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United States Government
MEMORANDUM

**Office of
Personnel Management**

Subject: Background Document on Compensation Practices in the
Federal, Non-Federal Public Sector and Not-for-Profit
Compensation Systems

Date: **AUG 30 1984**

Barbara L. Fiss
From: Barbara L. Fiss, Deputy Assistant Director
Office of Performance Management/WED

In Reply Refer To:

Your Reference:

To: All OPerM Staff

Attached is an excellent document prepared by Pete Rymshaw which I believe you will find useful as a reference guide. As the OPerM role expands and we look at new approaches to performance management and related issues, it is important to remain current and to be aware of developments in the general area of personnel management.

More organizations, including a number in the public sector are beginning to explore areas such as flexible benefits and 401(k) plans as ways not only of attracting and retaining a qualified work force but also controlling costs. Because the area in which we work is a dynamic one, I think you'll find it useful to review the attached document and add it to your reference library.

Again, a special thanks to Pete for a job well done.

**INFORMATION ON
FEDERAL PUBLIC SECTOR, NON-FEDERAL PUBLIC SECTOR
AND NOT FOR PROFIT COMPENSATION SYSTEMS**

**Prepared by:
Peter G. Rymshaw
Office of Performance Management**

FEATURES OF FEDERAL PUBLIC SECTOR COMPENSATION (PAY)

I. BASIC PAY POLICIES

- overall policy is governed by law and regulation
- except for merit pay, white collar pay is entirely centralized
- pay for blue collar set by results of survey conducted by "lead agency"

Pay Structure

- 6 rates of pay for executives (Senior Executive Service)
- open range for merit pay
- range with steps for white collar and blue collar

Differentials Between Ranges

- between 12% and 17% for white collar
- blue collar dependent on survey results

Span of Rate Range

- approx. 30% for white collar
- approx. 16% for blue collar

Steps

- used outside of merit pay
- 10 steps of equal size for white collar
- 5 steps of equal size for blue collar

Taking Pay Action

- generally white collar and blue collar step increases come after meeting waiting period and having supervisor designate that performance has been acceptable
- merit pay increases must include 2nd level review
- senior executive pay increases and bonuses require involvement of a performance review board

II. RAISES AND ADJUSTMENTS

Reviewing Schedules

- annually

What Determines Size of Schedule Adjustment

- white collar pay based on "comparability" with private sector, or an alternative amount
- blue collar pay based on survey of prevailing rates in local area (unless otherwise limited)

Differentials Between Grades

- maintained automatically for white collar employees since increase amount usually applies to all grades
- not set for blue collar

Length of Service

- addressed through step advancements

COLAs (as opposed to other kinds of general increases)

- not used

III. HIRING RATES

New Employees Brought in at Higher Rates

- shortage occupations have rate ranges that are shifted upward
- other individuals may be hired at advanced rate as an exception
- advanced hire rate only pertains to upper grades of the General Schedule (white collar)

IV. JOB CHANGES

Job Up-Grading

- incumbent is either automatically promoted or is eligible to be considered for a promotion to the higher level position

Job Down-grading

- employee is usually assigned to other position at same grade; otherwise red-circled

Demotion

- employee's pay may be set at any rate which does not exceed his or her present one

V. OVERTIME AND PREMIUM PAY

Unusual or Hazardous Duty

- environmental differentials

Premium Pay as a Percent of Salary

- yes, 150%

Holiday Premium Pay

- yes, double time

Standby Duty

- yes

VI. MERIT PAY PROVISIONS

History

- Civil Service Reform Act (CSRA), 1978, brought merit pay and the Senior Executive Service (SES) for supervisors, managers and management officials and a new performance appraisal system
- performance is to be appraised against objective, job-related standards
- merit pay increases are to be paid out of funds formerly used for automatic increases and longevity increases

Coverage

- limited to managers, supervisors and management officials in General Schedule grades, GS-13, 14 and 15. (Upper middle management)
- higher level executives are in Senior Executive Service (SES), an entirely separate personnel system; they can receive bonuses each year based on their performance

Funding

- fixed pool concept; overall, no more nor less than would have been spent in non-merit increases

When Do Employees See Merit Increases

- usually effective beginning of October
- most agencies pay out at that time; a few do so retroactively in December

Eligibility for Merit Increases

- all eligible based on performance
- all fully successful employees receive some increase

Size of Increases

- varies according to agency
- OPM has approved agency plans that are expected to provide minimum increases equal to the annual increase other employees receive; maximum increases are limited to 10% above the general increase

Importance of Performance in Setting Pay (all employees)

- merit increases are based on annual performance ratings
- other employees must be fully successful (white collar) or satisfactory (blue collar) to receive step increase

Bonuses

- merit pay employees can also receive cash awards for superior performance

Promotions (all employees)

- give raise immediately
- size of raise: white collar 6-9%; blue collar 4%
- white collar employees cannot be promoted again within year

The Federal Merit Pay Experience

History

- CSRA, 1979, brought merit pay and SES for supervisors and managers, and a new performance appraisal system.
- performance is to be appraised against objective, job-related standards.
- merit pay increases are to be paid out of funds formerly used for automatic increases and longevity increases.

Problems

First, there was a lack of confidence in the performance appraisal system, particularly as it would be used to set pay.

Then, there developed rather general opposition to the idea of funding merit increases out of what used to be automatic. Many felt that the base for Fully Successful performers should be at least the full general increase equivalent - even step increase equivalents.

Fixes

New merit pay regulations were proposed to guarantee the full general increase to Fully Successful performers. Also, many changes would have been made to clean up the performance appraisal system. However, regs were stopped as a result of political process.

Recently, Senator Tribble proposed legislation that would make substantial changes to the merit pay system, using most salary increase monies to provide equity with other white collar employees, but providing for "performance awards" as bonuses for high level performance.

FEATURES OF NON-FEDERAL PUBLIC SECTOR COMPENSATION (PAY)

Source: Public Personnel Administration
Policies and Practices for Personnel
Special Survey Report: Compensation Practices
12-20-82

Responses from 116 city governments
34 state governments
32 county governments

I. BASIC PAY POLICIES

- 95% have formal, written policy
- except regarding uniformed services, almost as many jurisdictions allowed for moderate supervisory discretion as did not

Pay Structures

- rate range used by 90% (as opposed to single rate)

Differentials Between Ranges

- average 5% for blue collar, 6% for white collar, 7% for police and firefighters

Span of Rate Range

- general constant throughout structure of each plan
- average 26% for police and firefighters, 27% for blue collar, 28% for white collar workers, 29% for white collar supervisors, and 20% for professionals and administrators

Steps

- Used by 80% for blue collar and police
75% for white collar
67% for professionals and administrators
- most common number of steps is 5, 6, or 7,
- number of steps held constant, in some cases size of step increase (dollars) increased at higher part of range

Taking Pay Action

- usually two levels of approval needed, sometimes 3, rarely only 1 level
- even so, two thirds of respondents said a "designated Personnel official" can still disapprove.

II. RAISES AND ADJUSTMENTS

Reviewing Schedules

- annually by 60% of respondents

What Determines Size of Schedule Adjustment

- more than half said "ability to pay"
- 26% said internal collective bargaining
- only 20% use pay survey data

Differentials Between Grades

- maintained automatically according to 75%
- 10% said part automatic, part performance
- almost none used performance alone, or length of service

Length of Service

- 35% of respondents give increases based on length of service only
- jurisdictions range from 3% to 6% on size of increase

COLAs (as opposed to other kinds of general increases)

- only 26% give COLAs, and only half of those use CPI solely
- very few have an established ceiling for COLA increases
- most do adjustment annually

III. HIRING RATES

New Employees Brought in at Higher Rates

- about 80% allow hiring above minimum rate
- about 75% said they actually do it
- less than 18% of employees are brought in above minimum rate, of whom most are supervisors and professionals
- higher offers were made mostly to candidates in physical sciences, engineering and computer science

Reason

- work experience first, then critical skills
- very few use housing costs, etc.

Former employees

- 75% have specific policy for setting pay on return
- of these, 25% treat as any other employee, 33% hire back into same relative position in the range

IV. JOB CHANGES

Job Up-grading

- 60% immediately adjust pay, most to new range minimum or by 4% if pay is above minimum

Job Down-grading

- 40% red circle pay
- 20% immediately reduce pay to new maximum

Demotion

- about half to 40% immediately reduce pay to range maximum, 20% do it gradually

V. OVERTIME AND PREMIUM PAY

Unusual or Hazardous Duty

- 20% give special premiums to police and blue collar; 10% to firefighters; only 5-7% to white collar
- generally, these conditions are "factored in" to white collar classification; in about 1/3 of cases it is factored into blue collar as well
- when factored in it is rare that it changes grade level

Premium Pay as a Percent of Salary

- range from average of 10-19% based on occupation and supervisory status

Holiday Premium Pay

- 40-50% provide it
- usual premium is 150% of straight time
- those not paying premiums give compensatory time off, usually on 1:1 basis
- holiday overtime is also usually paid at 150% (40% of respondents); under 10% pay either 100%, 200% or 250%

Standby Duty

- most jurisdictions reported that employees are subject to, but little responses as to how compensated

VI. MERIT PAY PROVISIONS

Merit Pay

- 70% use for all but police and firefighters
- 54% for firefighters
- 58% for police

When Do Employees See Merit Increases?

- about half use fixed time period; most "immediately" or 1 month after

Eligibility for Merit Increases

- almost none said it was controlled
- average of 87% receive them

Size of Increases

- two-fifths have minimums (usually 3%) and maximums (usually 9%)

Importance of Performance in Setting Pay

- Two-thirds said most important
- one-third said position in range
- one-quarter said time since last increase

Promotions

- almost all give raise immediately
- size of raise: minimum 4%, maximum 6%
- only about 20% have minimum period to be considered for another promotion, usually 8 or 9 months.

FEATURES OF FEDERAL PUBLIC SECTOR EMPLOYEE BENEFIT PLANS

Paid Holidays

- 9 per year

Annual Leave

- beginning, 13 days per year
- after 3 years, 19 1/2 days per year
- after 15 years, 26 days per year

Sick Leave

- earn 13 days per year
- no limit on accumulation
- employees are not paid for unused sick leave at termination or separation

Other Leave

- jury leave
- military leave

Health Insurance

- employees are able to select from a large number of plans
- Government contributes an amount equal to about half of the cost of family coverage

Life Insurance

- Government pays 1/3 of basic (salary + \$2,000)

Disability

- none

Tortious Acts

- none

Retirement System

- mandatory participation
- employees contribute 7%
- Government also contributes 7%
- vest into system after 5 years
- full benefits after: twenty years service at age 62
thirty years service at age 55
- retirement benefits—uses high three years salary and years of service as factors
- all employees hired after January 1, 1984 are under Social Security System

Deferred Compensation

- none

Legal Services

- none

Other Benefits

- most agencies provide free parking, although car-pools may be required
- health facilities are common
- paid recreation facilities are rare (except on military bases)
- cost of relocation can be reimbursed to employees changing jobs
- employees are eligible for suggestion and performance awards

FEATURES OF NON-FEDERAL PUBLIC SECTOR EMPLOYEE BENEFIT PLANS

Sources: Public Personnel Administration
Policies and Practices for Personnel
Special Survey Report: Compensation Practices
12/20/82

A Study of State Government Employee Benefits
Assembly of Governmental Employees (AGE)
January, 1984

Paid Holidays

- average 10 1/2 per year

Annual Leave (state governments)

- varies quite a lot
- 12 days, first year most typical
- 15 days after 5 years
- 18 days after 10 years
- 21 days after 20 years

Sick Leave (state governments)

- average 13 1/2 earned per year
- 36 states have no limit on accumulation
- employees are generally not paid for unused sick leave at termination or separation

Other Leave (state governments)

- jury duty is universal
- military leave is universal
- 47 states grant education leave

Health Insurance (state governments)

- 24 states pay the entire individual (not family) premium
- 48 states make insurance available to retirees
- 25 states have dental coverage, all or most paid

Life Insurance

- 90 percent of jurisdictions provide at no employee cost (amount based on employee salary and sometimes age)
- 11 states have fixed amount for all employees ranging from \$2,000 to \$18,000.

Disability (state governments)

- Only 15 states provide for short term disability
- 20 states provide for long term disability

Tortious Acts (state governments)

- 27 states provide liability protection for tortious acts committed during performance of official duties.

Retirement Systems

- 96% of public employers provide a pension plan; only 40% integrate it with Social Security
- mandatory participation in all 50 states
- employee must contribute in 39 states (average 5.1% of salary)
- state contribution average 9.8%
- average time for vesting into system -- 7.5 years (states)
- average age for full benefits -- 59 years (states)
- retirement benefits average 1.75% x years of experience x high 3 or 5 years compensation (states)
- employees of 43 states also participate in SSS
- 40% of public plans are integrated with SSS
- according to 1982 survey: 40% of public pension plan were last adjusted in 1981, 20% in 1980

Deferred Compensation

- 46 states either have a system or plan one; systems also prevalent in municipal and county government, and especially educational and health institutions

Legal Services

- Not widely adopted. One example would be Thomas Jefferson University in Philadelphia, where it is an option under the flexible benefits plan

Other Benefits

- about 80% of public employers provide parking facilities while only 10% ask the employee to share cost
- less than 10% provide recreational facilities; less than 20% provide health facilities
- 30% of jurisdictions give relocation allowances to white collar supervisors and professionals and administrators; far fewer provide it for other employee groups
- private sector benefits - bonuses, discounts on goods and services, non-cash/non-production gifts, savings or "thrift" plans, stock purchase plans - rare

**DIFFERENCES IN PRIVATE (PROFIT AND NOT FOR PROFIT)
VS. PUBLIC COMPENSATION PLANS**

Private

About half of new hires are brought in above the minimum rate.

Standby duty unusual.

Savings/thrift plans are common.

40% give employee discounts.

Many employers allow personal use of company car.

Recreational facilities at about 40% of companies.

Public

Less than 18% are.

Required in some occupations (particularly uniformed employees).

No.

No.

No.

Less than 10% of employers have recreational facilities.

Note: This comparison excludes those compensation features which are unique to "for profit" organizations e.g. profit sharing and stock purchase plans of all types.

**COMPARISON OF LEVEL OF BENEFITS
INDUSTRY vs. MUNICIPAL GOVERNMENTS**

- See attached extract from 1979 National Survey.
- cities expend a higher percent of pay for fringe benefits.
- the trend shows the gap to be widening, but not necessarily because absolute benefits are growing, but because total pay (the base on which the percent is calculated) is growing more slowly than in industry.
- many states, cities and health and education institutions have had to absorb Federal revenue cuts and are not expanding benefits.

summary

1979 NATIONAL SURVEY OF EMPLOYEE BENEFITS FOR FULL-TIME PERSONNEL OF U.S. MUNICIPALITIES (Including Forecast to 1981)

by EDWARD H. FRIEND and LORRAINE A. LUFKIN with assistance from STEVEN P. YAROSH

FRINGE BENEFITS: CITIES CONTINUE TO SPEND MORE THAN INDUSTRY—AND DIFFERENCES WIDEN

Survey results indicate that cities continue to expend a higher percentage of working pay for "fringe benefits" on behalf of all categories of municipal workers than private industry pays on behalf of its workers, and, in fact, the gap is widening. Comparative figures are as follows:

FRINGE BENEFITS AS A PERCENTAGE OF PAY FOR HOURS WORKED

Municipal	Percentage of Pay	
	1977 Survey	1979 Survey
● "composite" average for sworn (police and fire) personnel	46.0%	47.5%
● "composite" average for general (sanitation and other) personnel	42.7%	43.8%

Industry	Percentage of Pay	
	1977 Survey	1979 Survey
● average for non-manufacturing industry personnel	41.0%	41.4%
● average for all industry personnel	41.9%	42.2%

For non-manufacturing industry personnel, "pay for hours worked" increased by 7.5% per annum between the 1977 survey and the 1979 survey. In contrast, fringe benefit expenditures increased by 8.1% per annum. The combination was responsible for an increase in the percentage of pay for hours worked expended on fringe benefits from 41.0% to 41.4%.

In contrast, municipal general personnel (sworn personnel) "pay for hours worked" increased by 6.8% (7.1%) while corresponding fringe benefit expenditures increased by 8.3% (9.0%). These combinations were responsible for increases in percentage expenditures on fringe benefits from 42.7% to 43.8% (46.0% to 47.5%).

Differences between relative expenditures by cities and industry have widened because of the higher "spread" between the annual rate of growth of fringe benefit expenditures vs. the annual rate of growth in pay for hours worked, i.e., 1.5% per annum for general (1.9% per annum for sworn) vs. 0.6% per annum for non-manufacturing industry.

Comparative rate of growth figures for fringe benefits and pay for hours worked illustrate these differences.

ANNUAL RATE OF GROWTH IN FRINGE BENEFIT EXPENDITURES

Municipal	Percent per annum	
	1977 Survey	1979 Survey
● "composite" average for sworn personnel	7.2%	9.0% ^{.8}
● "composite" average for general personnel	9.0%	8.3% ^{-.7}

Industry	Percent per annum	
	1977 Survey	1979 Survey
● average for non-manufacturing industry personnel	8.4%	8.1% ^{-.3}
● average for all industry personnel	9.3%	8.8% ^{-.5}

ANNUAL RATE OF GROWTH IN PAY FOR HOURS WORKED

Municipal	Percent per annum	
	1977 Survey	1979 Survey
● "composite" average for sworn personnel	7.8%	7.1% ^{-.6}
● "composite" average for general personnel	6.8%	6.8% ⁰

Industry	Percent per annum	
	1977 Survey	1979 Survey
● average for non-manufacturing industry personnel	6.7%	7.5% ^{.8}
● average for all industry personnel	6.6%	8.3% ^{1.7}

Proportion of Nation's Cities Responding to Survey

The nation's municipalities with population size over 10,000 were approached for information on fringe benefits for full-time personnel. Of the 2,480 municipalities that received the questionnaire, 991 cities or 40% of the surveys were included in the current results.

Survey Results Actually Understate the Value of Employee Benefits Provided by Municipalities

Many cities are inadequately financing their pension plans and, consequently, report pension costs which are lower than the value of accruing benefits. Only actual amounts contributed to these plans were included in the survey (not the real cost). Accordingly, it would not be unreasonable to adjust in an upward direction the percentages of pay determined to have been expended by municipalities for fringe benefits. The size of the adjustment is likely to be of the order of magnitude of three to six percent of pay for hours worked.

INFORMATION ON HEALTH SERVICES INSTITUTIONS

Source: American Compensation Association/Prentice Hall
Survey, 1982

- Institutions generally review and adjust pay schedules annually.
- 70-80% of institutions grant pay increases under merit system.
- Cost of living and length of service increases are granted by 10-20% of institutions.
- Premium pay is generally not granted for Sunday work, but is for holidays.

OTHER INFORMATION

- Although not 401(k) plans, hospitals and health institutions have used TSA's (Tax Sheltered Annuities) for years.
- 300 hospitals participated in the ACA/Prentice Hall/OPM survey. (Private sector)
- Recent strike by nurses in Minneapolis-St. Paul was about job security. The Federal Government's moves to try to reduce health care costs has prompted hospitals to reduce their staffs. Thus, there has been no large employee-prompted movement toward progressive benefits plans.
- There has been a great deal of industry interest in performance appraisal. However, just as there has been when the subject was raised for teachers, there is a great deal of concern about objectivity.
- The health care area used to be a "single industry." Now it is very different depending on whether the institution is Federal; city, county or state; not for profit; or proprietary (private, profit making).

SPECIAL FEATURES IN PUBLIC AND NOT FOR PROFIT COMPENSATION

Sources: Bureau of National Affairs, Personnel Management Manual.

Personnel Administrator, June 1983

I. Child Care

This is an expanding employee benefit, particularly with employers in the Health Care sector. Some examples are:

Baptist Hospital, Miami, Florida

- Day Care Center is subsidized by hospital
- employees pay only \$20 per week per child
- hospital supplies space and picks up rest of expenses
- for children aged 6 weeks to 6 years

Edgewater Hospital, Chicago, Illinois

- for children of doctors and registered nurses
- parents pay \$5 per day per child
- children between 2 1/2 and 5 years admitted
- existed for 10 years now

Prince Georges General Hospital, Cheverly, Maryland

- Center is treated as a department of the hospital
- tuition is charged, although hospital subsidizes it to some extent
- two shifts--open from 6:45 a.m. to 12:15 a.m.

Arlington Hospital, Arlington, Virginia

- non-funded on-site center for children of all employees
- operates from 6:30 a.m. to 11:30 p.m.
- for children 6 weeks to 2 years, to be expanded up to age 6 years

also:

The U.S. Air Force

- child care offered for military and civilian employees at 122 Air Force bases
- 11 bases operate pre-school programs
- programs/centers in 1982 served over 18,000 children per day in the child care centers; 9,000 in the pre-schools
- hours usually include after school and summer care, in many cases evening and weekends
- ages of children usually span from infant up to school age
- meals and snacks also provided
- centers are "affordably priced"
- new initiatives being tested: 24 hour service, advanced training for child care directors

New York State Government

- Children's Place at the Plaza set up in Albany in 1979 was first for state employees
- State provides space, renovations and maintenance; parents pay all operating costs
- ages eight weeks through kindergarten
- operates from 7:00 a.m. to 5:30 p.m.
- breastfeeding--mothers may nurse their infant during work breaks
- mainstreaming--children with handicaps are accepted and integrated into the programs
- close-by field trips

II. Flexible Benefit Plans

There are a number of examples of plans where employees can select from among various levels and types of benefits, as well as cash options in some cases.

City of Dallas, Texas

- employees choose among six "bundled" benefits packages
- variables include medical, dental, vision care, dependent care, and life insurance
- options can be changed once per year or when there is a change in family status

Ulster County, New York

- instituted plan when unable to compete against IBM and others
- became self-insured to cut costs and improve benefits
- flexible management compensation plan on January 1, 1984
- spending account will eventually cover 2,500 county and community college employees

Lincoln, Nebraska Public Schools

- adopted in 1975
- original plan was not meeting needs of employees, 70 percent of whom are female
- permits cash options instead of benefits
- employees can choose among Blue Cross, HMO's, life insurance, disability, dental care, vision care, and cash
- unions like it

State of Alaska

- State withdrew from Social Security System in 1980
- State contributes 12.26 percent of salary, up to the SSS wage base, to the Supplemental Benefits Program on behalf of the employee
- each year, or when there is a change in family status, employee purchases survival benefits, disability benefits, death benefits, health benefits, and annuity benefits

Maricopa Community College, Phoenix, Arizona

- employees may choose any or none of the following:
 - health care (3 options)
 - dental care (2 options)
 - short-term disability (3 options)
 - vision care (2 options)
 - health evaluation (3 options)
- employees may decline all but \$5,000 in life insurance and take a sizable cash option

Hudson Memorial Hospital, Wisconsin

- salary reductions and employer contributions are used for "reimbursement account"
- employees pay for health insurance, child care, dental, vision, hearing from the account

Thomas Jefferson University, Philadelphia, Pennsylvania

- plan to begin October 1, 1984
- included are options for medical care coverage and life and disability insurance
- additional flexible spending account for health care benefits, legal services and dependent care assistance
- employees may contribute, prior to the plan year, pre-tax salary amounts to their accounts (there will be a maximum)
- lowest option choices would credit spending accounts with as much as \$2,000

State of Minnesota

- employees may choose from among several options each in the areas of health insurance, dental insurance, and life insurance

III. Deferred Compensation

Section 401(k) Deferred or Cash Profit Sharing Plan

- IRS has defined "profit" as excess receipts over expenditures.
- State of Tennessee has 401(k) plan. This is the only state to have one.
- Tennessee Valley Authority (TVA) and Federal Reserve System are federally connected non-profit organizations with 401(k)s.

Section 403(b) Tax Sheltered Annuities

- well established in public and non profit sectors. Health care and educational institutions have used them for years.

Section 457 State and Local Government Deferred Compensation Plans

- US Conference of Mayors (in Labor-Management Relations Service Newsletter) reports that 284 cities (47,000 employees) under their Deferred Compensation Plan. Public Employees Benefit Services Corporation (PEBSCO), who administers it, also administers a similar program for counties and 13 states. All tolled PEBSCO covers 1,000 jurisdictions, 200,000 employees.