline for retirement savings; and confront a country with greater debts than the past—debts that could pose detrimental to the solvency of defined benefit pensions.

Defined contribution plans provide workers with the flexibility and portability they need and desire as they move from job to job and occupation to occupation. An analysis of

content/uploads/2011/10/AEI-Working-Paper-on-Federal-Pay-May-2011.pdf (accessed June 8, 2017).
[15]Rachel Greszler, "Not Your Grandfather's Pension: Why Defined Benefit Pensions Are Failing," Heritage Foundation *Backgrounder* No. 3190, May 4, 2017, http://www.heritage.org/sites/default/files/2017-05/BG3190.pdf.

Linkedin data found that more recent graduates will have nearly twice as many jobs within their first 10 years of graduation (about 3.8, on average) compared to graduates 20 years ago.[16] With a defined contribution plan, workers own every dollar that goes into their plan (both their own contributions and their employers contributions on their behalves), and they neither lose value in their plan when changing jobs nor do they sacrifice disproportionate gains.

Defined contribution plans also provide workers with the flexibility to spread their retirement savings across their careers based on their own personal situations and needs. In contrast, defined benefit plans force workers of all ages and financial situations into constant contribution schedules that typically do not vary from worker to worker or from one year to the next. Faced with significant housing and student loan costs, many young workers cannot afford to have a large percentage of their compensation devoted to retirement benefits.

Finally, many defined benefit pension plans are on the brink of insolvency and it is unclear whether beneficiaries will receive their promised benefits. Workers with defined contribution plans do not have to rely on the good-stewardship and goodwill of plan trustees and politicians to uphold past promises, nor do they have to hope for taxpayer bailouts. Workers own their defined contribution retirement accounts and no one can take them away.

****

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2014, it had hundreds of thousands of individual, foundation, and corporate supporters representing every state in the U.S. Its 2014 income came from the following sources:

Individuals 75%
Foundations 12%
Corporations 3%
Program revenue and other income 10%

The top five corporate givers provided The Heritage Foundation with 2% of its 2014 income. The Heritage Foundation's books are audited annually by the national accounting firm of RSM US, LLP.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

[16]Guy Berger, "Will This Year's College Grads Job-Hop More Than Previous Grads?" April 12, 2016, https://blog.linkedin.com/2016/04/12/will-this-year_s-college-grads-job-hop-more-than-previous-grads (accessed June 8, 2017).

Chairman Trey Gowdy
Ranking Member Elijah E. Cummings
Written Questions for the Record to Robert Goldenkoff
"Federal Employee Compensation: An Update"

---

1. **GAO has previously reported that once a probationary period is over, it is difficult to fire a federal employee for poor performance or misconduct. Specifically, GAO found it could take six months to a year to fire an employee. This is due largely to an exhaustive and complex appeals process.**
    a. **How would a longer probationary period beyond the current l-year benefit the government and the American taxpayer?**

In 2015 we reported that supervisors often do not have enough time to adequately assess an individual's performance before the probationary period ends, particularly when the occupation is complex or difficult to assess.[1] This can happen for a number of reasons, including

- the occupation is complex and individuals on a probationary period spend much of the first year in training before beginning work in their assigned areas,

- the occupation is project based and an individual on a probationary period may not have an opportunity to demonstrate all of the skills associated with the position, and

- individuals on a probationary period often rotate through various offices in the agency and supervisors have only a limited opportunity to assess their performance.

Chief Human Capital Officers told us such an extension of the probationary period would provide supervisors with time to make a performance assessment for those occupations that are particularly complex or difficult to assess. However, they cautioned that such an extension would only be beneficial if an agency had effective performance management practices in place and it used the extra time for the purpose intended.

---

[1]GAO, *Federal Workforce: Improved Supervision and Better Use of Probationary Periods Are Needed to Address Substandard Employee Performance,* GAO-15-191 (Washington, D.C.: Feb. 6, 2015).