

Strategic Compensation Conference 2001

Status of Locality Pay

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Overview

I. Report to Congress on Commercial Salary Survey Data

II. Report to Congress on Improvements in the National Compensation Survey Program

III. Latest Developments in the Locality Pay Program

Plus Questions and Answers

Section 637 of the Treasury and General Government Appropriations Act, 2001

Requires the President's Pay Agent to report to Congress on--

- the use of commercial salary survey data to set locality pay, and**
- progress in improving the Bureau of Labor Statistics' (BLS') National Compensation Survey program.**

I. Report to Congress on Using Commercial Salary Survey Data

- President's Pay Agent to determine whether five additional metropolitan areas should become separate locality pay areas in 2002.
- Pay Agent may use BLS salary surveys, salary survey data compiled by organizations or entities for private sector businesses, or both.

Five Metropolitan Statistical Areas (MSAs)

- Must compare Federal and non-Federal pay within five MSAs *not previously surveyed by BLS for locality pay* that have highest levels of non-farm employment and 2,500 or more General Schedule (GS) employees.
- Austin, Las Vegas, Louisville, Nashville, and Raleigh qualify.
- Memphis, New Orleans, Norfolk, Phoenix, Salt Lake City, San Antonio, and Tampa have high GS and non-farm employment. These areas have already been surveyed, but fell below the “Rest of U.S.”

Pay Comparisons in Additional MSAs

- The Pay Agent may consider using commercial salary data for locality pay in additional MSAs.
- Additional MSAs would be subject to the same criteria as the first five localities.
- The law has the potential of adding up to five new localities in January 2002 and up to 26 new localities between January 2003 - 2006.

Status of Report on Five Cities

Action	Anticipated Completion Date
Obtain salary survey data	Completed
Assign Federal grades to survey jobs	Completed
Panel of compensation experts	Completed
Perform analysis of commercial salary data	Completed
Discuss findings with Federal Salary Council	Completed
Draft Pay Agent report to Congress	July-Aug 2001
Transmit Pay Agent report to Congress	Next Step

Salary Survey Data

Two types of off-the-shelf commercial surveys:

- Multiple-area surveys that cover many metropolitan areas with the same job list and survey methods.
- Single-area or regional surveys that cover only a single metropolitan area or region and are typically sponsored by a local association.

Multiple-Area Surveys

- 2000/2001 ECS Geographic Reports by Watson Wyatt Worldwide (Wyatt)
- 2000 Metropolitan Benchmark Compensation Survey by William M. Mercer, Inc. (Mercer)

Wyatt ECS Geographic Reports

- Accounting and Finance Report
- Hospital and Healthcare Report
- Human Resources Personnel Compensation Report
- Information Technology Report
- Logistics and Materials Management Report
- Middle Management Report
- Office Personnel Report
- Professional and Scientific Personnel Report
- Supervisory Management Report
- Technician and Skilled Trades Report

Covered approximately 2000 jobs, over 1300 of which were white-collar.

Mercer Metropolitan Benchmark Compensation Survey

- Data were presented in a single report.
- Covered over 200 jobs, over 180 of which were white-collar.

Single-Area or Regional Surveys

- Austin Area Pay and Benefits Survey by the Hay Group (about 130 white-collar jobs).
- Middle Tennessee Compensation & Benefits Survey (about 200 white-collar jobs).
- Nashville Area Survey by Burris and Associates (about 85 white-collar jobs).
- North Carolina Wage and Salary Survey by Capital Associated Industries (about 175 white-collar jobs).
- Wage and Benefits Survey by the Associated Industries of Kentucky (about 130 white-collar jobs).
- OPM could not locate a suitable survey for Las Vegas.

BLS Salary Survey Data

- BLS' National Compensation Survey data (small-scale surveys) were available for Austin, TX; Louisville, KY; and Raleigh, NC.
- White-collar jobs covered in each area--
 - 296 in Austin,
 - 202 in Louisville, and
 - 370 in Raleigh.

Matching Federal and Non-Federal Jobs and Levels of Work

- Delta Research Associates (OPM contractor) and OPM classifiers matched commercial salary survey jobs with Federal jobs and grade levels.
- Both Delta and OPM classifiers found survey jobs difficult to match because survey position descriptions did not provide enough information for appropriate grade leveling.
- It was not surprising that classification decisions were inconsistent among classifiers.

Private Sector Compensation Experts

OPM contracted with two compensation consultants to help us evaluate private sector data:

- Maggi Coil
 - Compensation consultant, former Director of Compensation for Motorola, and a member of the Federal Salary Council.
- Howard Risher
 - Ph.D. economist, has worked for both Wyatt and Mercer, and teaches at the Wharton School.

Views of the Private Sector Compensation Experts

- Agreed that the surveys OPM reviewed were the main sources generally available.
- Agreed that surveys OPM reviewed were typical of data used to set pay in the private sector.
- Concluded that the Government could use commercial, off-the-shelf data to set pay only if standards for statistical validity and precision were relaxed.

Analysis of Commercial Salary Data

- Very little data found in some cities.
- Brief survey job descriptions make good job matching impossible.
- Not representative of entire local labor market--
 - standard statistical sampling methods of establishments not used, and
 - little data from State and local government.
- Data not always found at all grade levels.

Role of Federal Salary Council

- The Federal Salary Council (FSC) makes recommendations to the President's Pay Agent each year about the locality pay program.
- Section 637 did not specifically include the FSC, but its advisory role includes:
 - the establishment or modification of pay localities,
 - the coverage of surveys of pay localities,
 - the process of comparing Federal and non-Federal pay, and
 - the level of comparability payments.
- The FSC met on July 23, 2001.

Views of Federal Salary Council (1)

- Sample sizes in the commercial surveys are very small, and they represent pay for only a small number of Federal employees.
- Surveys may not represent the full range of non-Federal pay, since--
 - they are not selected to represent all firms in the locality, and
 - the surveys tend to be dominated by small to mid-size firms.
- Data cover few or no jobs at higher grade levels.

Views of Federal Salary Council (2)

- State and local governments often are not covered by the commercial surveys, and the law requires the inclusion of data on state and local government workers in the pay comparison process.
- It is unknown whether the surveys will be available in the future or how stable the results will be over time.
- Survey jobs and survey methods vary among the surveys, and no single survey or survey company has good coverage of all five MSAs.

Views of Federal Salary Council (3)

- All of the surveys use self-administered, mailed questionnaires, while BLS uses on-site data collection.
- Commercial surveys use job descriptions that are more generic than those of approved BLS surveys; the more generic job descriptions result in less consistent job matching.
- Pay gaps from the commercial data sources are significantly different than pay gaps based on BLS data.

Federal Salary Council Conclusions (1)

- Commercial off-the-shelf data should not be used in the locality pay program.
- The Council recommends that the Pay Agent use the most recent National Compensation Survey (NCS) data to make Austin, Louisville, and Raleigh locality pay areas in 2002. (BLS does not survey Las Vegas or Nashville.)
- While NCS data for these three areas come from surveys with small sample sizes and without FSC-recommended improvements, the Council believes that the NCS data are more representative of pay in these metropolitan areas than the commercial salary surveys, and that use of the NCS data would address the concerns of Congress.

Federal Salary Council Conclusions (2)

- Pay Agent should ask the BLS to increase sample size in the three metropolitan areas.
- Data quality should improve as NCS program improvements are implemented and sample sizes are increased.
- Pay Agent should await the introduction of some of the improvements before using NCS data to set pay in existing locality areas.

Next Steps

- Pay Agent will make decisions and report to Congress.
- OPM will issue proposed regulations if any new pay areas are to be established.

II. Report to Congress on Improvements in Locality Pay Methodology

- The law required the Pay Agent to report to Congress on the status of OPM/OMB/BLS efforts to improve the BLS survey methodology.
- Based on the OPM/OMB/BLS efforts, the Federal Salary Council previously recommended five areas for improvement in the BLS National Compensation Survey (NCS) program.
- The Pay Agent submitted its report to Congress on May 15, 2001.

Five Areas for Improvements

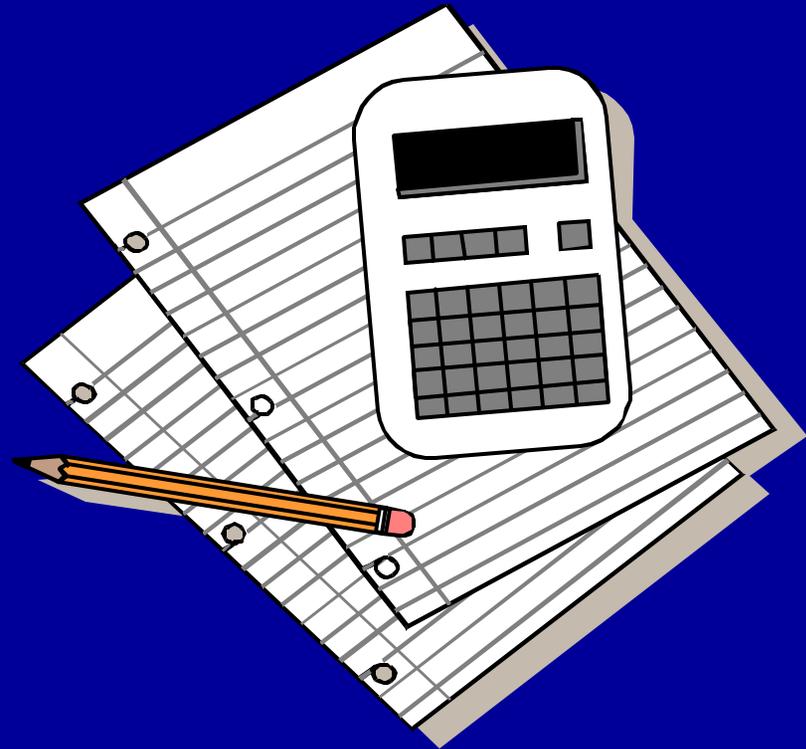
- (1) Grade Leveling.
- (2) Determining Grade Level for Supervisors.
- (3) Model to Fill in Missing Data.
- (4) Crosswalk between GS and NCS jobs.
- (5) Exclusion of Workers above GS-15.

Project 1: Grade Leveling

- Address Federal Salary Council concern that the Factor Evaluation System primary standard lacked specific occupational information.
- Improvement projects:
 - Develop a “fewer-than-nine” factor system for job matching, and
 - Develop survey leveling guides and illustrations for Federal job families.

Develop a Grade Leveling Tool with Fewer than Nine Factors

- Analyzed database of high frequency occupations.
- Gathered position descriptions--
 - examined data,
 - identified factor relationships, and
 - determined factor patterns that are most predictive of grade levels.



New Grade Leveling Tool

NCS Survey Factors

Knowledge

*Job Controls and
Complexity*

Contacts

Physical Environment

FES Factors

Knowledge

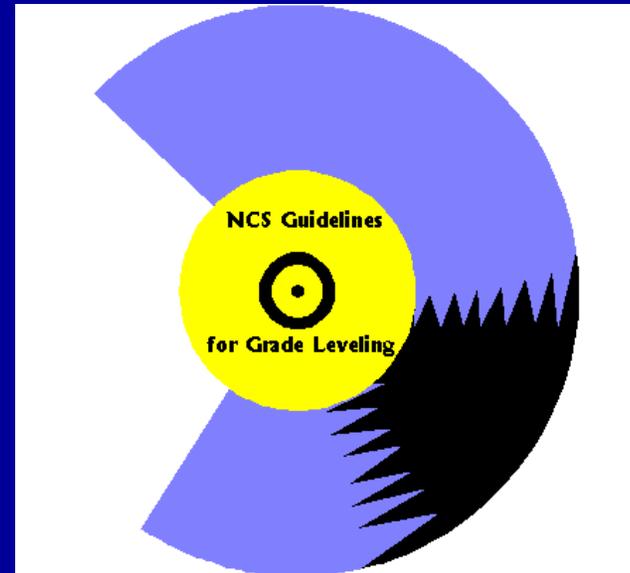
*Supervisory Controls;
Guidelines; Complexity;
Scope and Effect*

*Contacts, Purpose of
Contacts*

*Physical Demands, Work
Environment*

Develop Family Job Leveling Guides

- About 20 job leveling guides will be used to apply the four factor system to **Federal job families--**
 - Customized guides for professional and administrative jobs by Federal job family,
 - One guide for most technical jobs, and
 - One for most clerical jobs.



Criteria for Choosing Test Guides

- Number of non-Federal employees in BLS surveys,
- Number of Federal employees,
- OPM work revising classification standards, and
- Representation in largest PATCO categories.

Five Test Guides

- Accounting,
- Engineering,
- Information Technology,
- Technical, and
- Clerical/Administrative Work.

Test Four Factor Approach and Guides

- In-house testing by OPM and BLS--
 - Compared results for new approach and guides to pre-scored position descriptions, and
 - Revised guides as necessary.
- Field tests -- 2001--
 - Syracuse, NY
 - Harrisburg, PA
 - Nashville, TN
 - Madison, WI



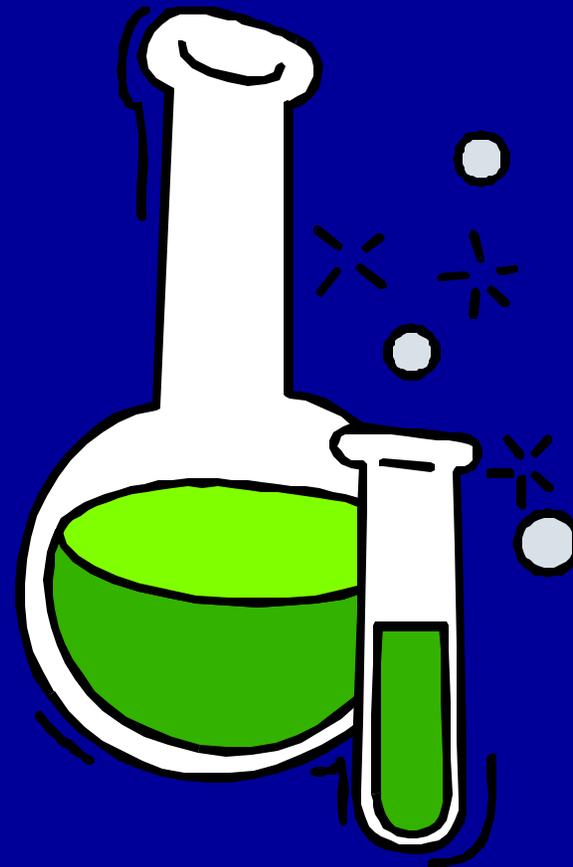
Test Results

- Four factor system and five guides were usable in data collection.
 - Handled most jobs studied.
 - Additional guidance may be needed for some jobs (e.g., information technology area).
 - Refinements suggested in wording and examples.



Complete Survey Leveling Guides

- Develop and test remaining guides for the four factor system.
 - OPM contracted with B/W Technologies, Inc., to prepare remaining guides.
 - Field test guides.
 - Target completion date for guides: Spring 2002.

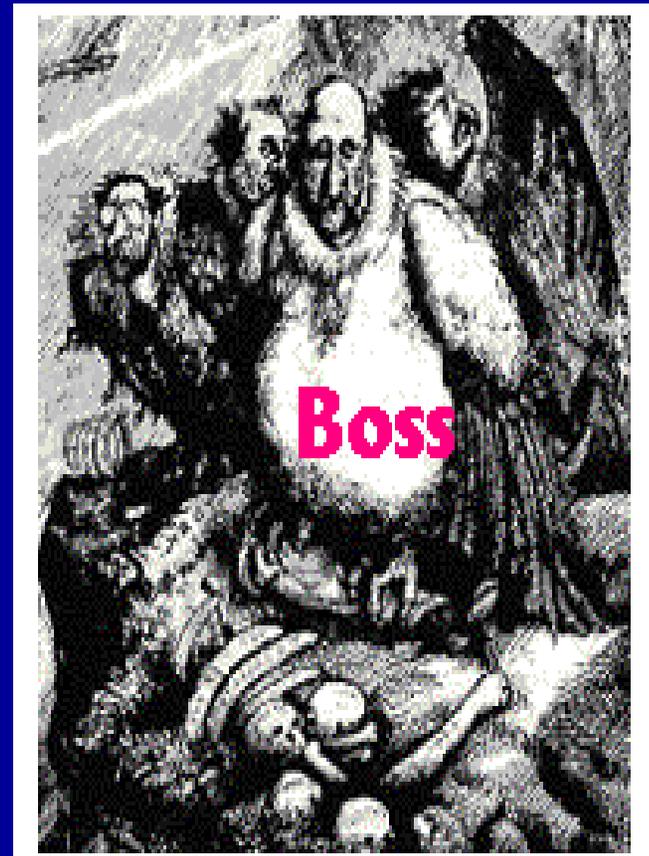


Occupation-Specific Materials

- **Develop Supplementary Materials**
 - Family or series-specific illustrations
 - Exclusion lists of jobs that should not be leveled within a family.
 - Specific questions for each family to help focus leveling.
 - Typical factor patterns; flag unusual patterns for review.
 - Information gleaned from field tests will be useful in developing supplementary materials.

Project 2: Revise Grade Leveling Method for Supervisors

- Step 1: Determine if supervisory duties are grade-determining.
- Step 2: Determine the core level of work supervised (i.e., highest graded nonsupervisory staff).



Supervisors

- Step 3: Determine level (using the four factor approach) of the highest graded nonsupervisory staff.
- Step 4: Add grade or grades based on level of supervision.



Supervisory Grades: Testing and Implementation

- BLS tested survey procedures in the four test cities (Summer 2001).
- Results: Procedures needed to be revised to --
 - Better determine which jobs were truly supervisory,
 - Handle cases where professional staff supervised only clerical staff, and
 - Other special cases (e.g., supervisor is paid to oversee a process rather than staff).
- Goal: Complete in time to implement in 2002.

Project 3: Develop Model to Fill in Data

- **Goal:** Build model to fill in where salary data are not available.
- **Issues:**
 - jobs to include,
 - analytic and graphical output,
 - specificity in defining jobs,
 - weighting the jobs,
 - factor levels vs. grade levels, and
 - other econometric technical issues.

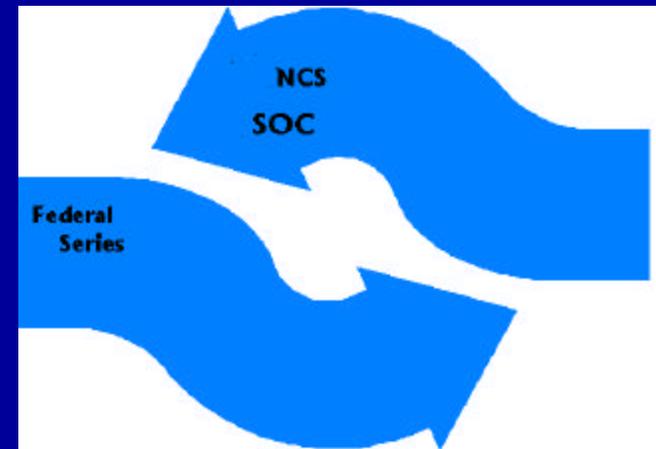
Data Fill Model

Progress:

- Basic model has been developed by BLS according to OPM requirements.
- Next steps:
 - Link model to NCS salary estimation system.
 - Run salary estimates using the model to fill in for missing data.
 - Provide salary estimates to OPM for review and discussion.
- Plan: Be ready to use for surveys in 2002 Pay Agent report.

Project 4: Revise the Crosswalk

- The crosswalk links Federal jobs to the classification system used by BLS in the National Compensation Survey program.
- The BLS, following OMB rules, is converting to the new Standard Occupational Classification (SOC) system.
- Crosswalk must be revised to match Federal jobs to SOC jobs.



Crosswalk Improvements

- OPM and BLS are also examining “all other” categories in the SOC.
- Goal: Determine if splitting “all other” jobs into homogeneous sub-jobs would improve the matching of Federal and non-Federal jobs.

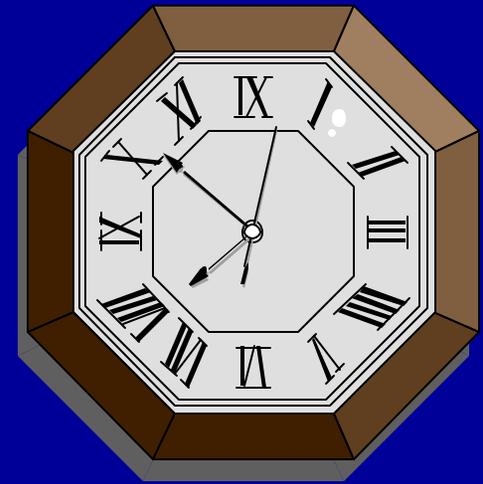


Project 5: Identify and Exclude Workers Above GS-15

- Goal: Identify workers above GS-15 to exclude them from data provided for locality pay purposes.
- BLS developed new survey procedures.
- BLS tested survey procedures in four test cities.
- Results: Procedures were easy to implement, but very few workers above grade 15 were found.

Implementing NCS Improvements

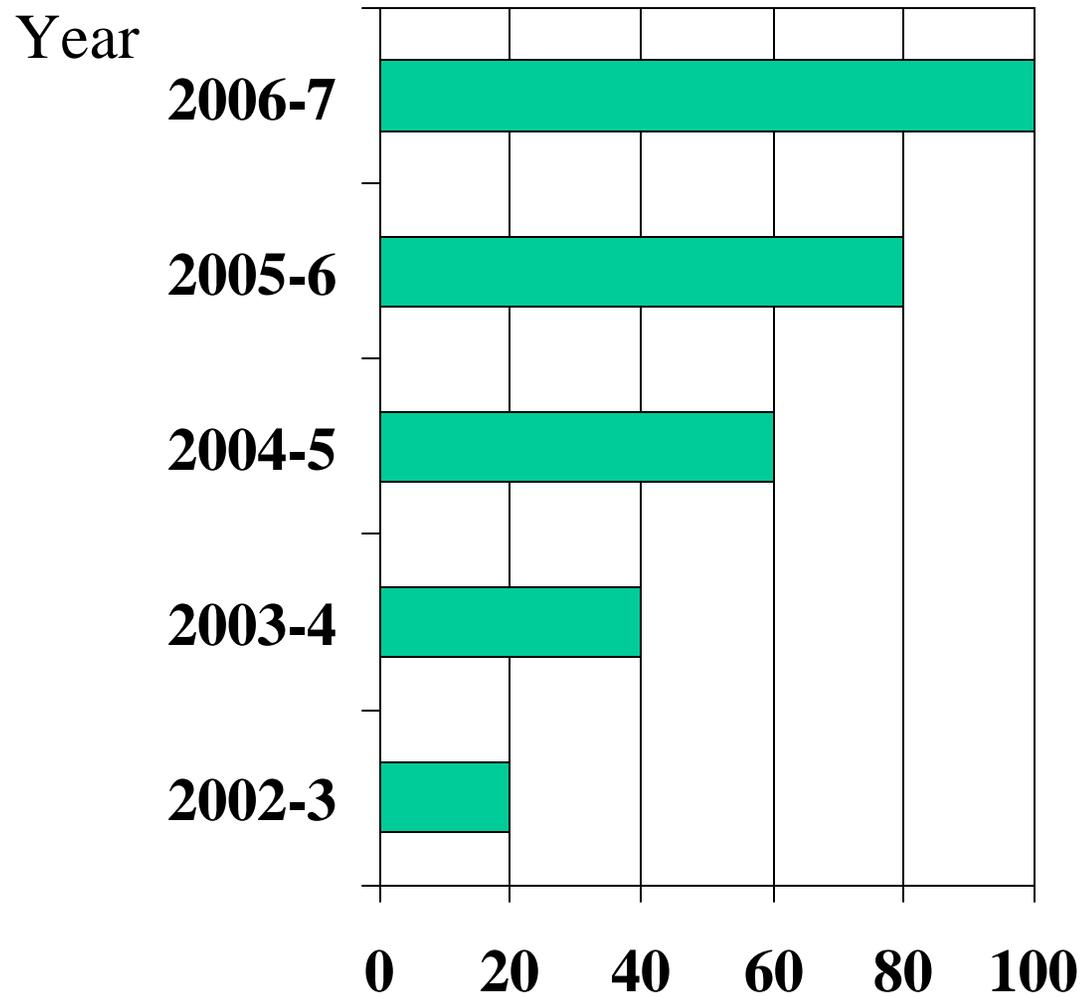
- Project schedule requires--
 - Time to develop and test improvements.
 - Time to implement improvements in NCS sample units.
- Some improvements can be implemented in all units over the course of a year.
- Other improvements will require personal visits to all sample units over the 5-year NCS sample replacement cycle.



Implementing Other NCS Improvements

- Develop data fill model. (Late 2001)
- Create draft SOC occupational crosswalk. (Late 2001)
- Identify occupations above GS-15. (2002)
- Classify “all other” SOC occupations into subcategories. (2002)
- Implement improved methods for determining job levels of supervisors. (2002)

Timing -- New Factor System



Proportion of sample with new factor system

When Can National Compensation Survey Data be Used?

In its May 15, 2001, report to Congress, the President's Pay Agent said:

- We cannot say exactly when NCS data will be incorporated into the GS locality pay program.
- However, we have serious concerns about the continued use of nationwide Employment Cost Index data to “age” the former OCSP data collected by BLS in the mid-1990s.
- Therefore, we believe it would be wise to begin using NCS data for GS locality pay purposes at the earliest practical date.
- We expect to include a more definitive discussion of the timetable for using NCS data when the Pay Agent submits its annual report to the President on November 30, 2001.

III. Latest Developments

Timeline for January 2002 Pay Increases

- | | |
|--------------|--|
| Sep 2000 | Formula in law produces 3.6 percent across-the-board adjustment in January 2002 |
| Dec 2000 | Report of the President's Pay Agent (recommended average locality rate of 25.92 percent) |
| Feb 2001 | FY 2001 budget (President proposed 3.6 percent total increase) |
| Aug 31, 2001 | Last day for an alternative plan for ECI-based increase |
| Oct 1, 2001 | New fiscal year; appropriations legislation |
| Nov 30, 2001 | Last day for an alternative plan for locality payments |
| Dec 2001 | Executive order |

Sample of Recommendations for January 2002

Locality Pay Area	Target Gap*	Recommended January 2002 Locality Pay	Actual January 2001 Locality Pay**
Atlanta	23.50%	23.50%	8.66%
New York	35.11%	35.11%	10.30%
San Francisco	44.84%	44.84%	16.98%
Washington	27.17%	27.17%	10.23%
Rest of U.S.	20.79%	20.79%	7.68%
<hr/>			
Average	25.92%	25.92%	9.77%

* Amount needed to reduce pay disparity to 5 percent.

** Current level of locality payments.

ECI-Based Increases

Executive Schedule/Congress/Judges

General Schedule

December - December Index *

September - September Index *

3.9 percent

4.1 percent

-0.5 percent

-0.5 percent

3.4 percent increase for 2002

3.6 percent increase for 2002

* Based on the Wages and Salaries Employment Cost Index (ECI) for Private Industry Workers published by the Bureau of Labor Statistics

Update on Locality Pay Areas

- Currently 32 locality pay areas (including “Rest of U.S”).
- Three new areas of application for 2001: Rhode Island; Monterey County, CA; and 8 towns in Bristol County, MA.
- “Areas of Application” (January 2003)
 - Request to add western Massachusetts to Hartford; Barnstable County, MA (Cape Cod) to Boston; Palm Beach and the Keys to Miami.
 - 31 locations requested special treatment in 2000.
 - In 2000, the Council concluded it would not recommend any changes until 2003, when it will have reviewed new metropolitan area definitions and commuting patterns from the 2000 census.
- Exceptions for egregious situations.

Pay Gaps

- The methods used to measure the difference between Federal and non-Federal pay--the pay gap--result in an overall average gap of 32.2 percent without taking existing locality into account.
- Overall average gap is 21.7 percent, with existing locality payments taken into account.
- If the law were fully implemented, increases averaging 18.8 percent would be authorized for 2002 (includes 3.6 percent ECI-based increase).

Civilian-Military Pay

- No statutory link between civilian and military pay.
- For 16 of the last 20 years, base pay for civilian and military employees was increased by the same percentage.
- The President proposed a 3.6% average increase for GS employees in his February 2001 budget.
- FY 2002 appropriations legislation proposes a 4.6% average increase for GS employees.