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# THE REPORT OF THE PRESIDENT'S COMMISSION ON COMPENSATION OF CAREER FEDERAL EXECUTIVES

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# THE PRESIDENT'S COMMISSION ON COMPENSATION OF CAREER FEDERAL EXECUTIVES

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# Senior Executive Service Compensation

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## Introduction

The President's Commission on Compensation of Career Federal Executives was established by E.O. 12592 (April 10, 1987) to study "........the levels of compensation paid to career members of the Senior Executive Service (SES) and shall advise the President and the Director of the Office of Personnel Management on its findings and recommendations, including its conclusions on:

(1) what effects inflation has had on these pay levels;

(2) how these pay levels compare with those of similarly situated executives in the private sector;

(3) how these pay levels affect recruitment and retention of career executives in the Federal service;

(4) whether these pay levels are appropriate;

(5) how compensation of the Senior Executive Service should relate to compensation of (a) Executive Level employees, and (b) GS/GM employees; and

(6) whether legislation should be proposed to alter the President's authority to adjust SES compensation levels."

As the members of the Commision explored the issues set forth in this executive order, it became clear that the essential point around which the others revolved was recruitment and retention of the best qualified individuals for the SES--a critical element for the proper functioning of this government.

Without retaining our best public servants and without the ability to recruit equally qualified personnel, our capacity as a nation to successfully respond to the domestic and international challenges we face will be severely impaired. We approach the President's mandate for this Commission from the perspective that being merely competitive with private sector career choices is not enough. The Federal Government needs to be competitive for the best talent available, and compensation plays a significant role in that competition.

At no level is such a recruitment and retention policy more important than at the top of the career public service, the Senior Executive Service (SES). These executives provide the key link between the President and his appointed policy makers and the vast career federal service. Without the highest quality SES executives, responsive to and accountable for carrying out the President's policy mandate, the link is severed. In addition, SES career executives provide the institutional history and experience needed to most effectively frame the implementation of a new policy direction. An SES beset by retention and recruitment problems results in the will of the people, as expressed through national elections, being seriously impaired.

In recent years many studies have pointed to problems, often involving compensation issues, in recruiting and retaining SES executives. The Commission, after reviewing much of the literature and after exploring several additional aspects, affirms many of these earlier conclusions and finds several areas in need of immediate redress. An additional concern, perhaps of even greater importance, is our perception that recruitment and retention problems in the SES are growing not diminishing.

This report is presented in three parts preceded by a Summary of Findings and Recommendations. Section I provides descriptive information about the Senior Executive Service: its purpose, compensation provisions, and early problems encountered. Section II focuses on basic SES compensation issues--the relationship between SES pay and (1) executive purchasing power; (2) pay for private sector executives; and (3) pay of other federal employees. Section III examines how SES compensation affects executive recruitment and retention based on: federal agency views; federal manager views; and statistical indicators measuring change in the composition of the SES.

## Summary of Findings

In its own analysis and in the review of the literature concerning compensation of the SES, this Commission has found strong reasons for increasing concern. The disincentives for recruitment and retention of the most capable incumbents or candidate SES members are many--the history of broken promises and pay caps, reduced bonus provisions, the effects of inflation, the comparative pay gap with the private sector, compression within and on either end of the SES pay range. More specifically, we find the following:

Effects of Inflation: Since the SES went into effect in 1979, real (i.e., inflation-adjusted) SES pay has fluctuated, but the net effect has been negative. Falling rapidly in the early part of the 1980's, it began to improve against inflation in early 1982. By late 1987, however, average real SES pay was still slightly below its 1979 value.

Comparison with Private Sector Executives: Historically, federal executive pay has never been fully comparable with private sector executive pay. Higher private sector risks and deferred compensation measures are extremely difficult to quantify. Regardless of the difficulties in comparing salaries, federal executives do measure their compensation against their perceived private sector counterparts. Studies by the Bureau of Labor Statistics (BLS) (average salary comparison of federal career executives and comparable private sector executives between 1979 and 1987) and by the Hay/Huggins Company (cash compensation and total compensation comparison of federal and private sector executives in 1984 and 1987) show that both the average salary and total compensation of private sector executives are substantially above those of federal executives.

Appropriateness of SES Pay Levels: The compression within the SES pay level range (17% as of January 1988) is so great as to make differentials between the pay levels meaningless in terms of a compensation incentive. Bonus provisions are inadequate for rewarding outstanding performance. The limited range, with the ceiling for SES pay at Executive Level IV, is a compensation and performance disincentive.

<u>Compensation and SES Retention and Recruitment:</u> Additional information collected from 39 federal agencies with 86 percent of the total SES career population indicates that problems with recruitment and retention of career executives vary by occupational fields. The occupations in which agencies are having the greatest difficulties are attorneys, medical researchers, several types of scientific and engineering specialists, economists, statisticians, and information management/computer science specialists. The two highest ranking concerns of the agencies were difficulty in attracting high quality applicants for SES vacancies and having a federal compensation package that is not competitive with compensation provided for comparable private sector and academic positions. The latter factor (compensation) was generally identified as the primary reason for the difficulties in getting and keeping high quality SES career members. SES attitude surveys indicate that compensation is generally viewed as a negative factor.

While some data on the SES are available, no federal agency has developed a set of time series indicators that can be applied to their own SES population or the more general data available to establish trends and pinpoint trouble spots. Such ongoing analysis is urgently needed if we are to begin measuring the health of the SES recruitment/retention effort with any real accuracy. In a few years, the portability of the new Federal Employees Retirement System (FERS) will present new challenges both to the retention and recruitment effort. Action is needed now to make better use of existing data (particularly time series data demonstrating trends) to better measure the status and health of the SES for the future.

Overall, this Commission finds the current SES compensation system not conducive to recruitment and retention of the highest quality candidates and members of the career SES and poorly positioned to meet the increasing challenges of the future. The erratic nature of the implementation of scheduled compensation recommendations in the past suggests that the President's authority to adjust SES compensation levels needs to be broadened. In light of the uneven recruitment/retention problem being experienced by federal agencies, it becomes even more important to have greater Presidential flexibility in designing compensation systems.

Commission Recommendations

The design of the SES with its emphasis on promoting greater risk-taking and performance with greater rewards simply has not been realized. It is clear the current SES compensation system provides neither the reward for performance nor the flexibility for competitively recruiting and retaining the best quality executive talent available. The Commission does not feel the SES system should be discarded. Rather, the Senior Executive Service should remain intact and its uniqueness enhanced. A number of legislative proposals have been suggested which would remove certain occupational groups (e.g., scientific, engineering, and acquisitions personnel) from the SES. The rationale is that sufficient flexibility does not exist within the SES compensation system to allow agencies to recruit and retain top-flight executives in particular areas.

The separate personnel systems being proposed would create a precedent which other groups could use to justify their own separate systems. The result could return the government to the situation extant prior to the Civil Service Reform Act: that is, having over 60 executive authorities governing small groups of career executives--with the substantial management inefficiencies and inflexibilities such a piecemeal system would create. A better solution is to expand the compensation flexibilities within the SES structure.

In order to correct major shortcomings in the SES compensation system, the Commission recommends legislation this fiscal year to expand the flexibility and performance elements of the SES by:

(1) Setting the SES pay rates beginning at GS-16/step 2, for the first SES pay level. All following SES pay levels are to be established with a uniform differential of a minimum six percent increase between each level.[1] Non-career SES should not be paid more than Executive Schedule Level 4 (EX-4).[2] This will permit larger pay distinctions in recognizing the substantial differences in the importance of difficulty in SES jobs.[3]

| SES | INCREASING SALARY LEVELS | DIFFERENCES DOLLARS | DIFFERENCES PERCENTAGES | TOTAL DIFFERENCE |
|---|---|---|---|---|
| 1 | $66,544 | | | |
| 2 | 70,537 | $3,993 | 6.00% | |
| 3 | 74,769 | 4,232 | 6.00% | |
| 4 | 79,255 | 4,486 | 6.00% | |
| 5 | 84,010 | 4,755 | 6.00% | |
| 6 | 89,051 | 5,041 | 6.00% | 33.82% |

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[1]The President currently has authority to establish GS-16/Step 2 as the base SES salary level. New legislation would be required to establish the minimum level differentials.

[2]A save salary provision would apply to the non-career SES to preclude any loss in current salary. Adjustment in the non-career SES salary would be based on changes in the current EX pay schedule (specifically EX-IV).

[3]The Commission reviewed a variety of options regarding the setting of an upper SES pay limit (range percentages, limiting the number of pay levels and setting no formal limit are examples). While the Commission makes no formal recommendation in this regard, any decision reached should maintain enough flexibility to move with any adjustments to the pay levels. The objective is to prevent compression within the SES pay levels.

The impact of this new SES pay scale is demonstrated by the following table. The dollar and percentage increases of the new scale appear to the right of the current SES pay levels. Compression is relieved at all levels with a monetary differential that provides incentive to strive for the next pay level.

| CURRENT SES PAY SCALE | | NEW SES PAY SCALE | |
|---|---|---|---|
| SES Level | Dollars | Dollars | Percent Increase |
| 1 | 65,994 | 550 | 0.83% |
| 2 | 68,952 | 1,585 | 2.30% |
| 3 | 71,910 | 2,859 | 3.98% |
| 4 | 73,400 | 5,855 | 7.98% |
| 5 | 75,500 | 8,510 | 11.27% |
| 6 | 77,500 | 11,551 | 14.90% |

This Commission views flexibility within pay the SES levels to be of greater importance than pay scale overlap (i.e., where GS/GM-15 step 8 overtakes ES-1), provided there is a substantial benefit or incentive to switch from the high end of the GS/GM scale to the low end of the ES scale. Heretofore, this incentive in the form of performance bonuses and substantial pay level differentials has been lacking.

(2) Increasing the size of the bonus pool and allowing recruitment and retention payments.[3] The bonus pool would be equal to 10% of aggregate career SES payroll with recruitment and retention bonuses not to exceed forty percent of the total pool.[4]

Bonuses comprise a much larger percentage of pay for private sector executives than for federal executives. On average, comparable private sector executives receive annual bonuses equal to 20 to 30 percent of their salaries.

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[3]As is currently the case, an expanded bonus pool would not apply to non-career SES executives.

[4]The guidelines and criteria for authorizing these recruitment and retention payments could be similar to those under 5 U.S.C. 5948, Physicians' Comparability Allowances.

Expanding the bonus pool from the current three percent to ten percent of aggregate career SES payroll would allow agencies to give awards to a larger proportion of SES members, give larger awards on average, and have more latitude in the application of pay-for-performance principles.

In addition agencies should be permitted retention and recruitment bonuses of up to forty percent of this expanded bonus pool[5]. Agencies currently have limited flexibility within the SES pay range to provide substantial pay to recruit top quality private sector managers and retain superior career executives. Adding the recruitment/retention bonus provision would give federal agencies greater ability to compete with the private sector.

(3) Increasing the size of Presidential Rank Awards. Rank awards go to the very best of the career SES--exactly the individuals the government should make the greatest effort to retain. Since the establishment of the SES in 1979, the dollar amount of individual awards has remained the same at $20,000 (Distinguished Rank) and $10,000 (Meritorious Rank). Agency performance bonuses ($15,500 maximum) can now be more than Meritorious Rank Awards. To eliminate the overlap, thereby restoring the unique honor of the Presidential Rank Awards, these should be raised to 40 percent (Distinguished Rank Awards) and 20 percent (Meritorious Rank) of the top SES pay rate, thus avoiding the future need to raise award levels on an ad hoc basis.

(4) <u>Eliminating the aggregate compensation ceiling set at EX-I</u>. This would allow greater latitude for paying substantial performance and non-performance bonuses in the year earned. While legislation allowing carry-over of compensation earned in excess of EX-I has proved helpful, more leeway may be needed for certain shortage positions.

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[5]Commissioner Norwood has reservations about recruitment and retention bonuses on equity grounds.

(5) Changing annual leave accumulation rules.[6] SES managers are allowed unlimited annual leave accumulation per year; unused leave may be cashed out when the employee leaves government. By allowing annual cash out of a portion of leave above 120 hours--effectively shifting this deferred payment into the current compensation category--SES members would be given access to additional lump sums on a yearly basis.[7]

The Commision acknowledges these recommendations have budgetary implications. Recommendations one, two and three represent an increase of approximately 14 percent over the current base SES compensation aggregate in these areas. More than 50 percent of the dollar value of the increase is in the area of performance related bonuses. The remainder creates a more meaningful incentive differential between the SES compensation levels.

The Commission recommends several non-legislative actions as well that will enhance SES recruitment and retention in a more indirect fashion:

(1) <u>SES pay should be studied on a regularly scheduled basis as are General Schedule and Executive Schedule Pay.</u> The President's Pay Agent should include SES pay as part of its annual review of General Schedule pay and discuss such changes in its report to the President.

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[6]Commission Chairman J.L. Cullen and Commissioner Norwood have expressed reservations about this recommendation. They feel SES executives should be encouraged to take off the leave time earned.

[7]For example, an SES member at the current ES-1 level who chose to cash-in one year's earned leave above 120 hours would increase his income by $2,728.00 This asumes he is accumulating leave at eight hours per pay period, (208 hours total for the year), the rate provided after 15 years of federal service. Most career executives meet this criterion. The figure of $2728.00 was reached by subtracting 120 from 208 (88) and multiplying this by the hourly rate ($31.00). The 120 hours could be accumulated by the executive for eventual cash-out at retirement as is the current law. This portion, equal to three weeks, would not be available for annual cash-out , due to recognition that some time off should be taken each year.

(2) <u>OPM should assist the agencies in making better use of existing data about the SES.</u>[8] Identification of comparable time service indicators should be developed inorder to identify potentially damaging recruitment/retention trends in SES composition.

OPM, with agency participation, could develop overall workforce planning measures that determine optimal recruitment/retention ratio bands and assist the agencies in developing flexible compensation packages to meet these goals.

A cautionary note needs to be made concerning the workforce planning and development indicators. Neither should be massive or complex in design. The objective is to develop benchmarks for measuring change in key areas, not an attempt to measure the full range of elements and their constantly changing relationship. The workforce planning and indices will alert agencies and OPM to areas where retention/recruitment problems are developing and will assist in developing the most efficient change in compensation to address the problem.

(3) <u>Efforts should be made to enhance the public image of career federal executives.</u> Presenting the career federal executive as a highly valued member of the government team is possible through a host of mechanisms.

One is simple, for politicians to refrain from the deceptively easy but damaging practice of denigrating the role and performance of career federal executives. Another potential mechanism that would demonstrate the high value placed on public service and have the additional feature of being a strong performance incentive for the SES would be an annual dinner with the President for all Distinguished Service Presidential Rank award winners.

OPM should review in some detail the status and activities of the SES counterparts of other countries, particularly Canada and Great Britain. The Civil Servants in these countries tend to be held in higher esteem by their respective publics than is the case in the U.S. While not directly transferrable, some adaptations of positive reinforcement of public service could be derived and possibly applied here in the United States.

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[8]Commissioner Norwood has expressed reservations about the development of new indices. She believes that OPM should develop definitions to be used by agencies in maintaining data on the SES, including a questionnaire for exit interviews with SES executives who resign or retire from government.

## I. The Senior Executive Service: Purpose and Policies

Established by the 1978 Civil Service Reform Act (CSRA), the Senior Executive Service serves as the cornerstone of the government's effort to improve the federal personnel management system. It was designed to create a corps of competent and dedicated executives, held accountable for the execution of government programs, and motivated by tangible rewards and risks.

In return for the possibility of higher pay, substantial performance bonuses, increased development and mobility opportunities, and some additional benefits, senior executives were asked to give up some measure of job protection to allow agency heads greater flexibility in setting up effective management teams.

The SES provided for a uniform, government-wide system for developing, selecting, assigning, rewarding, and managing career executives. Prior to the SES, about 60 executive authorities governed various groups of career executives. The myriad laws, regulations, and procedures made it difficult for agency heads to use their senior-level staff effectively, hold managers accountable for program accomplishment, and reward them based on performance.

The SES, which went into effect in July 1979, covers about 7700 high-level managerial, supervisory, and policy positions. While most of the SES population consists of permanent career —

employees, up to 10 percent of allocated SES positions may be filled by non-career appointees (primarily political appointees) and up to five percent may be filled by limited emergency or term appointees on temporary assignment. (As of September 1987, there were 6223 career appointees, 682 non-career appointees and 43 limited emergency or term appointees.) About one-third of SES members are scientists and engineers; one-fifth are other professionals, such as attorneys, economists, accountants, and medical officers; and just under one half are administrative/technical personnel.

Most of the original SES work force came from the GS-16/17/18 "supergrades" or equivalent positions, with a small additional number transferring from the Executive Schedule.[1] The responsibility and pay levels of the SES generally fall between those of the Executive Schedule above and the General Schedule below:

o The Executive Schedule (EX) covers the President's top political appointees (e.g., Cabinet Secretaries, Deputy or Under Secretaries, Assistant Secretaries, Independent Agency Heads, Members of Commissions). This schedule has five pay levels, with EX-I the highest, and each with a single pay rate. It covers about 500 employees. (This figure does not include White House staff, Foreign Service Chiefs of Missions, U.S. Attorneys, or part-time appointees to boards and commissions.)

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[1]General Schedule 16-18 and equivalent still cover a small number of other senior-level jobs, such as Administrative Law Judges and non-supervisory scientists and other professionals engaged in research and development. Also, a small number of other career executive systems--such as those for the Senior Foreign Service and VA medical center directors--exists.

o The General Schedule (GS) covers most white collar federal employees below the political and career executive levels. It has 18 grades, most of which have 10 pay rates or steps. Progression within each grade is determined by seniority and performance. There are about 900 employees in the top three grades (GS 16-18). The next three grades (GS/GM 13-15) contain both managerial and non-managerial employees: the 126,000 managerial employees are designated as GM employees, while the 87,000 non-managerial employees are designated as GS. The grade 13-15 pay ranges are the same for both groups, but a unique pay-for-performance system applies to the GM population (described in Section II). The remainder of the General Schedule, grades 1-12, covers over 1,200,000 employees.

Chart 1 shows the hierarchical structure of the federal civil service. Table 1 shows the January 1988 pay rates for the General Schedule, SES, and Executive Schedule.

### I.A. SES Compensation Provisions

The SES compensation system is outlined below. (The major changes in this system, since the enactment of the CSRA, are described in Section I.B.)

(1) The SES is a rank-in-person system, with six pay levels (the law requires at least five), ES-1 through ES-6.[1] Unlike the General Schedule, which is a rank-in-position system, pay in the SES is not dependent on the position held, but on the qualifications/attributes of the individual (although the duties, responsibilities, and organizational location of the position may be taken into account). Agencies may assign any of the six pay levels to an SES member upon appointment. Following appointment, individual pay adjustments (up or down) may be made once a year based on such factors as performance, changes in duties and responsibilities, and changes in geographic location, e.g., movement from a low to a high cost-of-living area. Under current OPM regulations, pay may be increased any number of levels at the time of an adjustment (e.g., ES-3 to ES-5), but may be decreased only one level (e.g., ES-3 to ES-2).

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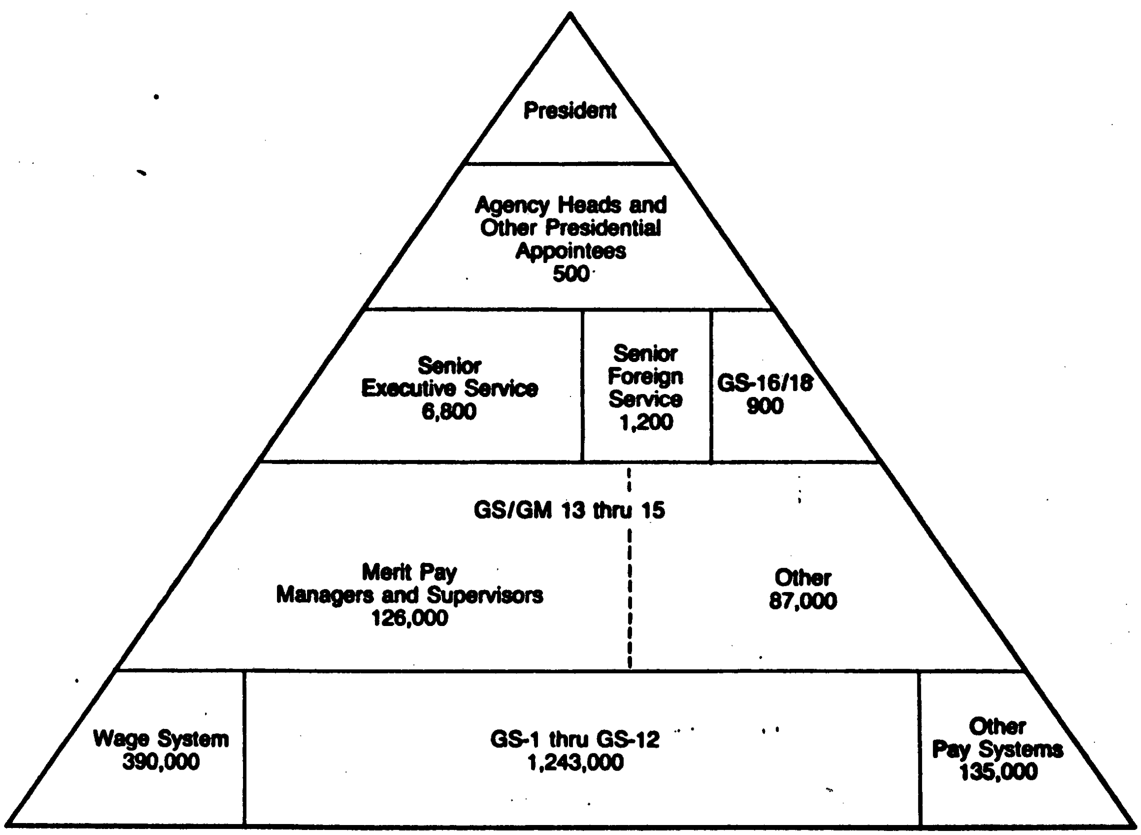
[1]As of September 1987, the distribution of SES members (career, non-career and limited appointment) among the six SES rates was as follows: ES-1, 6.0%; ES-2, 8.1%; ES-3, 15.3%; ES-4, 51.6%; ES-5, 13.8%; ES-6, 5.3%.




# Structure of Federal Civil Service

**1,990,000 Full-Time Employees**

**(March 1987)**

***Excludes U.S. Postal Service, Central Intelligence Agency, National Security Agency***

Chart 1

## GENERAL SCHEDULE

**Providing a 2 Percent Increase**
**Effective in January 1988**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| GS-1 | $9,811 | $10,139 | $10,465 | $10,791 | $11,117 | $11,309 | $11,631 | $11,955 | $11,970 | $12,275 |
| 2 | 11,032 | 11,294 | 11,659 | 11,970 | 12,103 | 12,459 | 12,815 | 13,171 | 13,527 | 13,883 |
| 3 | 12,038 | 12,439 | 12,840 | 13,241 | 13,642 | 14,043 | 14,444 | 14,845 | 15,246 | 15,647 |
| 4 | 13,513 | 13,963 | 14,413 | 14,863 | 15,313 | 15,763 | 16,213 | 16,663 | 17,113 | 17,563 |
| 5 | 15,118 | 15,622 | 16,126 | 16,630 | 17,134 | 17,638 | 18,142 | 18,646 | 19,150 | 19,654 |
| 6 | 16,851 | 17,413 | 17,975 | 18,537 | 19,099 | 19,661 | 20,223 | 20,785 | 21,347 | 21,909 |
| 7 | 18,726 | 19,350 | 19,974 | 20,598 | 21,222 | 21,846 | 22,470 | 23,094 | 23,718 | 24,342 |
| 8 | 20,739 | 21,430 | 22,121 | 22,812 | 23,503 | 24,194 | 24,885 | 25,576 | 26,267 | 26,958 |
| 9 | 22,907 | 23,671 | 24,435 | 25,199 | 25,963 | 26,727 | 27,491 | 28,255 | 29,019 | 29,783 |
| 10 | 25,226 | 26,067 | 26,908 | 27,749 | 28,590 | 29,431 | 30,272 | 31,113 | 31,954 | 32,795 |
| 11 | 27,716 | 28,640 | 29,564 | 30,488 | 31,412 | 32,336 | 33,260 | 34,184 | 35,108 | 36,032 |
| 12 | 33,218 | 34,325 | 35,432 | 36,539 | 37,646 | 38,753 | 39,860 | 40,967 | 42,074 | 43,181 |
| 13 | 39,501 | 40,818 | 42,135 | 43,452 | 44,769 | 46,086 | 47,403 | 48,720 | 50,037 | 51,354 |
| 14 | 46,679 | 48,235 | 49,791 | 51,347 | 52,903 | 54,459 | 56,015 | 57,571 | 59,127 | 60,683 |
| 15 | 54,907 | 56,737 | 58,567 | 60,397 | 62,227 | 64,057 | 65,887 | 67,717 | 69,547 | 71,377 |
| 16 | 64,397 | 66,544 | 68,691 | 70,838 | 72,500 | 73,660* | 75,765* | 77,870* | 79,975* | |
| 17 | 73,958* | 76,423* | 78,888* | 81,353* | 83,818* | | | | | |
| 18 | 86,682* | | | | | | | | | |

* The rate of basic pay payable to employees at these rates is limited to the rate for level V of the Executive Schedule, which is currently $72,500.

### SENIOR EXECUTIVE SERVICE

| | |
|---|---|
| ES-1 | $65,994 |
| 2 | 68,952 |
| 3 | 71,910 |
| 4 | 73,400 |
| 5 | 75,500 |
| 6 | 77,500 |

### EXECUTIVE SCHEDULE

| | |
|---|---|
| level I | $99,500 |
| II | 89,500 |
| III | 82,500 |
| IV | 77,500 |
| V | 72,500 |

Table 1

(2) The basic pay levels are set by the President through an Executive order (5 U.S.C. 5382). They are subject to adjustment whenever there is an adjustment in General Schedule pay. The lowest rate must be at least as much as GS-16/1, and the highest rate may not exceed Executive Level (EX) IV. Under E.O. 12622 (effective January, 1988), the lowest rate (ES-1) is set slightly above GS-16/1, at $65.994, and the highest rate (ES-6) is set at the EX-IV level, $77,500.

(3) Career SES members are eligible for two types of lump-sum performance awards:

o Performance Bonuses (5 U.S.C. 5384). Initially, the law established that up to 50 percent of executives could receive performance awards of up to 20 percent of basic pay. (The evolution of this policy is described in the next subsection.)

o Presidential Rank Awards (5 U.S.C. 4507). The government-wide Presidential Rank Award program provides $10,000 each to up to five percent of the career SES for sustained accomplishment (Meritorious Executives) and $20,000 each to up to one percent of the career SES for extraordinary sustained accomplishment (Distinguished Executives).

(4) Physicians comparability allowances of up to $20,000 may be paid to eligible SES members (5 U.S.C. 5948). (This amount was increased from a previous maximum of $10,000 by P.L. 100-140, effective October 26, 1987.)

(5) Aggregate compensation, including basic pay, performance bonuses, rank awards, and physicians comparability allowances, for a fiscal year may not exceed the pay for an EX-I employee (currently $99,500) in effect at the end of that year. Originally, under the CSRA, any excess above EX-I was forfeited. (Modification of this policy is discussed in the following subsection.)

(6) Other forms of compensation include:

o Incentive awards of up to $25,000 for suggestions, inventions, inventions, and special acts or service (5 U.S.C. 4502). Awards of up to $10,000 can be approved at the agency level; OPM approval is required for awards between $10,000 and $25,000. Presidental awards for improving the efficiency of the service or for meritorious acts may be granted in addition to the agency awards. (Use of these awards is not extensive. Fewer than 100 career SES members received cash incentive awards in FY 1986.)

o Cost-of-living allowances of up to 25% of base pay in non-foreign in non-foreign areas (e.g., outside the Continental U.S.) (5 U.S.C. 5941) (rarely employed).

o Post and danger pay of up to 25% of base pay in foreign areas (5 U.S.C. 5925 and 5928). (rarely employed).

These forms of compensation are not subject to the EX-I aggregate compensation ceiling.

(7) SES members are <u>not</u> eligible for <u>premium pay</u>, e.g., overtime, Sundays and holidays, night, standby, irregular hours, hazardous duty differentials (5 U.S.C. 5541 (2)(xvi)).

(8) <u>Annual leave accumulation</u> is not subject to the 240 hour limitation placed on other employees (5 U.S.C. 6304 (f)) and is paid in a lump sum at the time the employee leaves the government at the individual's current pay rate.

(9) <u>Retirement</u>, <u>health</u>, <u>and life insurance benefits</u> are similar to those for other federal employees.

## I.B Early SES Compensation Problems

Key provisions of SES compensation policy ran into difficulties almost immediately after implementation. While some of the specific problems have been addressed partially, the dissatisfaction they produced on the part of SES members lingers on. This dissatisfaction will disappear only with the implementation of a consistent and equitable compensation policy over the long term that addresses more fundamental issues still unresolved.

The problem areas and the extent of their resolution are discussed below.

(1) Pay cap. One of the benefits of the SES system over the "supergrade" system was that career executives would have the opportunity to earn higher salaries than previously available. While the ceiling for GS salaries was, and remains, EX-V (now $72,500), the ceiling for SES salaries was set at EX-IV (now $77,500). Because of continued pay caps on SES salaries resulting from appropriations legislation, however, the top SES salary remained at the payable rate for EX-V during the first 2-1/2 years of the SES. This situation was improved with the January 1982 pay raise, at which time pay for ES-3 through ES-6 was adjusted upward to the payable rate for EX-IV. It was not until December 1982 that the cap was lifted from all SES pay rates. Appendix II shows SES pay level changes between July 1979 and the present.

(2) Pay compression within the SES. By setting the SES pay floor at GS-16/1 and the ceiling at EX-IV, it was expected that a significant pay range would be available to allow for meaningful pay differentials based on performance, recruitment and retention needs, area cost-of-living, etc. Pay caps, however, made such differentiation impossible. When the SES was established, the available pay range was only 6 percent, from $44,756 to $47,500. This situation had worsened by October 1980, at which time all SES levels were receiving the same salary, $50,112.50. When the pay cap was raised in January 1982, the range widened to 7 percent; with the complete removal of the pay cap in December 1982, the range expanded to 18 percent. In February 1987, the range stood at 20 percent--the most extensive since the creation of the SES. The freeze on the top SES levels in January 1988, however, reduced this range to 17 percent.

(3) Pay compression with GS/GM-15. A substantial overlap with GS/GM-15 pay will limit incentives to move into the SES unless additional compensation benefits are added. Grade 15 employees entering the SES may find themselves accepting greater responsibility and greater risk for no increase in pay. When the SES was implemented, GS/GM-15 employees at steps 9 and 10 were already earning the same level of pay as the highest paid SES members. By October 1981, this situation extended to the majority of GS/GM-15 employees (i.e., down to step 4). Since that time, subsequent pay increases and the raising of the pay cap allowed an expansion of the SES range, thus diminishing the extent of salary overlap between SES and GS/GM-15 rates.

The top SES rate is now 41 percent higher than GS/GM-15/1 and nine percent higher than GS/GM-15/10. While a small amount of overlap remains (ES-1 and 2 with GS/GM-15, steps 8-10), agencies may provide substantial pay increases to grade 15 employees--at any step--to induce them to join the SES. (As noted above, however, the SES does not provide any permanent pay level entitlement. The assigned SES pay rate could decrease over time, potentially down to ES-1. While pay decreases are rare, the risk does exist.)

(4) Aggregate compensation limit. Setting the aggregate SES compensation limit (including salary and bonuses) at EX-I works well when a large pay differential exists between SES rates and EX-I. Without a sufficient differential for much of the time since 1979, however, some SES award monies had to be forfeited. A legislative change enacted in 1984 (P.L. 98-514) allowed any compensation in excess of the EX-I ceiling to be paid out at the beginning of the following fiscal year.

(5) Bonuses. While the CSRA allowed agencies to provide performance bonuses to as many as 50 percent of SES members, Congress apparently expected this to be an unusual occurrence. When, in fiscal year 1980, two of the first agencies to pay out bonuses awarded them to half of their SES members, congressional reaction was immediate. Only a year after the establishment of the SES, appropriation limits restricted eligibility for bonuses to 25 percent of SES members and, later, to 20 percent.

In FY 84, Congress eliminated the 20 percent appropriation restriction on the number of SES members eligible for bonuses, returning to the 50 percent maximum contained in the CSRA. Effective the following year, Congress eliminated even the 50 percent restriction. OPM's guidance recommended an eligibility level of between 30 and 35 percent for fiscal years (FY) 84, 85, and 86. For FY 87, this guidance was rescinded, providing agencies maximum flexibility to determine the number of career executives who should receive bonuses.

Congress also enacted (P.L. 98-514) a fixed bonus pool at three percent of total career SES salary, effective in FY 85. (For small agencies, an alternative formula of 15 percent of average career SES salary is used.) It set minimum bonuses at 5 percent of salary (to ensure a reasonable incentive level), and retained the maximum level at 20 percent of salary.

The most recent data available (FY 87) show that 33 percent of career SES members received bonuses. The average bonus was $5894 or 8.1 percent of average SES pay.

## II. Fundamental Compensation Issues

This section will examine the overall compensation package offered to the government's senior career employees in relation to the following questions:

(1) How have SES members been affected by inflation?

(2) How have they fared relative to their private sector counterparts?

(3) How have they fared relative to their subordinates and superiors?

Definitions of terms used below are as follows:

o basic pay or salary: Actual salary for the six SES pay rates.

o cash compensation: basic pay or salary plus bonuses, including both performance and rank awards.

o total compensation: cash compensation plus fringe benefits, such as: retirement benefits, life and health insurance, annual and sick leave, profit-sharing plans, company cars.

o constant or real dollars: inflation-adjusted dollars, used to provide a consistent indicator of purchasing power over time.

o current or nominal dollars: actual dollars, not adjusted to account for inflation.

### II.A Changes in Executive Purchasing Power

Public sector pay systems should be responsive to trends in real earnings throughout the relevant private sector labor force. SES members, like other federal and private sector workers, expect that periodic pay adjustments will allow them to maintain a reasonable level of purchasing power over time. Any significant decline in real earnings can hamper recruitment and retention. The impact of inflation on SES pay is examined over two time periods below: from 1979 to the present (i.e., since the creation of the SES); and from 1969[2] to the present.

During the eight years since the creation of the SES, real (i.e., inflation-adjusted) SES pay has fluctuated, but the net effect has been negative. Falling rapidly in the early part of the decade, it began to improve against inflation in early 1982. By late 1987, however, average real SES pay[3] was still slightly below its 1979 value.

Chart 2 shows the pay increases between 1979 and 1987 for the ES level 4 pay rate (currently 51.6% of all SES executives are in this level) and compares these to the rates which would apply if purchasing power had remained constant (i.e., if the rates had been adjusted according to the Consumer Price Index or CPI). In constant dollars, the ES-4 level remained steady, the exception being a substantial drop in purchasing power in 1980-81.

It is important to note, however, that the apparent maintenance or gain in purchasing power for ES-4 and ES-5 and 6 as well is an artifact of the highly restrictive pay cap in 1979. Had these rates been

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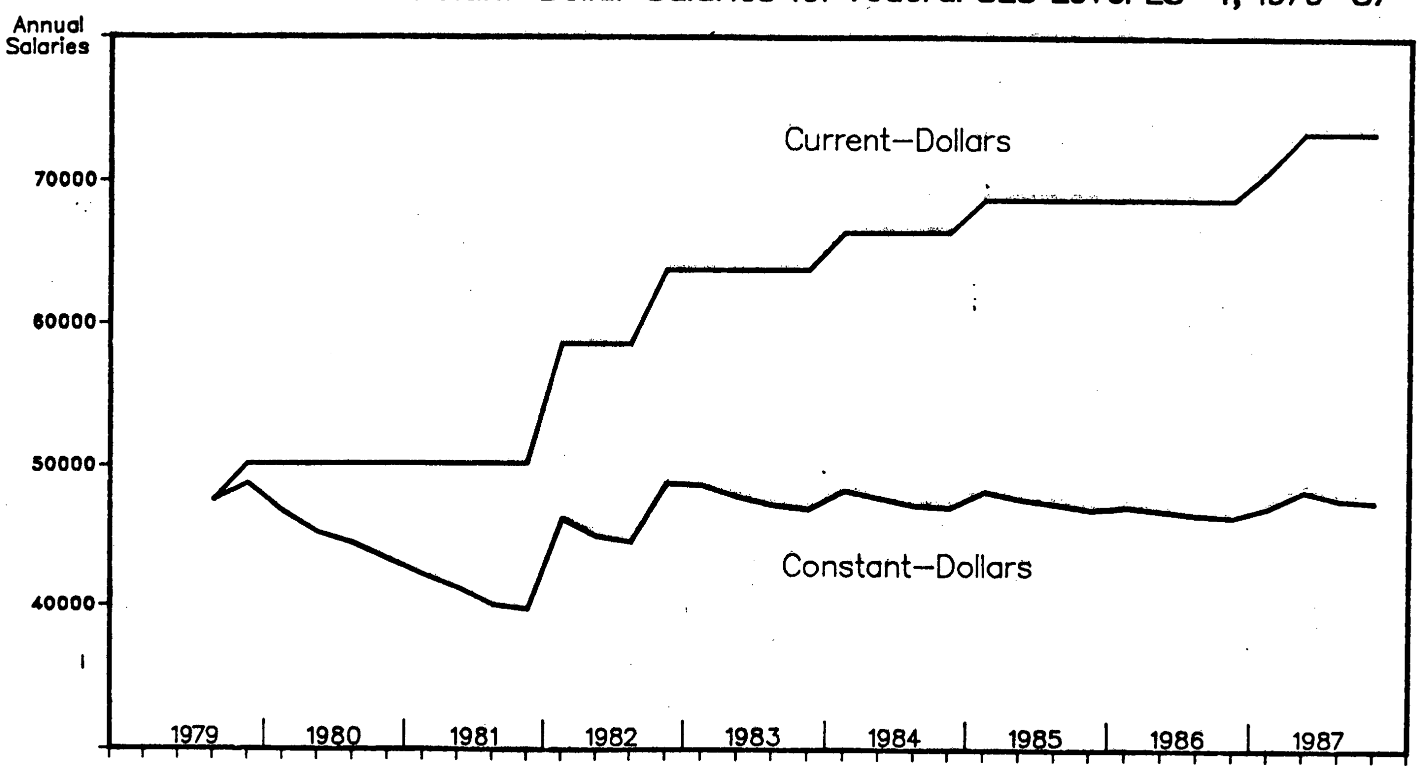
[2]The 1969 date was selected to allow comparisons between the data in this report and that in the 1986 Quadrennial Commission Report. (The latter report illustrated the effects of pay erosion over time using 1969 as the starting point.)

[3]"Average SES pay" is a weighted average, taking into account the total number of SES members at each pay rate.

## THE IMPACT OF INFLATION

### Current– and Constant–Dollar Salaries for Federal SES Level ES–4, 1979–87

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Source: Bureau of Labor Statistics

Chart 2

paid at the "scheduled level" and not the lower, "payable" level in 1979 (see Appendix I), the loss in purchasing power between 1979 and 1987 for these three levels would have been about six percent.

When change in the level of purchasing power based on cash compensation (rather than basic pay) is considered, the results are slightly more favorable. In constant dollars, average SES cash compensation increased three percent between 1979 and 1987. (In nominal dollars, cash compensation increased 60 percent over the same period.)

Several important qualifiers should be made concerning the bonuses and their role in overall compensation. First, as bonuses are awards for performance, they are not distributed evenly across the SES population. Thus, while those who receive bonuses are better off than they would have been pre-SES, many SES members receive no bonus money. Second, the awards are more likely to be given to SES members at the higher pay rates. (These tend to be the more experienced of the executives, and the ones who have advanced to the higher pay rates because of past high performance levels.) Third, such awards do not become a component of base pay, and cannot be "counted upon" year-to-year. Fourth, award money does not count in determining the level of retirement annuity; hence, its long term value is less than that of a permanent pay increase. Thus bonuses should be viewed and structured as an important incentive for superior performance and as a mechanism for adding flexibility to compensation packages. Bonuses should not be considered a means for supplementing base salary.

SES pay dissatisfaction is not simply a result of the decline in purchasing power between 1979 and 1987. Three related factors have also contributed. First, real (constant) salary rates have had a rocky history under the SES: during the first few years of the SES, salary rates remained basically unchanged, while inflation was high. As shown in Chart 2, the average SES salary--in constant dollars--fell sharply (16 percent) from late 1979 through 1981. It then rose quickly in 1982, exceeding the real 1979 rate by one percentage point by December of that year. Experiencing some fluctuation during the next 5 years, the average salary in 1987 was within one percentage point of the real 1979 rate.

Second, and closely related to the first factor, SES members face some uncertainty relative to expected pay. While the Civil Service Reform Act promised an opportunity for higher pay for those who joined the SES, some members have seen their real rates of pay decline during certain periods due to freezes on pay levels or reductions in pay increases.

Third, SES members consider not only changes in their own relative purchasing power, but the rate of increase their private sector counterparts are receiving. Looking at Chart 3, we see that real salaries of private sector executives were also hurt by inflation during this period. However, their salaries did not experience as much initial purchasing power decline, and then recovered more quickly. By December 1984, in constant dollars, the average private sector salary had regained its 1979 level; in 1987, it exceeded the 1979 level by about three percent. The SES salary over this period declined slightly.

Examined over a longer time period--since 1969--career executive pay experienced an even greater decline relative to inflation. In nominal dollars, average SES (or equivalent) pay rose 158 percent between 1969 and 1987, while inflation rose 210 percent during this same period. Had average SES pay maintained its 1969 purchasing power, it would now be 20 percent higher than it is: $87,560 rather than $72,875 (as of January 1988).

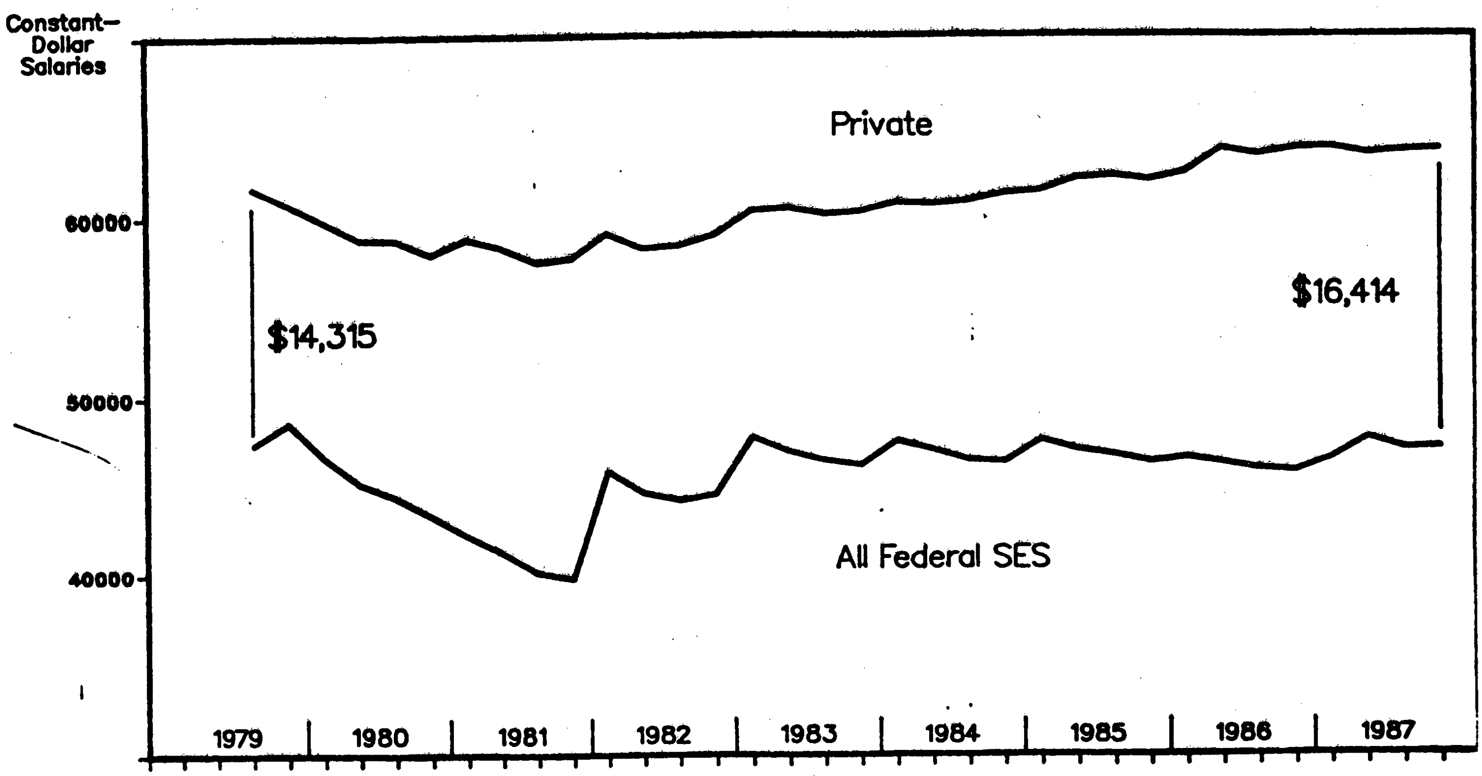
The Commission finds that SES compensation has eroded from the effects of inflation. This erosion can be expected to impact negatively on SES recruitment and retention.

**II.B Private Sector Comparability**

Defining what constitutes true "comparability" with the private sector remains a matter of continuing debate. Regardless of how difficult it may be to establish a consensus

## REAL PAY---PRIVATE INDUSTRY AND SES

Constant-Dollar Average Salaries (September 1979 Dollars) for All Federal SES ar Comparable Private Industry Occupations, 1979-1987






Source: Bureau of Labor Statistics

Chart 3

on comparability, the fact remains that SES executives do compare their compensation with their perceived counterparts in the private sector. Thus, as a factor affecting recruitment and retention, it is necessary to look at comparability, regardless of how imprecise that measurement may be.

On the simplest level, the debate revolves around how to establish appropriate job matches and whether to compare average basic pay, average cash compensation, or average total compensation. On a more complex level, the debate recognizes monetary and non-monetary benefits of different jobs. That is, it recognizes not only average basic pay and benefits, but level of job security, rapidity of promotion, scheduling flexibilities, opportunities for development and mobility, opportunities to have an impact on public policy, and other intrinsic rewards. Evaluating the effect of stock options and deferred payment plans in the private sector play a significant role but have proven extremely difficult to measure.

On the more complex level, the more appropriate concern is an employer's "competitiveness" with other employers rather than an arbitrary comparative formula differential. The proper fundamental question to ask is, "What type of compensation package do I need to offer to recruit and retain the quality of worker I require?"

For obvious reasons, data on the simpler comparability issue are easier to obtain. While imperfect, they do provide a general frame of reference in which to look at absolute monetary differentials and, more importantly, changes over time. (The more important "competitiveness" issue is discussed in Section III.)

The Commission reviewed two analyses comparing the compensation of federal career executives to that of their private sector counterparts: one prepared by the Bureau of Labor Statistics (BLS) for this Commission and the other by the Hay/Huggins Company.

The BLS analysis[4] examines differences in average salary between federal career executives and comparable private sector executives. Using 1979 data collected as part of their annual Professional, Administrative, Technical and Clerical (PATC) survey and an OPM methodology for extrapolating higher level pay from that data, BLS researchers derived an approximation of the average salary of private sector executives comparable to federal executives in the "supergrades" (GS 16-18). To estimate salary changes over time, they adjusted the March 1979 private

[4]The BLS analysis was prepared for the specific use of this Commission

sector figure by the Employment Cost Index.[5] These figures were compared with average SES salary changes from 1979 to 1987.

The results are shown on Chart 4. In September of 1979,[6] the average private sector executive salary was $61,619, while the average SES salary was $47,304. The differential was 30 percent. By the beginning of 1988, the differential had expanded to 34.8 percent, with the estimated average private sector salary at $98,267 and the average SES salary at $72,875.

The Hay/Huggins study,[7] conducted in 1984, compared both cash compensation and total compensation of federal executives with that of private sector executives. Representing the federal executives were 38 SES positions at the highest pay level, ES-6; for comparable private sector executives, Hay/Huggins referred to their substantial private sector data base (which includes 1,249 medium and large firms).

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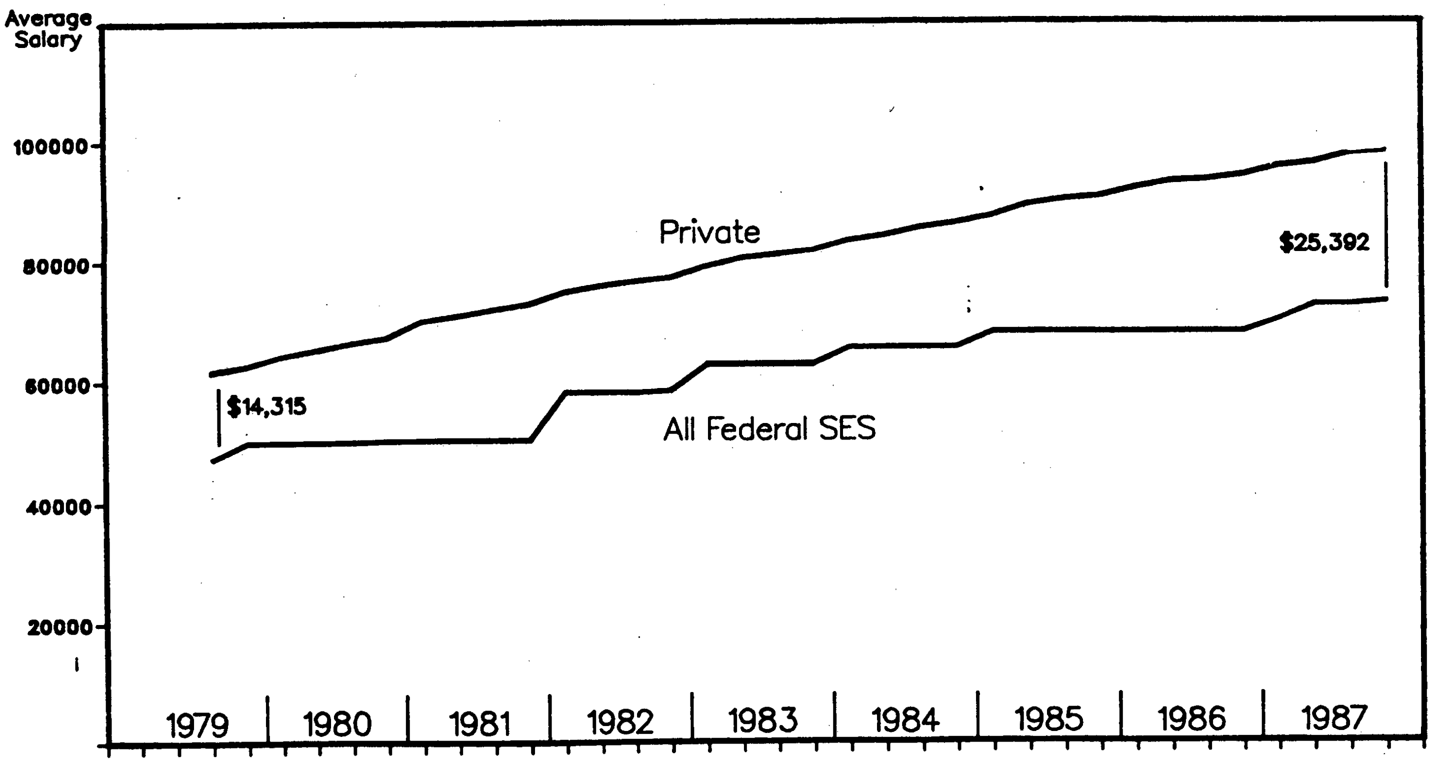
[5]The Employment Cost Index (ECI) is a quarterly measure of the rate of change in compensation per hour worked and includes wages, salaries, and employer costs of employee benefits. For the purposes of this analysis, a narrow ECI data series was used which considers only the wages and salaries of private industry, white collar executive, administrative, and managerial jobs.

[6]The ECI is available only on a quarterly basis: March, June, September, December. This measure covers all size firms.

[7]Hay/Huggins Company and Hay Management Consultants, <u>Study of Total Compensation in the Federal, State, and Private Sectors</u>, U.S. Government Printing Office, Washington: 1984. Study was prepared for the Committee on Post Office and Civil Service, U.S. House of Representatives.

# THE PAY GAP

## Average Annual Salaries for All Federal SES and Comparable Private Industry Occupations, 1979–1987




Source: Bureau of Labor Statistics

Chart 4

The Hay study found that the average cash compensation for the ES-6 executives was $71,927 in March, 1984; for the private sector executives, it was $113,968. Thus, the latter were ahead of their federal counterparts by 58 percent. When total compensation was examined, the differential was reduced four percentage points, to 54 percent.[8] (Federal retirement benefits under the Civil Service Retirement System (CSRS) are significantly better than private retirement benefits, though on other benefits the federal government lags behind.) This comparative advantage of the CSRS system has changed for new federal workers with the introduction of the portable FERS plan in 1984. With a retirement system portable to the private sector, comparability of factors other than retirement benefits may be even more important in SES retention/recruitment success.

In 1987, Hay/Huggins was asked by the Congressional Research Service[9] to update their comparability statistics. The new figures show that the gap has widened: focusing on cash compensation, ES-6 federal executives were reported to be 65 percent

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[8] In the same study, Hay/Huggins also examined the General Schedule and found GS/GM-15s were 24 percent behind their private sector counterparts in total compensation. It would seem a reasonable assumption to expect ES-1 through ES-5 executives to fall somewhere between the GS/GM-15 and ES-6 estimates.

[9] James P. McGrath, The Senior Executive Service (SES): Morale and Staffing Problems--A Brief Overview, Congressional Research Service, Washington: 1987, p. 33.

behind comparable private sector executives, up from 58 percent in 1984. (An updated total compensation figure was not given.) Both studies show a substantial compensation comparability gap. The relative size of the compensation package and the perception of a pay gap will play some role in the recruitment and retention of SES executives. While historically federal executive pay has never been fully comparable with private sector executive pay, if the value of the compensation package shows significant erosion over time in comparison to inflation or to private sector compensation, increased turnover and increased recruiting difficulties can be expected. As noted, both the BLS and Hay/Huggins analyses show some comparative pay erosion over the last few years, and the Commission views this erosion as another negative influence on SES recruitment and retention.

**II.C SES Pay Versus General Schedule and Executive Schedule Pay**
The SES stands between the top level presidential appointees (in the Executive Schedule) and the General Schedule white collar employees (GS 1-15).

The actual appropriateness of the pay relationships (as opposed to the grade relationships), though, depends on the extent of pay compression within the SES and salary overlap with the General Schedule. As discussed earlier, both have been problems during certain periods since 1979.

With the February 1987 pay adjustment, the SES salary range was 20 percent from ES-1 to ES-6. With the January, 1988 adjustment, however, the range was reduced to 17 percent since the top ES-6 level rate was frozen. Further, relatively few SES members are found at the ES-1 and ES-2 levels, making the effective range closer to eight percent. This obviously leaves limited room for long-term salary growth. As a result, agencies have little flexibility to provide SES pay differentials based on performance, work responsibilities, recruitment and retention needs, area cost-of-living, etc. (SES bonuses and Presidential Rank Awards provide leeway to differentiate based on performance, but cannot be used to differentiate based on the other factors.)

In the private sector, however, pay ranges tend to be broader. At one large firm, for instance, the minimum differential between levels in a given pay range is 15 percent. A typical executive pay range in the private sector is 50 percent.

A review of much of the existing literature, particularly those that survey current or retired members of the SES, shows the compression of SES levels to be so great that the levels are essentially meaningless if they are meant to reward superior performance.

The salary overlap between GS/GM-15 and SES levels has also been a concern. Clearly, without the potential for significant salary increases, interest in promotion from the grade 15 level to the SES will be limited. With much increased responsibility, accountability, visibility, and risk, those accepting SES positions expect to get rewarded through monetary as well as non-monetary means. A meaningful differential in compensation levels within the SES and between the SES and GS/GM 15 is needed to recognize the added risks and responsibilities of membership in the SES.

Throughout the early period of the SES, this problem was exacerbated by the highly restrictive pay cap. For example, between October 1980 and December 1981, all SES members and many GS/GM-15s were paid at the same rate: $50,112.50. This left little monetary incentive for grade 15 employees to seek or accept an SES position. Even the potential of earning a substantial bonus was, at that time, not very promising: it was during this period that only 20 percent of SES employees were eligible.

The situation has since changed. Currently, the overlap between GS/GM-15 and SES pay exists only at GS/GM-15/8 and above. For a GS/GM-15/10 employee entering the SES, however, the effective pay range extends only nine percent further than his current pay. Of course, the SES member is given no guarantee of any advancement across the SES pay rates, much less a steady progression upward. In addition--while rare --the potential exists for the SES member to have his pay rate lowered.

Performance awards of between five and 20 percent of pay and Presidential Rank Awards of $10,000 or $20,000 are available within the SES. Here again, however, a caveat must be noted. No guarantee of getting an award is provided, regardless of how high a rating an SES member receives on his performance appraisal. The awards system covering the GM-13 to GM-15 population, on the other hand, does provide such a guarantee. All such employees rated "outstanding" on their performance appraisals are guaranteed a merit increase of about three percent (i.e., an advancement of one step in grade),[10] plus a cash award of between two and 10 percent of pay. Because most GM-15s selected to join the SES tend to have received "outstanding" ratings as grade 15s, some may lose money by moving into the SES if they do not receive performance bonuses. That, in and of itself, is not a problem: the SES is a performance-oriented system. The greater risk, however, should be recognized and balanced by greater potential rewards.

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[10]This guarantee would not apply to employees who had reached the maximum step in grade, i.e., step 10.

In summary, the Commission finds the compression within the SES pay range so great as to make the current differentials between levels virtually meaningless in terms of a compensation incentive. The overlap with the GS/GM-15 level also is a disincentive for potential SES candidates to assume the greater risks of SES membership. The mandatory linkage and ceiling for SES pay at Executive Level IV is also a compensation disincentive. The Commission finds pay compression at the top and bottom of the SES compensation scale to be a negative influence on recruitment and retention.

## III. Effect of Compensation on Recruitment and Retention

How competitive is the government in recruiting and retaining career executives of the high calibre it deems necessary? In order to obtain additional insight on this most basic question of the compensation issue, the Commission approached it three ways: (1) federal agency views; (2) federal executive views; and (3) statistical indicators measuring change in the characteristics of the SES.

Our attempt at answering this fundamental question revealed a serious weakness in the analytical work to date on the SES recruitment/retention issue. While studies abound from a multitude of government and private services, they fail to provide a basis that allows for measuring changes in SES recruitment and retention over time with comparable indicators. None of the agencies responding to the Commission survey kept formal track of SES recruitment and retention, and none had developed any framework or indicators that enabled a trend to be measured. Thus, it is very difficult to establish a trend in recruitment/retention patterns, particularly at the agency level where particular needs may be masked in more general aggregate statistics. More detailed information is needed to target additional resources to the areas of most critical need.

The federal agency views and federal executive views are two areas in critical need of more refined indicators. These two approaches represent beginning points, not comprehensive analyses presenting strong evidence, and caution must be taken in extracting any conclusions from them. It is clear, however, that in the future better use of information over time to measure more accurately the effects of inflation, comparability and compression on SES recruitment and retention must be made. The third approach, measuring change in characteristics of the SES, makes better use of existing data; but here again a more refined analysis is needed for extracting strong conclusions and for determining effects at the agency or bureau level.

### III.A Agency Views

The Commission attempted to obtain the views of agency officials on recruitment and retention problems. Top officials at 43 departments/agencies with ten or more career SES appointees were asked to report whether they had experienced or were expecting to experience difficulties in recruiting and retaining executives across three major occupational categories: science and engineering; other professions (e.g., law, medicine, economics, accounting); and administrative/technical. Agency suggestions on what actions could be taken to improve the government's recruitment and retention capabilities for the future were also requested. Thirty-nine of the 43 surveys were completed and returned, for a response rate of 90 percent. (See Appendix II for a copy of the questionnaire and for the results.)

Agency views were thought helpful in analyzing SES recruitment and retention for two reasons. First, it was felt the agencies would have the most accurate knowledge of where the major recruitment/retention problems existed. Second, the agencies were viewed as a logical source for finding out what measures they felt could enhance recruitment and retention.

Based on these agency responses, problems with recruitment and retention of career executives do not appear to be uniform across the SES work force. Rather, they appear to be specific to certain occupations, in particular: attorneys; medical researchers; certain scientific and engineering professions; economists; statisticians; computer scientists and actuaries. (Appendix II shows individual agency responses for recruitment and retention problems by occupational group.)

We recognize that our attempt to collect information on agency views has several shortcomings. It is difficult to phrase questions of this type with precision and different respondents may have interpreted the words differently. It is also possible that some of the information--especially on problems of recruitment and retention--might be more accurately supplied by personnel officers within the individual bureaus of each Department. Nevertheless, the views of agency officials are helpful in establishing perceptions about recruitment/retention problems.

Most (95 percent) of the agencies recommended increases in either basic pay, bonuses, or both. These agencies see the need for additional flexibility in the compensation area for several reasons: to increase pay for shortage occupations or for individuals with special skills; to increase the emphasis on pay-for-performance in basic pay and bonuses; to allow for non-performance bonuses (e.g., to deal with recruitment, retention, and relocation difficulties); to decrease pay compression within the SES itself and between the SES and the SES candidate pool--basically GS/GM-15s.

Agencies also recognize that the existing level of recruitment/retention problems across the work force is a result of having a "captive" population. That is, many career executives have too much invested in the non-portable Civil Service Retirement System (CSRS) to resign prior to retirement. Thus, turnover may be kept artificially low despite the fact that some SES members are dissatisfied with their pay and believe they could do better in the private sector. As the newly-installed and highly portable Federal Employees Retirement System (FERS) covers an ever-greater proportion of the work force, these "golden handcuffs" will be removed. At that point, determining the government's competitiveness will be a much simpler matter. Employees will "vote with their feet," and any compensation inadequacies will be more easily discernible.

## III.B Federal Executive Views

Executive views were obtained through focus groups with randomly-selected career SES members conducted by the Commission in November and December, 1987, and attitudinal surveys conducted by the Merit Systems Protection Board (MSPB) and OPM over the past eight years.

The views of SES members closely parallel those of the agencies. As career executives see it, compensation improvements would aid in recruitment and retention, but the compensation package is not the dominant factor in determining the government's competitiveness, only one of several major factors. Its importance, however, rises or falls in inverse proportion to the frequency and (inflation-adjusted) size of pay increases.

According to SES members participating in the focus groups, salary levels are a continuing source of frustration. They see a need to raise compensation levels overall: to decrease the pay comparability gap with their private sector counterparts and to maintain the value of their pay against inflation. By and large, the SES participants supported the structure of the bonus system and its premise of pay for performance.

These executives would like to see an expansion of the bonus system, a system which by virtue of its dollars limitations currently is not viewed as the incentive it was supposed to be.

Currently, the SES career bonus pool is set at three percent of SES career payroll and dollar amounts of individual awards must be between 5 and 20 percent of basic pay. Although no limit is set in law on the percent of SES members eligible to receive bonuses, the combination of the three percent pool and five percent minimum individual bonus means in fact no more than 3/5 or 60 percent of career SES members may receive bonuses.

Similar views were expressed in attitudinal surveys which, unlike the focus groups, provide generalized data across the executive work force. When executives were asked whether the SES compensation system accomplished the goal of recruiting and retaining highly competent executives, a 1986 MSPB survey found 60 percent said it did not. While a very negative finding, it shows some improvement from an earlier, 1983 MSPB survey in which 75 percent said it did not.

The 1983 MSPB survey also asked executives whether they believed they could earn higher pay in the private sector; 67 percent of executives said they could. (This question was not repeated in MSPB's 1986 survey.) When these executives were asked whether their federal salary was a reason to stay in government, 46 percent in 1983 said it was not, while a greater percentage--64 in 1986--said it was not. While responses were more favorable with regard to the retirement system being a reason to stay, even these views showed some decline between 1983 and 1986.

Sixty-nine percent in 1983 compared with 57 percent in 1986 agreed that the retirement system was a reason to stay. (The decline in favorable responses was likely due to Congressional/Administration discussions on cutting the level of retirement benefits and establishing a new retirement system (FERS) for newly-hired workers.)

Despite dissatisfaction with the pay system, however, executives in both the focus groups and the attitudinal surveys indicated that they had not chosen to serve in government for the financial rewards. Far more important were the intrinsic rewards: the opportunity to have an impact on public policy and to serve the public. Three-quarters of executives in both the 1983 and 1986 MSPB surveys agreed that the opportunity to have an impact on public affairs was a reason to stay in government. A still greater proportion (85 percent) agreed in both surveys that the opportunity to perform the work they were doing was a reason to stay. The same percent believed that good use was made of their skills and abilities in their present jobs; three-quarters agreed that they were satisfied with their chances to accomplish something worthwhile.

On more general job satisfaction questions, a large majority reported favorable views in 1986. Nevertheless, these showed some decline since 1979. (The 1979 data are from an OPM survey; the same question wording and sampling procedures were used in both the MSPB and OPM questionnaires.) When executives were asked in 1979 whether they were satisfied with their chances to accomplish something worthwhile, 87 percent said they were. This figure declined to 78 percent in 1986. When they were asked to agree or disagree with the statement, "In general, I like working here", 90 percent agreed in 1979 compared with 77 percent in 1986. Likely reasons for the decline in favorable responses are: dissatisfaction with the level of pay and bonuses; unhappiness with the public image of the civil servant and frustration over their inability to truly manage programs.

Many executives noted that compensation is only one aspect of the job affecting recruitment and retention. Other, less tangible aspects of the job are linked to executive satisfaction and interest in serving. Two areas which executives and agencies singled out for attention were: extent of managerial authority and the image of the public service. Concerning the former, managers still feel highly constrained by federal personnel and other rules, unable to exercise the same level of discretion as do their private sector counterparts.

Concerning the public service image, declining public perceptions of the federal work force over the past two decades, aided by attacks from political leadership of both parties, have taken their toll, demoralizing many federal employees--SES members and others alike. This problem, however, is not directly amenable to any simple solution, dependent as it is on the fundamental relationship between the government and the American people. What can help in developing a more positive public image is a decision by political leaders to publicly recognize the crucial role of that group in developing and implementing public policy.

Finally, the MSPB surveys also questioned mid-level managers (GS/GM 13-15s) about their willingness to accept a position in the SES, were it offered. Problems with extreme pay compression and the bonus system, as well as concerns about potential risks, caused 40 percent of mid-level managers in 1983 to report that they probably would not accept an offer of an SES job. By 1986, with some resolution of the pay and bonus problems and fears about job risks in the SES subsiding, only 23 percent of mid-level managers reported they would not accept an SES job.

## III.C Statistical Indicators of Compositional Change in the SES[11]

Measuring changes in work force composition, using relevant statistical indicators as proxies, can provide critical information, particularly if done over time. The indicators used below present a rather stable overall picture, with most measures showing little change. As indicated from our agency views,

[11]Data on the SES come primarily from two sources within OPM: the Central Personnel Data File (CPDF), which maintains data on all federal employees; and the Executive Personnel and Management Development Information System (EPMDIS), which maintains data on SES and equivalent executives. Where possible, this report presents data for career SES employees only. In some instances, however, data are available only on the total SES population (non-career as well as career) or on SES and equivalent employees.

however, certain areas are experiencing major problems. One agency for example, reports that over the past 35 months it has experienced a 40.4 percent turnover rate of all executives, 79 percent of whom were attorneys. Attorneys fill 78 percent of the executive positions at the agency. Annual turnover for the agency as a whole has averaged about 15 percent over the last three years.

**o Turnover**

Table 2 shows the number of career SES members who left the federal service between July 1979 and December 1987. The average annual turnover rate for the 8-1/2 years period was 8.9 percent. This compares with a 7.8 percent rate for GS 16-18 and equivalent employees during the eight-year period preceding the establishment of the SES, 1971-1978. (Since the SES population is somewhat different from the pre-SES GS 16-18 and equivalent population, the comparison is only indicative.)

An important factor to note is that turnover in the SES has not been steadily increasing, but rather has been subject to peaks and valleys. (The same was true in the 1971 to 1978 pre-SES period, when the rate varied between a high of 14.2 percent and a low of 3.1 percent.) Chart 5 shows changes in turnover between 1980--the first full year after the establishment of the SES--and 1987.

2/22/88

CAREER SES WHO LEFT THE FEDERAL GOVERNMENT

| Year (CY) | Average Career Employment | Number Leaving | | | | Annual Percentage |
|---|---|---|---|---|---|---|
| | | Resignation | Retirement[a] | Other | Total | |
| 1979 (July-Dec) | 6301 | 70 | 195 | 9 | 274 | ---- |
| 1980 | 6347 | 162 | 738 | 26 | 926 | 14.6% |
| 1981 | 6198 | 320 | 273 | 40 | 633 | 10.2% |
| 1982 | 6044 | 221 | 223 | 40 | 484 | 8.0% |
| 1983 | 6164 | 153 | 206 | 32 | 391 | 6.3% |
| 1984 | 6254 | 166 | 212 | 55 | 433 | 6.9% |
| 1985 | 6208 | 164 | 388 | 28 | 580 | 9.3% |
| 1986 | 6113 | 140 | 440 | 43 | 623 | 10.2% |
| 1987[c] | 6225 | 107 | 236 | 29 | 372 | 6.0% |
| Total | 6200[b] | 1503 | 2911 | 302 | 4716 | 8.9% |

a Feb. 1980 was end of retirement "high 3" resulting from ceiling rise in Feb. 1977 from $39,600 to $47,500 (20%)
Jan. 1985 was end of retirement "high 3" resulting from ceiling rise in Jan. 1982 from $50,112 to $58,500 (17%)
Dec. 1985 was end of retirement "high 3" resulting from elimination of ceiling in Dec. 1982. Pay increases ranged from $3,115 (5%) at ES-3 to $8,700 at ES-6 (15%).

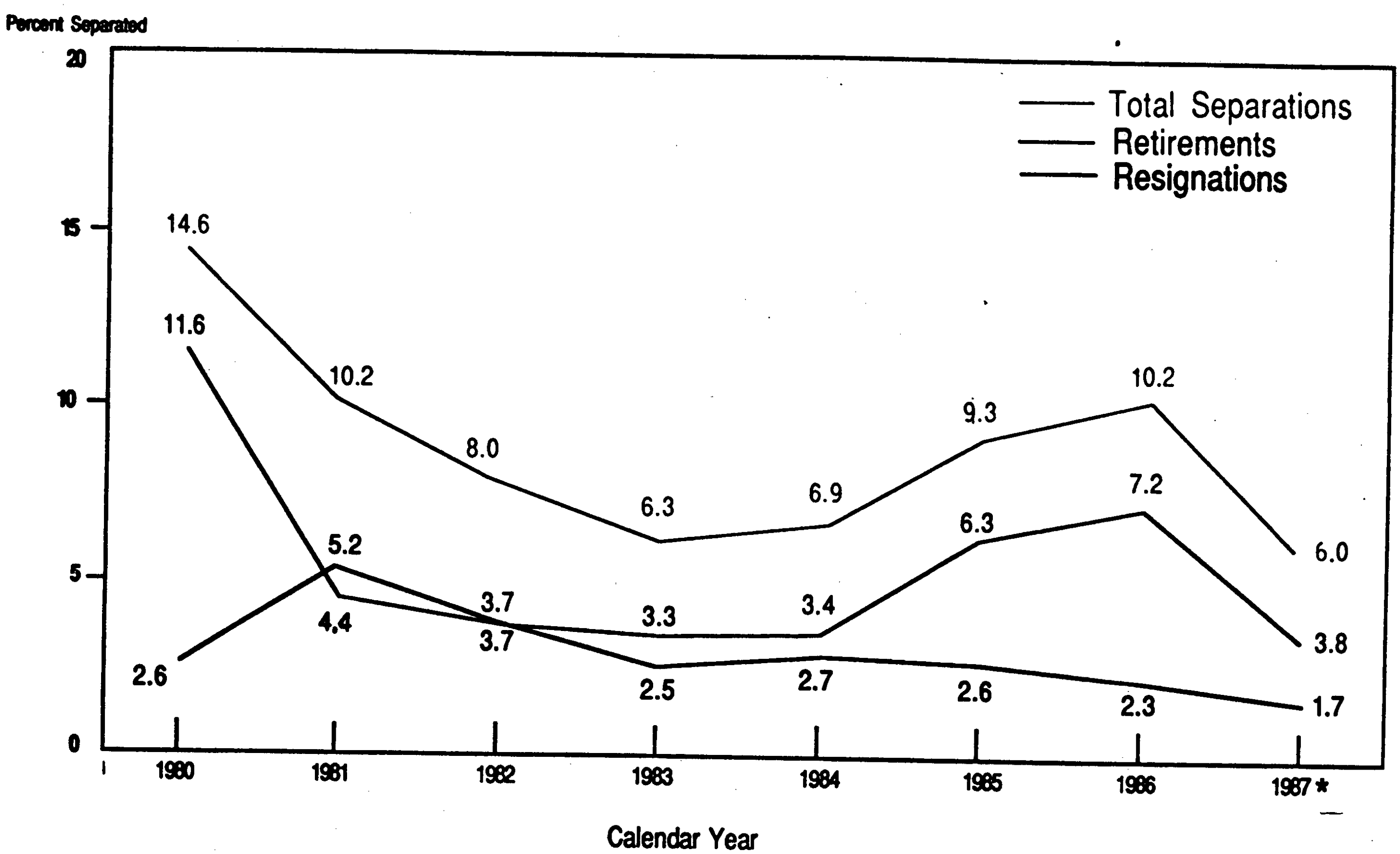
b Weighted by month (i.e., 1979 counted for only 6 months).

c Preliminary figures.



Table 2

# TURNOVER AMONG CAREER SES




* 1987 data are preliminary figures

Totals include other types of separation

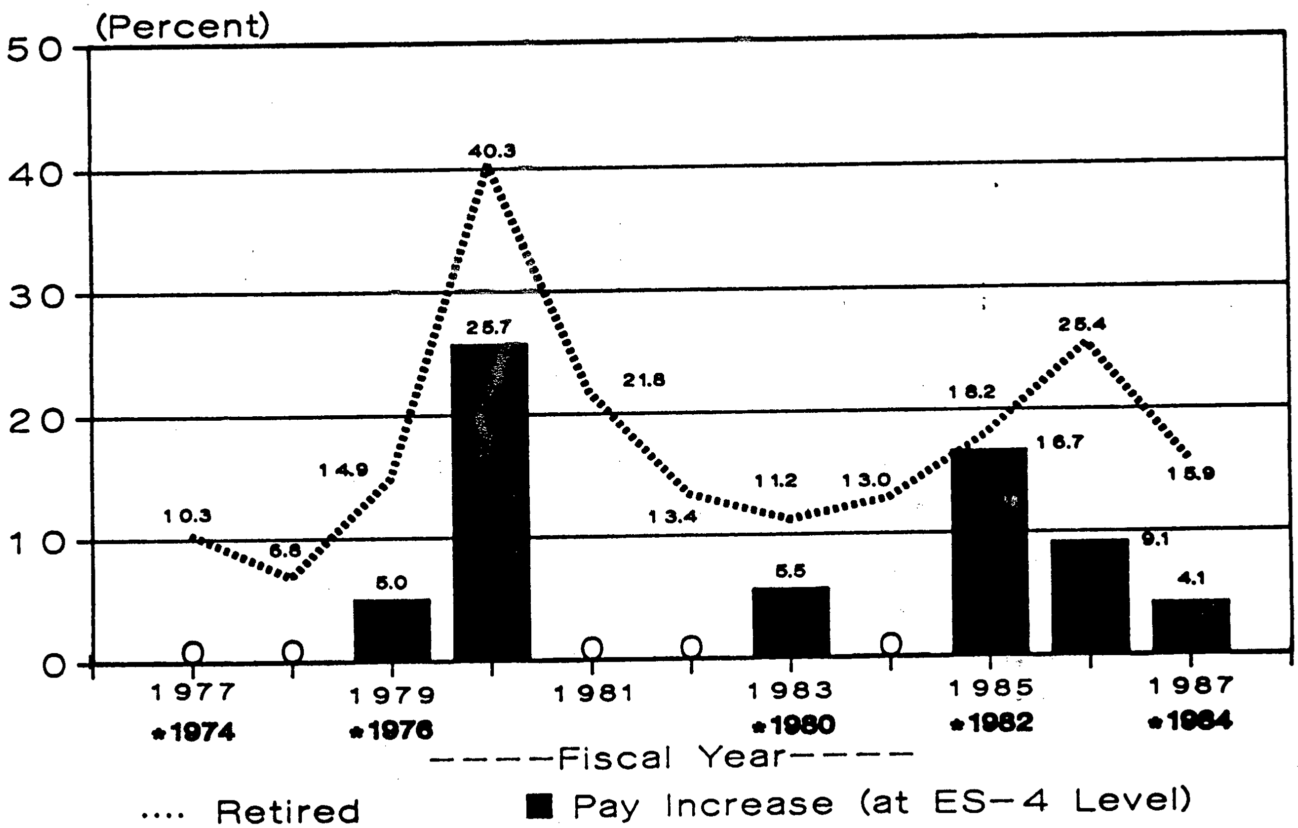
Chart 5

The peak career turnover occurred in 1980 when it reached 14.6 percent. The turnover rate then steadily declined to 6.3 percent in 1983, at which point it began to increase until reaching 10.2 percent in 1986. This increase led to fear by some observers that the rate would continue to climb, causing the government to experience a "brain drain" of its career executives. Seen in context, however, the three-year "trend" was temporary--as evidenced by the steep decline in 1987 6.0 percent--and not so much an indicator of a continuing "brain drain" as an indicator of the close relationship between retirement annuity values and retirement rates.

The fluctuating turnover rates result largely from rational decision-making on the part of executives eligible to retire. Annuity levels are based, in part, on the average annual pay received during the three consecutive years of highest earnings. Thus, employees eligible to retire tend to do so when their so-called "high three" has been maximized, i.e., three years after a substantial pay increase. This tendency is exaggerated at the SES level because the pay adjustments for executives are provided on a more irregular basis.

Chart 6 shows the strong correlation between retirement rates of eligible executives and earlier pay increases. (To highlight the relationship, the chart shows the pay increases offset by three years.) For example, in 1980, over 40 percent of executives

# PERCENT OF ELIGIBLE EXECUTIVES CHOOSING OPTIONAL RETIREMENT
# CHART 6




Source: Central Personnel Data File, U.S. Office of Personnel Management eligible to retire did so; this very steep increase in the retirement rate was associated with a steep pay increase in 1977.

Similarly, the increase in the number of eligibles who chose to retire in 1985 and 1986 is associated with two substantial pay increases in January and December 1982. The lack of a substantial pay increase in 1984 (4.1 percent for ES-4), is reflected in a drop in the percentage of eligibles choosing to retire in 1987.

**o SES Candidate Pool**

With an average career SES turnover rate of about 9 percent per year, the importance of a highly-qualified candidate pool is apparent. The candidate pool is composed of two basic groups: internal, federal government candidates, basically the GS/GM-15 population, and external, non-federal candidates.

The internal pool is quite large--just under 30,000 people. Replacing all departing career executives with members of the GS/GM-15 group would (temporarily) deplete the latter population by less than two percent. Thus, agencies desiring to select from internal candidates may be very selective in their appointments, choosing only a tiny fraction of grade 15 employees each year. (In fact, these employees, many of whom have served at the GS/GM-15 level for a number of years, may be discouraged by the limited opportunity for promotion. Should SES retention be enhanced further, the relative prospect of advancing from GS/GM-15 will be further reduced, creating a retention problem of a different sort.)

Those agencies desiring or needing to attract external candidates face greater problems. It is here that the competitive test between the government and the private sector for senior executives is most severe. As discussed above, preliminary evidence indicates agencies with a large need for special skills in high demand have major recruitment problems. Longitudinal data indicate that external hiring of career executives has never occurred at a very high rate. For example, external hires into the pre-SES career executive corps accounted for eight percent of all new recruits in 1976. Available comparative data for post-SES recruitment show external hires accounting for: eight percent in FY 83; three percent in FY 86; and eight percent in FY 87.

**o Proxies for Skill Level**

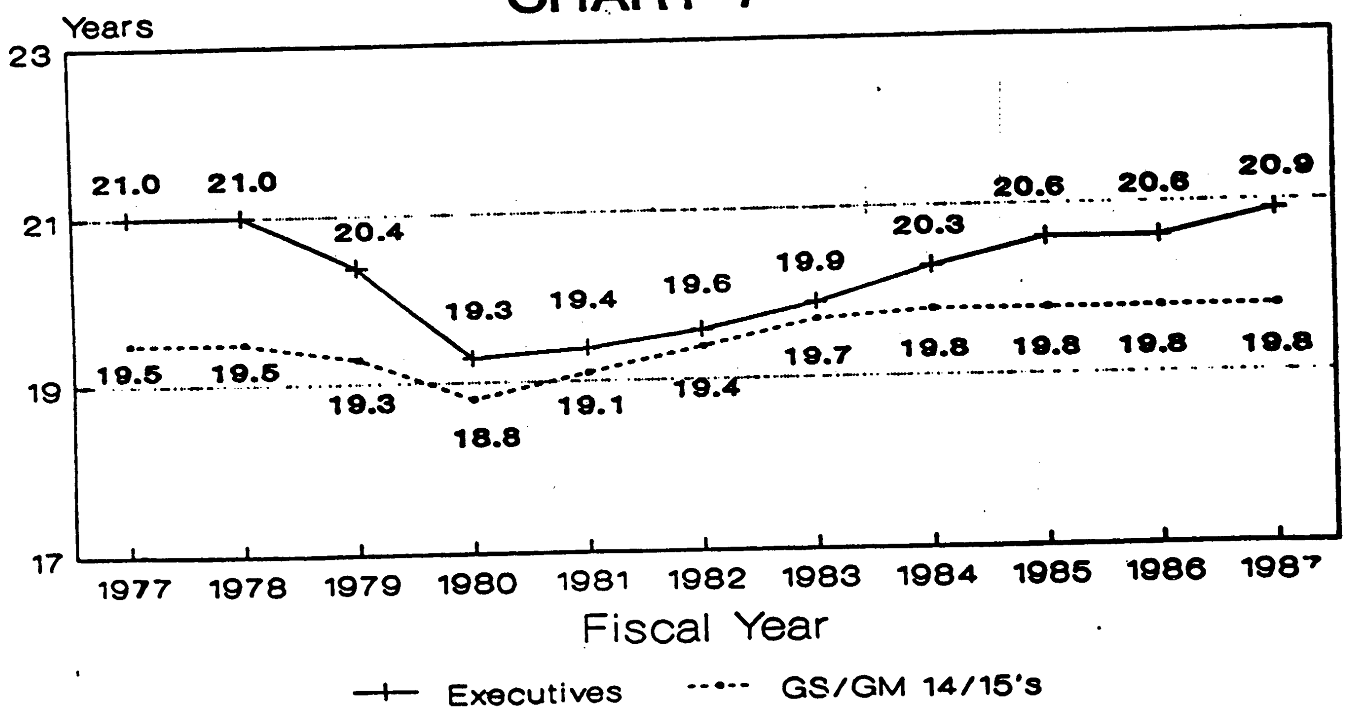
Two measures frequently used as proxies for skill level are years of experience and educational level. While both are imperfect measures, more valid data tend to be qualitative in nature and not amenable to precise measurement.

The average length of experience measure is particularly problematic. Some observers have noted that the post-SES figures were lower than the pre-SES figures and cite this as evidence that the most talented SES members are leaving federal service. First, and least important, this "evidence" is not accurate. Chart 7 shows the average years of service of federal executives over time. During most of the last decade, the figures remained basically unchanged, fluctuating between 20 and 21 years. The decline in 1980 to 19.3 years is clearly related to the high level of retirements in that year, the prime reason for which was explained above. Since 1980, the average length of service figure has gradually climbed back to the 20-21 year range.

Second, and far more important, viewing length of experience as a good proxy for skill level essentially confuses seniority with performance. To improve the quality of its career SES workforce, the government should focus on the latter, not the former. In fact, attracting and retaining young "fast-track" talent may be more of a problem today than retaining more experienced employees--whether high quality or mediocre. The low chance of promotion to the SES of employees in the executive candidate pool is a situation which proves demoralizing for candidates and encourages turnover. As shown on Chart 7, GS/GM-14's/15's show an experience level almost equivalent to that of the executives.

The average education level of executives is quite high and has remained stable since 1979. In both 1979 and 1986, 70 percent had graduate degrees (e.g., M.A., Ph.D., LL.B., M.D.), 27 percent

# YEARS OF SERVICE
## for Executives & GS/GM 14/15's
## CHART 7



had a B.A., and 3 percent had less than a B.A.[12] Moreover, the education levels remained unchanged while the SES occupational mix changed slightly, in favor of executives with administrative backgrounds. Because executives with professional backgrounds are more likely to need graduate degrees, a decrease in the number of such executives might have caused some decline in the average education level. (In 1979, those with professional backgrounds comprised 56 percent of the population, compared with 44 percent for those with administrative backgrounds. By 1986, the former comprised 53 percent; the latter, 47 percent.)

12Data on educational level of federal executives come from OPM and MSPB attitudinal surveys.

## Conclusions

The Federal Government is at a substantial disadvantage in competing for the best of our nation's executive talent. This is not a temporary or transient phenomenon, and it is due in great measure to the defects in the SES compensation system addressed in this report.

The recommendations made by this Commission should enhance the Federal Government's competitiveness by providing increased managerial flexibility within the current parameters of the compensation system, and by increasing managerial ability to focus greater resources upon special aspects of compensation, such as recruiting, retention and performance bonuses.

For every fiscal and political reality that impairs expansion and restructuring of Federal executive pay, there is also a simple and stark reality of the marketplace: you get what you pay for; and the Federal Government is not paying enough to attract, develop and retain its share of the talent needed to ensure efficient, effective fulfillment of the public trust.

The Commission calls upon our institutions of government to recognize this reality, and join together to take the necessary action to make the Senior Executive Service what it was meant to be--the finest career federal executives lending their efforts to provide the best government services and stewardship available to the American public.

THE WHITE HOUSE

WASHINGTON

February 29, 1988

Dear Madame Chairman:

I wish to dissent from Recommendation 1 of the Commission's report. By decoupling the pay of career executives from that of political executives, we would seriously damage the ability of the Executive Branch to function effectively. The call for a minimum 34 percent pay range for career executives--absent any pay change for political executives--would essentially bring the top career salary to Executive Level II, the salary level for deputy secretaries and heads of independent agencies.

Such decoupling is problematic for two reasons. First, it would relieve pressure for needed increases in Executive Schedule salaries. While the purchasing power of career executive pay has declined since 1969, that of top political executives has declined at twice the rate. Unless we are to confine our recruitment of politicals to only those who are independently wealthy, we must recognize that a fair level of compensation is essential if we are to avoid a decline in competence. The Commission's report placed considerable emphasis on the need to raise pay levels in order to recruit and retain highly competent career executives. The same emphasis must be placed on ensuring the government can bring in highly competent political executives.

Second, a rational compensation system does not allow for pay inversion. Paying career executives more than many of their bosses is likely to cause dysfunctional friction between political and career executives. The effective management of government demands that political and career executives work as a team.

A strong core of top political executives has been a traditional characteristic of our Executive Branch--a characteristic which has stood this democracy in good stead. A proposal which would have the effect of undermining this tradition--by decreasing the quality and standing of the political leadership of the federal bureauracy--is one this country can ill afford.

The pay of both our political executives and our career executives needs to be raised. Let's do it in a way that will strengthen and not threaten our federal bureaucracy.

Sincerely,

William R. Graham

William R. Graham
Science Adviser to the President

Miss J. L. Cullen
Chairman
President's Commission on
Compensation of Career
Federal Executives
Washington, D.C. 20415

# HISTORY OF SENIOR EXECUTIVE SERVICE PAY RATES

| | ES-1 | ES-2 | ES-3 | ES-4 | ES-5 | ES-6 |
|---|---|---|---|---|---|---|
| July 1979 | $44,756 | $46,470 | (48,250) $47,500 | (50,100) $47,500 | (51,450) $47,500 | (52,800) $47,500[a] |
| October 1979 | 44,756 | 46,470 | 48,250 | 50,100 | (51,450) 50,112.50 | (52,800) 50,112.50[b] |
| October 1979 | 47,889 | 49,499 | (51,164) 50,112.50 | (52,884) 50,112.50 | (54,662) 50,112.50 | (56,500) 50,112.50[b] |
| October 1980 | (52,247) 50,112.50 | (53,996) 50,112.50 | (55,804) 50,112.50 | (57,673) 50,112.50 | (59,604) 50,112.50 | (61,600) 50,112.50[b] |
| October 1981 | (54,755) 50,112.50 | (56,936) 50,112.50 | (59,119) 50,112.50 | (61,300) 50,112.50 | (62,950) 50,112.50 | (64,600) 50,112.50[b] |
| January 1982 | 54,755 | 56,936 | (59,119) 58,500 | (61,300) 58,500 | (62,950) 58,500 | (64,600) 58,500 |
| October 1982 | 56,945 | (59,230) 58,500 | (61,515) 58,500 | (63,800) 58,500 | (65,500) 58,500 | (67,200) 58,500 |
| December 1982 | 56,945 | 59,230 | 61,515 | 63,800 | 65,500 | 67,200 |
| January 1984[c] | 59,223 | 61,615 | 64,008 | 66,400 | 68,150 | 69,900 |
| January 1985 | 61,296 | 63,764 | 66,232 | 68,700 | 70,500 | 72,300 |
| January 1987 | 63,200 | 65,700 | 68,200 | 70,700 | 72,500 | 74,500 |
| February 1987 | 64,700 | 67,600 | 70,500 | 73,400 | 75,500 | 77,500 |
| January 1988 | 65,994 | 68,952 | 71,910 | 73,400 | 75,500 | 77,500 |

(    ) = Scheduled rates as established by the President where different from payable rates as the result of appropriations restrictions.

a If individual was previously an Executive Level IV, the rate was $50,000.
b If individual was previously an Executive Level IV, the rate was $52,750.
c These are the rates as they were adjusted in May 1984 retroactive to January 1984.

Notes: 1. Pay rate changes were effective beginning the first pay period in the months indicated except for July 1979 (July 13, the date the SES was established), the first adjustment in October 1979 (October 1), January 1982 (January 1), December 1982 (December 18), and February 1987 (first pay period beginning on or after February 4).

2. As the result of a July 1984 decision of the 7th U.S. Circuit Court of Appeals (Squillacote vs. United States), the payable rates for the period October 1, 1979, thru December 31, 1981, were revised to $52,750 or the scheduled-rate, whichever was lower. Lump-sum payments to reflect the revisions were made April 1986.

# SUMMARY OF AGENCY RESPONSES*

# TO QUESTIONNAIRE FROM

# THE PRESIDENT'S COMMISSION ON

# COMPENSATION OF CAREER FEDERAL EXECUTIVES

I. Major, Some, or No Problems in Retention and Recruitment of Career SES Members?

II. SES Recruitment and Retention: Key Agency Concerns

III. Agency Recommendations

IV. Agency Abbreviations

* 39 of 43 (90%) of the agencies to which the questionnaire was sent completed it. These respondent agencies have 5,330 career SES members which represents 86% of the total 6,223 career SESers (as of 9/30/87).

January 28, 1988

## I. MAJOR, SOME, OR NO PROBLEMS IN RETENTION AND RECRUITMENT OF CAREER SES MEMBERS?

Agencies were asked to classify current and near-term (next three years) problems with retention and recruitment of career SES members as being a major problem, some problem, or no problem. Their responses were collected in three broad occupational groupings:

Science and Engineering - physical and biological sciences, mathematics and statistics, operations research, and all engineering occupations;

Other Professions - law, medicine, economics, accounting, auditing, etc.; and,

Administrative/Technical - personnel, budget, computer and information management, general administration, program management and any other occupation not included in the other two areas.

Table 1 on the next page presents agency responses to these questions. Note: (1) Agencies were also provided with a "not applicable" response category if they did not have any positions in one or more of the three occupational categories; (2) OSD completed the questionnaire in terms of the entire DOD, but as Air Force and Navy responded individually, OSD's response is presented only for OSD positions; (3) The responses of the Justice and HHS Departments subdivided the administrative/technical occupational category into two parts and rated the degree of problem differently (major for one and some for the other)--both responses are included in the table; and, (4) Section IV contains the list of agencies for which abbreviations are used in Tables 1 and 2.

**TABLE 1: DEGREE OF CURRENT PROBLEMS WITH RETENTION AND RECRUITMENT OF CAREER SES MEMBERS IN 3 BROAD OCCUPATIONAL AREAS***

| AGENCY | # SES CAREER | MAJOR PROBLEM | | SOME PROBLEM | | NO PROBLEM | | NOT APPLIC. |
|---|---|---|---|---|---|---|---|---|
| | | Retent. | Recruit. | Retent. | Recruit. | Retent. | Recruit. | |
| Agriculture | 274 | | | | 1,2 | 1,2,3 | 3 | |
| Commerce | 343 | 3 | 3 | | 1,2 | 1,2 | | |
| Defense | | | | | | | | |
| Air Force | 196 | | | 1,2,3 | 1,2,3 | | | |
| Navy | 407 | | | 1,2 | 1 | 3 | 2,3 | |
| OSD | 381 | | | 1,2 | 1 | 3 | 2,3 | |
| Education | 45 | | | 1,2,3 | 2,3 | | 1 | |
| Energy | 393 | | | | 1,2 | 1,2,3 | 3 | |
| HHS | 472 | 1,2,3 | 1,2,3 | 3 | 3 | | | |
| HUD | 78 | | | | | 1,2,3 | 1,2,3 | |
| Justice | 207 | 3 | 3 | 2,3 | 2,3 | | | 1 |
| Labor | 137 | | | 1,2,3 | 1,2 | | 3 | |
| State | 82 | | | | | 1,2,3 | 1,2,3 | |
| Transportation | 306 | | | | | 1,2,3 | 1,2,3 | |
| Treasury | 482 | | | 2 | 2 | 1 3 | 1 3 | |
| EPA | 212 | 1,2 | 1,2 | 3 | 3 | | | |
| NASA | 454 | 1 | 1 | 2,3 | 2,3 | | | |
| VA | 130 | | | | | 1,2,3 | 1,2,3 | |
| ACDA | 19 | | | | | 1,2,3 | 1,2,3 | |
| CFTC | 16 | 2 | 2 | 3 | 3 | | | 1 |
| CPSC | 8 | | | 2,3 | 1,2,3 | 1 | | |
| EEOC | 36 | | | | | 2,3 | 2,3 | 1 |
| FCA | 12 | | 2 | 2,3 | 3 | | | 1 |
| FCC | 33 | | | 2 | | 1 3 | 1,2,3 | |
| FEMA | 36 | | | 3 | 3 | | | 1,2 |
| FLRA | 19 | | | | | 2,3 | 2,3 | 1 |
| FTC | 24 | 2 | 2 | 3 | 3 | | | 1 |
| GSA | 97 | | | 1,2,3 | 1,2,3 | | | |
| ICC | 21 | | | 2,3 | 2,3 | | | 1 |
| IDCA(AID) | 27 | (Did not complete this section) | | | | | | |
| MSPB | 16 | | | | | 2,3 | 2,3 | 1 |
| NCUA | 10 | 2 | | | 2 | | | 1 3 |
| NLRB | 57 | | | | | 2,3 | 2,3 | 1 |
| NSF | 88 | 1 | 1 | 2 | 2 | 3 | 3 | |
| OMB | 57 | | | | | 1,2,3 | 1,2,3 | |
| OPM | 43 | | | | 2 | 2,3 | 3 | 1 |
| RRB | 10 | | | | | 1,2,3 | 1,2,3 | |
| SBA | 31 | | | | | 2,3 | 2,3 | 1 |
| SEC | 44 | 2 | 2 | 3 | | | 3 | 1 |
| USIA | 27 | 1 | 1 | 3 | 3 | | | |

**Total** 5,330 (86% of 6223 total career SES, as of 9/30/87)

*1 = Scientists & Engineers; 2 = Other Professions; 3 = Administrative & Technical

## II. SES RECRUITMENT AND RETENTION: KEY AGENCY CONCERNS

Agencies were also asked to identify specific occupational fields in which they have problems or anticipate having problems with retaining and/or recruiting SES career members, and to suggest causes for these problems. Most agencies provided narrative responses rather than lists. These were analyzed to identify common themes.

The two most frequently mentioned concerns across agencies were these: difficulty in attracting high quality applicants for SES vacancies and having a federal compensation package that is not competitive with compensation provided for comparable private sector and often academic positions.

Two other concerns were also cited by several agencies: the low status and image of the federal career service and current or potential SES turnover rate.

The incidence of these concerns is summarized in Table 2 on the next page.

## TABLE 2: AGENCIES' MOST FREQUENTLY MENTIONED CONCERNS WITH CAREER SES RECRUITMENT & RETENTION

| AGENCY | # SES CAREER | GETTING HIGH QUALITY APPLICS. OUTSIDE | GETTING HIGH QUALITY APPLICS. INSIDE | COMPENS. DISADV. | TURN-OVER | LOW STATUS-IMAGE |
|---|---|---|---|---|---|---|
| Agriculture | 274 | X | X | X | | |
| Commerce | 343 | X | | X | | X |
| Defense | | | | | | |
| Air Force | 196 | | X | X | | |
| Navy | 407 | X | X | | X | |
| OSD | 381 | X | | | X | |
| Education | 45 | | | | | |
| Energy | 393 | X | | X | | |
| HHS | 472 | X | | X | X | X |
| HUD | 78 | X | | X | | |
| Justice | 207 | X | | X | | |
| Labor | 137 | X | | X | | |
| State | 82 | | | | | X |
| Transportation | 306 | | X | X | | |
| Treasury | 482 | | | | | |
| | | | | | | |
| EPA | 212 | X | | X | | |
| NASA | 454 | X | | X | X | |
| VA | 130 | | | | | X |
| | | | | | | |
| ACDA | 19 | | | X | | |
| CFTC | 16 | X | | X | | X |
| CPSC | 8 | | | | | |
| EEOC | 36 | | | | | |
| FCA | 12 | | | | | |
| FCC | 33 | | | | | |
| FEMA | 36 | X | | X | X | |
| FLRA | 19 | | | | | |
| FTC | 24 | | | X | | X |
| GSA | 97 | | | | | |
| ICC | 21 | X | X | X | | |
| IDCA(AID) | 27 | | | | | |
| MSPB | 16 | | | | | |
| NCUA | 10 | | | X | | X |
| NLRB | 57 | | | | | |
| NSF | 88 | X | | X | | |
| OMB | 57 | | | | | |
| OPM | 43 | | | X | | |
| RRB | 10 | | | | | |
| SBA | 31 | | | | X | X |
| SEC | 44 | X | | X | | |
| USIA | 27 | X | | X | | |

Total 5330 (86% of 6223 total career SES, as of 9/30/87)

Note: Some agencies either identified no concerns/problems or ones which were not classifiable in the four areas covered by this table. The concerns columns for these agencies contain no entries.

## III. AGENCY RECOMMENDATIONS

Finally, agencies were asked to provide recommendations about what Congressional and Executive Branch actions were needed to enhance recruitment and retention of career SES members. These are summarized below.

### Compensation

Over 95 percent of the agencies made one or more recommendations for some improvement in the SES compensation package. Among the more frequent suggestions were these: increasing base pay, eliminating the overlap in SES and GM/GS-15 salaries, providing a greater SES salary range, increasing the number and amount of performance bonuses, instituting new types of "bonuses" (for geographic moves, recruitment or retention in hard-to-fill occupations), and increasing the amounts of Presidential Rank awards to reflect the proportion of salary they represented originally and indexing them to salary increases so that this proportion could be maintained in the future without legislative action.

### Other

There were also some non-compensation recommendations for improving recruitment and/or retention of career SES members. These included the following: increasing executive mobility opportunities within the SES; making the SES a small, elite cadre of "real" executives; creating a separate senior service or services for scientists, engineers, and biomedical specialists; reforming the government's management systems to give executives more control over their operations; and taking steps to improve the image and status of federal service.

## IV. AGENCY ABBREVIATIONS

| | |
|---|---|
| ACDA | Arms Control and Disarmament Agency |
| AF | Air Force |
| CFTC | Commodity Futures Trading Commission |
| CPSC | Consumer Product Safety Commission |
| EEOC | Equal Employment Opportunity Commission |
| EPA | Environmental Protection Agency |
| FCA | Farm Credit Administration |
| FCC | Federal Communications Commission |
| FEMA | Federal Emergency Management Agency |
| FLRA | Federal Labor Relations Authority |
| FTC | Federal Trade Commission |
| GSA | General Services Administration |
| HHS | Department of Health and Human Services |
| HUD | Department of Housing and Urban Development |
| ICC | Interstate Commerce Commission |
| IDCA(AID) | International Development Cooperation Agency (Agency for International Development) |
| MSPB | Merit Systems Protection Board |
| NASA | National Aeronautics and Space Administration |
| NCUA | National Credit Union Administration |
| NLRB | National Labor Relations Board |
| NSF | National Science Foundation |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| OSD | Office of Secretary of Defense |
| RRB | Railroad Retirement Board |
| SBA | Small Business Administration |
| SEC | Securities and Exchange Commission |
| USIA | U.S. Information Agency |
| VA | Veterans Administration |

PRESIDENT'S COMMISSION ON COMPENSATION OF CAREER FEDERAL EXECUTIVES

QUESTIONNAIRE ON RECRUITMENT/RETENTION OF CAREER SES MEMBERS

Department or Agency ______________________________

(Where additional space is needed for a response, please attach a sheet with the question number.)

1. Do you currently have a problem, or do you foresee a problem within the next three years, with the retention of career SES members in your department or agency in the following occupational areas? (After giving the approximate number of career SES appointees in the occupational areas, please check the appropriate box showing the retention problem for each occupational area as a whole. Problems in specific occupations are addressed in Question #3.)

| | Approx. No. Career SES | Major Problem | Some Problem | No Problem | Not Applic. |
|---|---|---|---|---|---|
| a. Science and Engineering | | | | | |
| b. Other Professions | | | | | |
| c. Administrative/Technical | | | | | |

"Science and Engineering" includes physical and biological sciences, mathematics and statistics, operations research, and all engineering occupations.
"Other Professions" includes law, medicine, economics, accounting, auditing, etc.
"Administrative/Technical" includes personnel, budget, computer and information management, general administration, program management, and any other occupation not included in the other two areas.

2. Do you currently have a problem, or do you foresee a problem within the next three years, with the recruitment of career SES members in your department or agency in the following occupational areas? (Please check the appropriate box showing the recruitment problem for each occupational area as a whole. Problems in specific occupations are addressed in Question #3.)

| | Major Problem | Some Problem | No Problem | Not Applic. |
|---|---|---|---|---|
| a. Science and Engineering | | | | |
| b. Other Professions | | | | |
| c. Administrative/Technical | | | | |

3. If you currently have major recruitment and/or retention problems in specific occupations, or if you foresee problems within the next three years:

   a. Please list the occupations in priority order and indicate whether the problems are with recruitment, retention, or both? Where possible, please provide some examples of the problems, such as:

      o amount and effect of turnover,
      o quality of those leaving,
      o length of time to fill positions, and
      o number and quality of applicants for a recent position you filled or tried to fill.

   b. What in your view are the main factors (not more than five) that contribute to the problems?

   c. What activities is your department or agency taking to help resolve the problems?

4. If your department or agency has done any study within the last three years of recruitment or retention of career SES members (e.g., as the result of exit interviews), please provide a copy.

5. What in your view are the most important Government-wide actions, in priority order, that the Congress or the Executive Branch could take that would enhance recruitment and retention of career SES members in your department or agency?

6. Do you have any other comments or suggestions regarding compensation for career SES members? (Including base pay; performance bonuses; Presidential rank awards; comparability allowances for physicians; benefit programs, such as leave, retirement, and health and life insurance; and proposals that have been made for recruitment and retention bonuses, e.g., a lump-sum payment of $10,000 for an individual recruited in a hard-to-fill occupation.)

## Summary of Witness Statements

The following summarizes the statements presented to the President's Commission on Compensation of Career Federal Executives at its September 17, 1987 meeting:

Smithsonian Institution The Smithsonian is in effect the moral equivalent of a medium sized research university. Competition for the specialized expertise needed is extraordinary. Many institutions are paying museum directors well into the six figures with benefit packages that include cars and houses and children's education. Similarly, in the hard sciences, good people are lost to larger research universities that can offer tenured positions and a nine months work year at a higher salary than the Smithsonian can offer for 12 months. Forty percent of the Smithsonian's annual operating budget comes from business activities, i.e. museum shop items, magazines, books, records, and a variety of product licensing arrangements. In order to give flexibility in recruiting and retaining people, some of the profits are devoted to salary costs. When SES was established, the Smithsonian was not included, and still operates under the supergrade system. Legislation is needed that would permit the Smithsonian to offer salaries that are at least comparable to SES with a benefit package that is also comparable

Senior Executive Association There is a disturbing slippage of senior executive salaries. The gap between Federal executives and private executive counterparts has widened alarmingly. From 1969 - 1985 purchasing power of corporate executives rose 69% while the purchasing power of Federal executives' salaries declined more than 30%. In recent years, the Federal bureaucracy has suffered from pay compression. Increasing numbers of SES executives are accepting optional retirement when eligible and/or seeking careers in the private sector, often at higher pay. 61% of SES executives who responded to a recent GAO questionnaire expressed dissatisfaction wtih salary levels. During the period 1979 to early 1987 no scientists have been successfully recruited for NIH from outside the Federal Government. The overlap with GS-15 steps creates serious disincentives to take on the greater responsibilities and risks of the SES positions. Recommendations: (1) Overlaps between GS-15 and Senior Executive Services pay be eliminated; (2) Four year schedule be adopted, beginning January 1989 and ending January 1992, to bring comparison levels of public/private salaries to 90% of comparable private sector salaries; (3) Increase agency bonus pool from the statutory 3% to 5%; (4) Increase Presidential Rank awards to $30,000 and the Meritorious awards to $15,000 with annual adjustments for inflation.

Political Science Professor Mark Huddleston, University of Delaware We need to make a commitment to real comparability at the Senior Executive level. The system should be designed not to pay people for a specific job but for the attributes they represent, i.e. pay people according to their skill levels, education, and perceived competence regardless of the particular position they occupy at the moment. We need to move toward much less compression across the whole range of executive pay, from the upper GS level through the executive level positions. We have gotten into a situation where we are paying everyone virtually the same. We should get rid of the link between Congessional and Federal Executives' pay.

**Advisory Committee on Federal Pay Several problems exist because Government fails to provide an adequate compensation system, and because of a lack of esteem for public service, which is creating a demoralizing effect on the entire work force. There needs to be greater attention paid to the compression problems that have developed in the upper grades. We urge that linkage between Congressional and executive pay be broken, in order to achieve fair and resonable adjustments. Congress can suplement income through honoraria speeches, etc -- a benefit unavailable to the government executive. The Government is operating a penny wise pound foolish pay policy. We suggest efforts be made to raise the public awareness of the problems asociated with non-competitive pay rates, that working relationships be established with other groups seeking to enhance the image of the public servant, and that all salaries and SES pay be adjusted more closely to be in line with those in the private sector.**

Board of Contract Appeals Judges Association The Board submitted documentation on the history of these approximately 75 administrative judges. When created in 1978, they were classified as GS-16, 17 and 18. Due to the need to assure their independence, they were not included in the newly created SES in 1979. They remain caught between the highest levels of the General Schedule (from which the SES was drawn) and the fact that the SES pay schedule is now higher than the GS scale.

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