



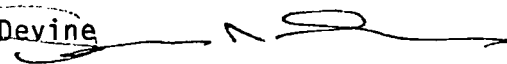
UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, D.C. 20415

Office of the Director

September 28, 1983

MEMORANDUM

TO: Cabinet Council on Management and Administration

FROM: Donald J. Devine   
Director

SUBJECT: Approaches to the Reform of Federal White Collar Pay

I. BACKGROUND

For the sixth consecutive year, a president has submitted an "alternative plan" rather than adopting the rate of pay for government employees reported in the President's Pay Agent salary survey. By law, the Pay Agent (consisting of the Director of OPM, Director of OMB and Secretary of Labor) devises a methodology to measure pay comparability with the private sector, in consultation with the Federal Employees Pay Council (consisting of employee union representatives). As a result of past concessions made to the unions, the present pay methodology is completely unsupportable from a technical standpoint. This year the methodology reported that Federal employees need a pay increase of 21.5 percent to be comparable to the private sector. No one believes this, and this is why alternative plans have been supported by presidents rather than the "comparability" expected to be paid under the statute. The same lack of faith in its methodology has also led Congress to vote lower pay increases than comparability in the last two budgets.

II. CURRENT STATUS

The 1982 Pay Agent report to the president promised a review of legislative and administrative approaches to improve the measurement of comparability. Several meetings were held with the Federal Employees Pay Council (FEPC) to exchange views and consider possible reforms. In December 1982, the Office of Personnel Management released a comprehensive study of different approaches to reforming Federal pay. After further exchange, on February 17, 1983, the FEPC informed the Pay Agent that further meetings would be "fruitless". One of the "approaches" reviewed before the breakdown of communication, which would not necessitate a change in law, was a reweighting of the comparability survey to make it more representative. Since it was already discussed with the FEPC, it could have been presented as the official report of the

Pay Agent this year. OPM favored reporting this new methodology this year as the Pay Agent recommendation but finally the old methodology was used to show that Federal employees were entitled to a 21.5 percent pay raise. Since this was clearly unacceptable, the President submitted an alternative pay plan proposing a 3.5 percent pay increase, delayed to January 1, 1984.

### III. ACTION FORCING EVENT

Congress is expected to include a 4 percent pay raise, payable in January, in a reconciliation bill. The Directors of OMB and OPM met with Congressional leaders in early August and found them rather adamant. The Director of OMB expects that he will be able to move Congress towards the alternative of 3.5 percent. Everyone recognizes, however, that this kind of bargaining over pay represents a less than desirable process to determine employee salary. The unpredictability of the processes is further enhanced due to the Chadha decision, which questions the legitimacy of the Congressional veto of the alternative plan, and perhaps of the alternative plan itself. So both Congress and the Executive Branch are considering new alternatives.

### IV. OPTIONS

Option 1: Maintain the present methodology. The present methodology is technically unsupportable. Among its more glaring failures, it severely underrepresents small firms, the survey is not representative of the occupational mix either of the private sector or the Federal Government, and it compares average salaries rather than the more critical entry rates. There are also other problems, which would require a change in the law, such as the fact that the survey does not take into account local wage rates, nor is it allowed to use the most comparable occupations, i.e., in state and local government employment. There is one benefit to keeping the present system, however. The pay increases generated by the survey are so unrealistically large and the methodology so poor that there is very little chance Congress will take the pay results of the survey seriously. This makes Congress very reluctant to override an alternative plan, although this has become more clouded with the Chadha decision, and Congress' more frequent recent use of the reconciliation process to set its own pay rate independent both of "comparability" and the alternative plan.

Option 2: Legislative change. Legislative proposals to overhaul the current pay system were sent to Congress by the Carter administration in 1979, and by this administration in 1981. The thrust of both approaches was to move from salary comparability to total compensation comparability (i.e. including retirement, health and other benefits in the survey in addition to pay). These proposals were vigorously opposed in Congress, leading to the formal withdrawal of the legislation by this administration in 1982. The Pay Agent accepted the recommendation of the Advisory Committee on Federal Pay that benefits should be separated from pay, and reforms concentrated in each area separately.

Although a legislative solution on pay would be the most rational solution, it can be expected to be very difficult to pass through Congress. The Congressional proposal on pay-for-performance to allow bargaining over pay, has whetted the unions appetite for a legislative solution involving collective bargaining. The administration would presumably support legislation which would more accurately compare the two systems, perhaps shifting to more market-related solutions (such as comparing employees rather than jobs, or by measuring demand for Federal employment rather than wages directly). With the administration and the Congress on such radically different courses, it is unlikely that legislation acceptable to the administration could be passed, especially in time for next year's pay decision.

Option 3: Reweighting of the present comparability methodology. OPM's "Study of Approaches to Federal Pay" presented a methodology to more accurately weight the present survey, within the present constraints of the law. Had that methodology been applied in 1982, the recommended pay adjustment would have been 2.53 percent, instead of 18.5 percent. For 1983, the adjustment would have been 3.89 percent, instead of 21.5 percent.

The weighting methodology had the following four components: (1) weighting the survey to account for as much as 60 percent of the private nonfarm workforce presently excluded in small firms, (2) comparing entry rates instead of average salaries to account for the Government worker's faster movement through the step-rate range, (3) adjusting current salary data to account for the approximately 93 percent of Federal administrative workers for whom no private sector counterparts are included in this survey, and (4) eliminating the extremes of the private sector salary averages to achieve an improved statistical comparison.

This option can be adopted merely by including it in next year's Pay Agent report. Congress might resent the process being reformed by administrative action rather than by statute, but they obviously could overrule the decision legislatively if they really wanted. The fact that the new weighting formula is reasonable and results in a more realistic pay increase, having the face validity of being very close to both the 4 percent reported by Congress and the 3.5 percent reported in the alternative plan, gives it great legitimacy to Congress. For two years it would have resulted in reasonable pay increases, compared to the unrealistic results of the present process.

In addition, the present process results in an extremely serious morale problem among Federal employees. The present process allows employees to refer to an official report of the President's Pay Agent to support their belief that they are being denied pay actually due them. If the present process is modified and replaced by a credible alternative, this serious morale problem can be attenuated.

Option 4: Legislative Strategy with Reweighting Adjustment As Fall-Back. Although legislation acceptable to the Administration is unlikely, it is possible. This option would set a strategy to try for a comprehensive legislative solution but to make adjustments to the pay computation process if legislation is not feasible. This option would: 1) first seek a comprehensive legislative solution which would be modeled along past Carter and Reagan comprehensive reforms of pay computation, but also would use objective measures of private sector pay movement, such as a modified Employment Cost Index to eliminate "carry-over" increase and to eliminate "rate to rate" comparisons, while at the same time giving the President greater flexibility in distributing pay by grade, occupation and locality. (2) If the former is too comprehensive to be legislatively viable, make the following less comprehensive, but still important legislative changes: include state and local governments in the comparison, include special pay systems for selected occupations with recruiting and retention problems, and allow the Pay Agent to use methodology other than job-to-job comparisons. (3) If acceptable legislation cannot be passed, improve the current process by having BLS fully survey smaller establishments and excluded industries, increase job representativeness by using indirect matching methods, and make comparisons at the entry rates to compensate for faster Federal government through the rate range. (4) If BLS cannot make acceptable changes for next year's Pay Agent report, adopt the new methodology developed by OPM for use in the 1985 report, and modify it later by the BLS methodology (Same as Option 3).

#### V. RECOMMENDATION

I recommend the adoption of Option 3. The present methodology is unsupportable, and it is a serious drain on employee morale. No conceivable legislation which could pass Congress could result in a pay adjustment more reasonable than one weighted by the Pay Agent. If the comparability figure is reasonable, there is no necessity for an alternative plan. This approach would regularize the process and give it legitimacy. It is critical that this decision be made early to remove it from the politics of an election year. Option 3 is the most reasonable and rational, and should not be colored by politics.