

A Fresh Start for Federal Pay

The Case for
Modernization



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

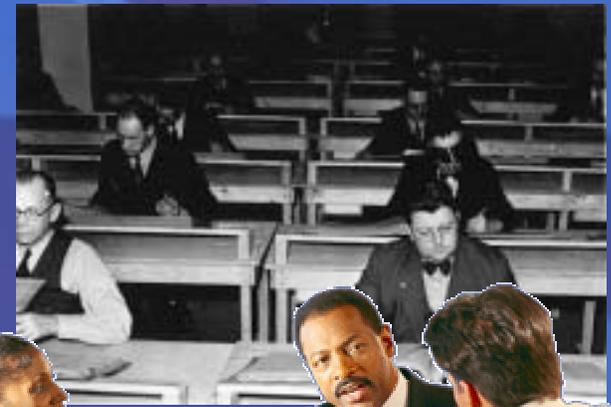
Federal Workforce of the 1940's



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

A System Whose Time Has Come—and Gone

- **1949 Classification Act**
 - 70% of federal white collar jobs clerical work
 - Largely undifferentiated jobs
 - Expect long, stable career
- **2001 Age of e-Government**
 - Workforce highly specialized, knowledge workers
 - Expect to work for many employers
 - One size no longer fits all



**Strategic management of human capital
requires the strategic use
of compensation.**



**Unfortunately, our current system does not
support strategy very well.**



Strategic Rewards

Compensation

- Base Salary
- Variable Pay
- Other Payments
- Paid Time Off

Support Processes

Benefits

- Health Care
- Retirement
- Savings
- Other Insurance

Support Processes

Learning & Development

- Training
- Learning Experiences
- Career Paths

Support Processes

Work Environment

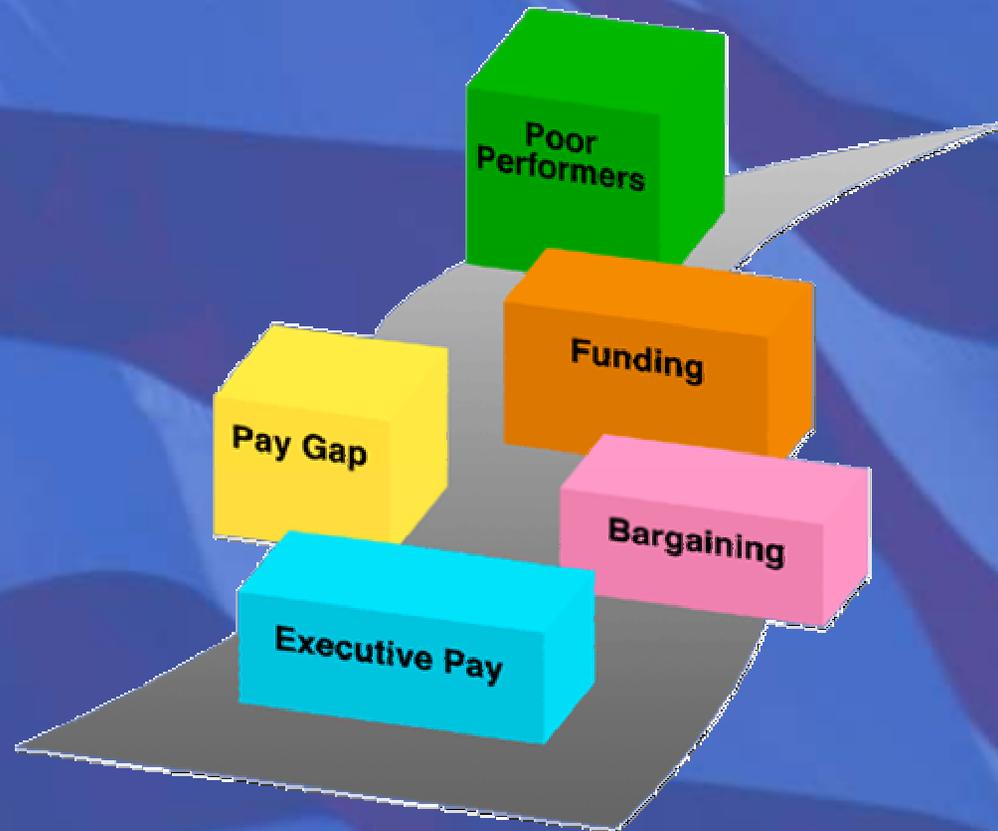
- Work/Life Balance
- Leadership
- Performance Culture
- Organizational Climate

Support Processes



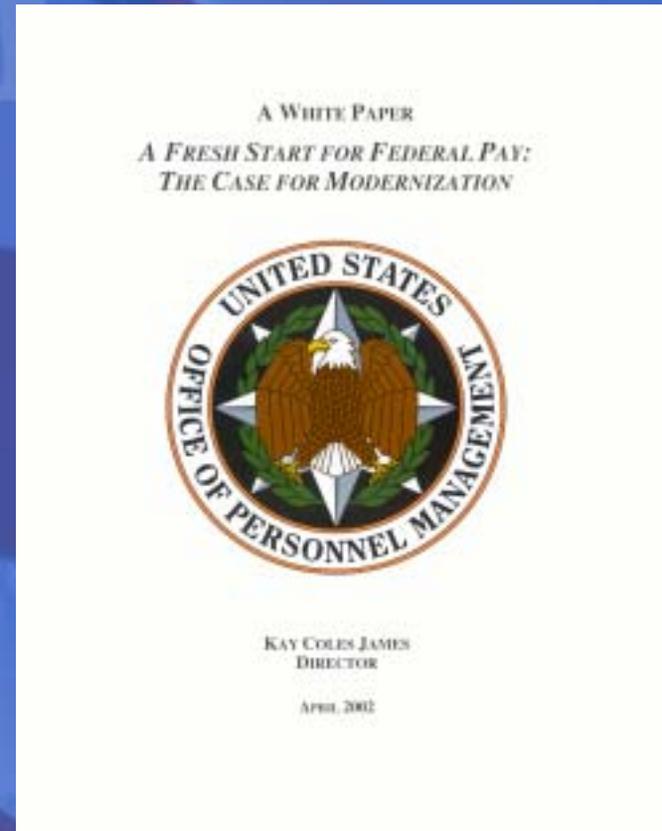
Stumbling Blocks

(side issues that will divert us from the path to change)



The White Paper

- Reflect evolving use of pay to support strategic objectives
- Retain underlying values
- Get the classification system onto the screen



The Federal Pay System: Founded on Timeless Values

- Openness
- Merit System Principles
- Procedural Justice



The Foundation of the Merit Principles

Equal pay should be provided for work of equal value,
with appropriate consideration of both national and local rates paid by employers in the private sector,
and appropriate incentives and recognition should be provided for excellence in performance.

5 U.S.C. 2301(a)(3)



The Merit Principle on Pay

- Equal pay should be provided **for work of equal value,**
- **with appropriate consideration of both national and local rates paid by employers in the private sector,**
- **and appropriate incentives and recognition should be provided for excellence in performance.**

– 5 U.S.C. 2301(a)(3)



We're Out of Balance



Internal equity is overemphasized. Job value - the position - is the primary determinant of pay.



External equity is underemphasized. Pay should be more market-sensitive.



Individual equity is underemphasized. Pay should better reflect performance and results.



A Rigid Connection

Position
Description



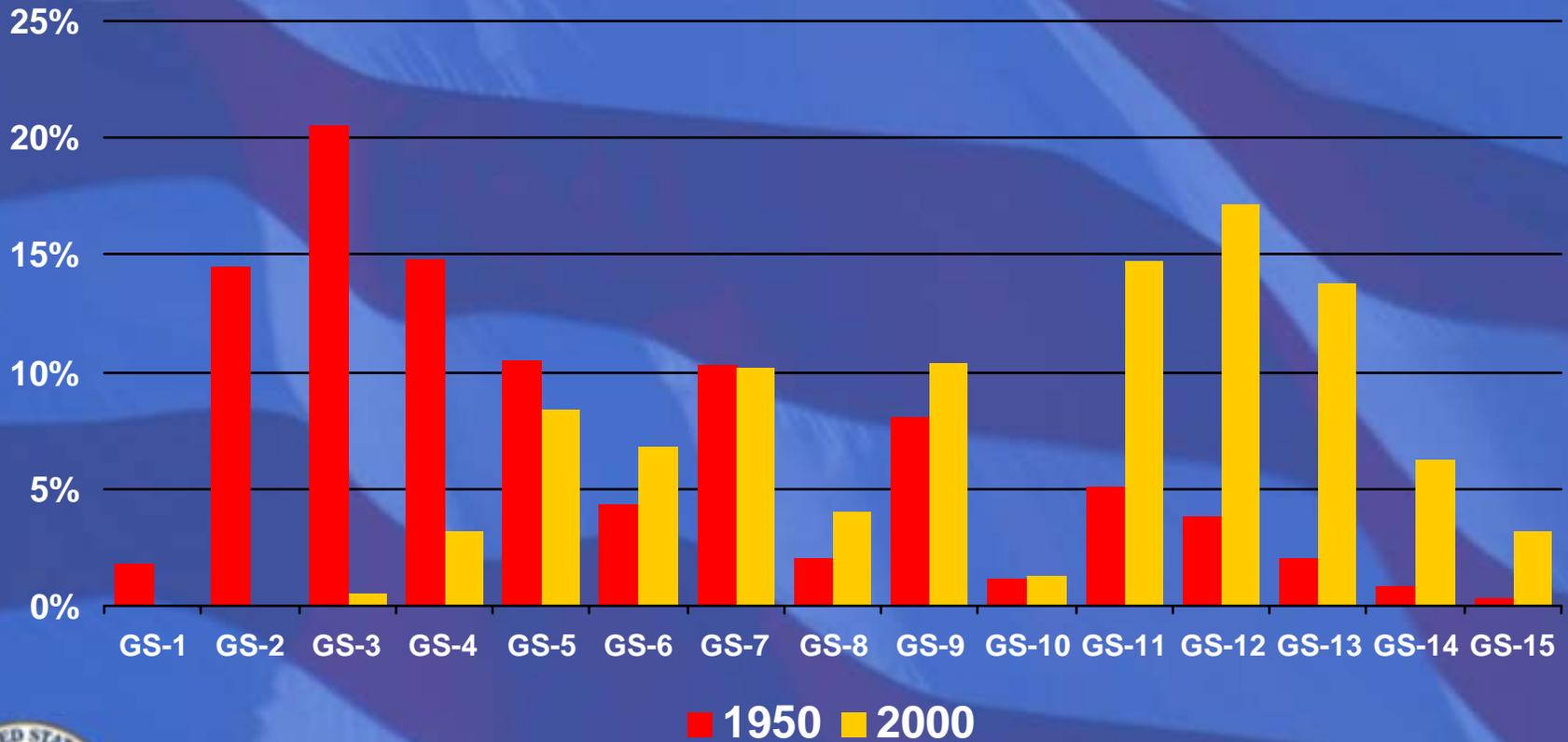
Statutory Grade Definitions: “A Hierarchy of Adjectives”

Grade GS-11 ← **\$9,000+** → Grade GS-12

- ...work of **marked** difficulty
- ...work of **considerable** difficulty
- ...requiring **somewhat extended** training and experience
- ...demonstrated **important** attainments
- ...work of a **very high order** of difficulty
- ...work of **marked** difficulty
- ...requiring **extended** training and experience
- ...demonstrated attainments **of a high order**



The Changing General Schedule Workforce



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An Internal Point of View

- Classification system designed at a time when entering federal service was a lifetime decision
- Comparisons tended to focus inward, i.e., inside the government
- Not much concern about external markets or competitors

Since that time, issues about that external world and competitive labor markets have surfaced



The System Is Market-Insensitive

- **Pre-FEPCA** One nationwide General Schedule with few exceptions
- **FEPCA** A major stride forward for external equity
Change was considered radical at the time
Locality-based pay schedules



External Equity Mechanisms

- Special salary rates
- Recruitment and retention tools
- Demonstration projects
- Leave the title 5 system

Cumbersome and piecemeal



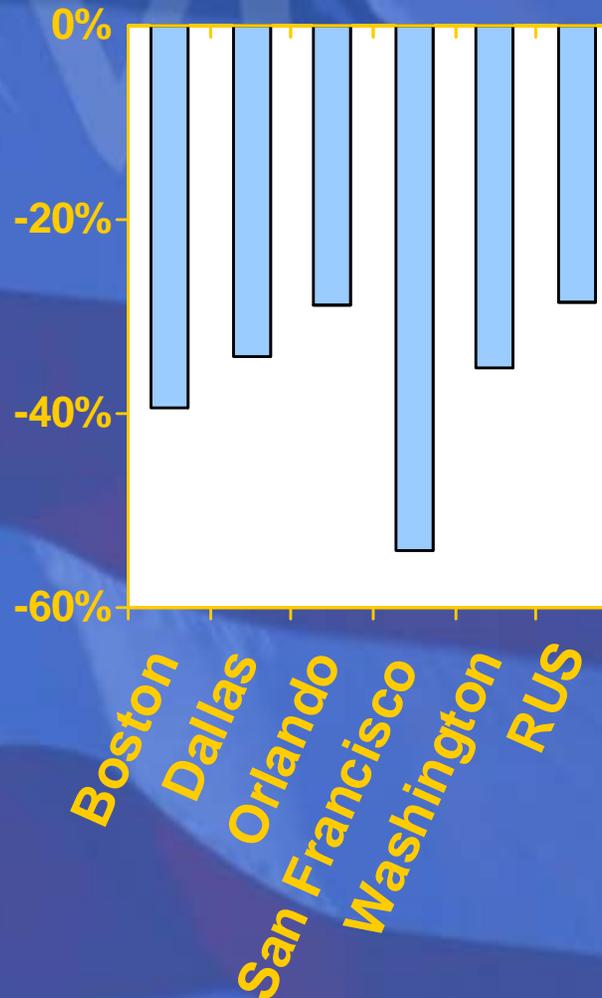
FEPCA's Dilemmas

- Only two dimensions are considered:
 - Grade level
 - Location of the work
- Entails a lengthy process
- One “gap” per locality area



Exploring the Gaps

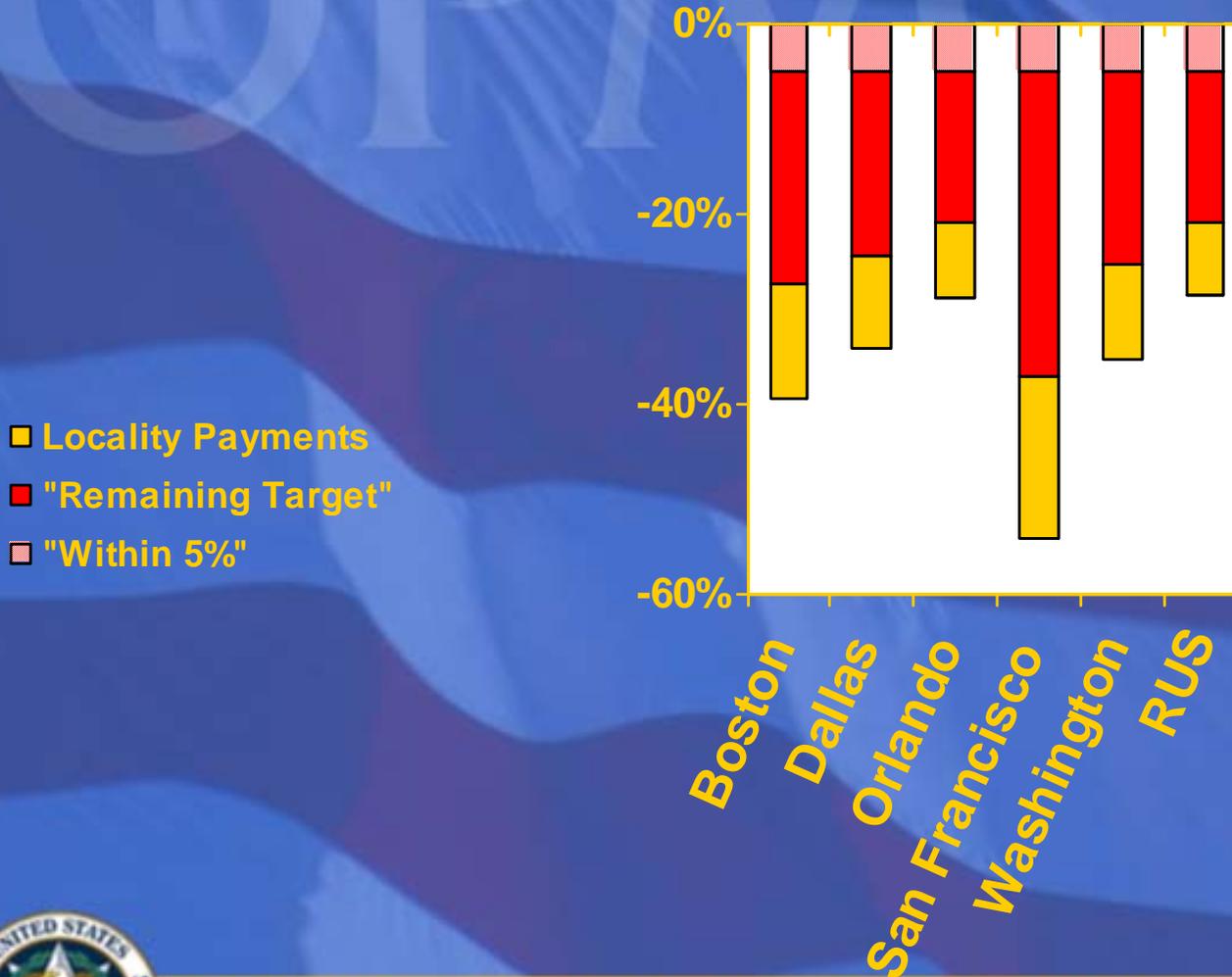
Overall Gap *



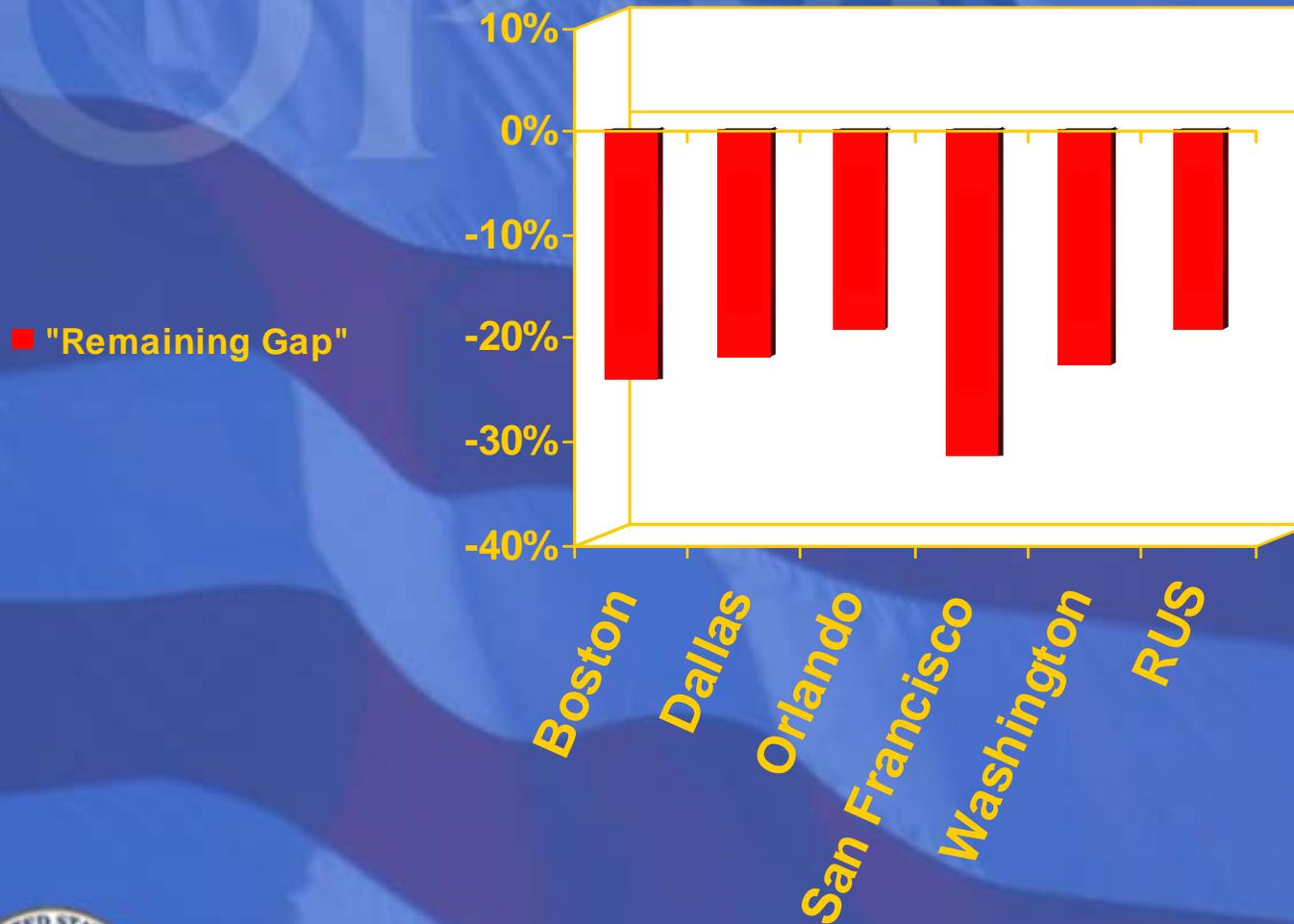
* Does not include existing locality payments.



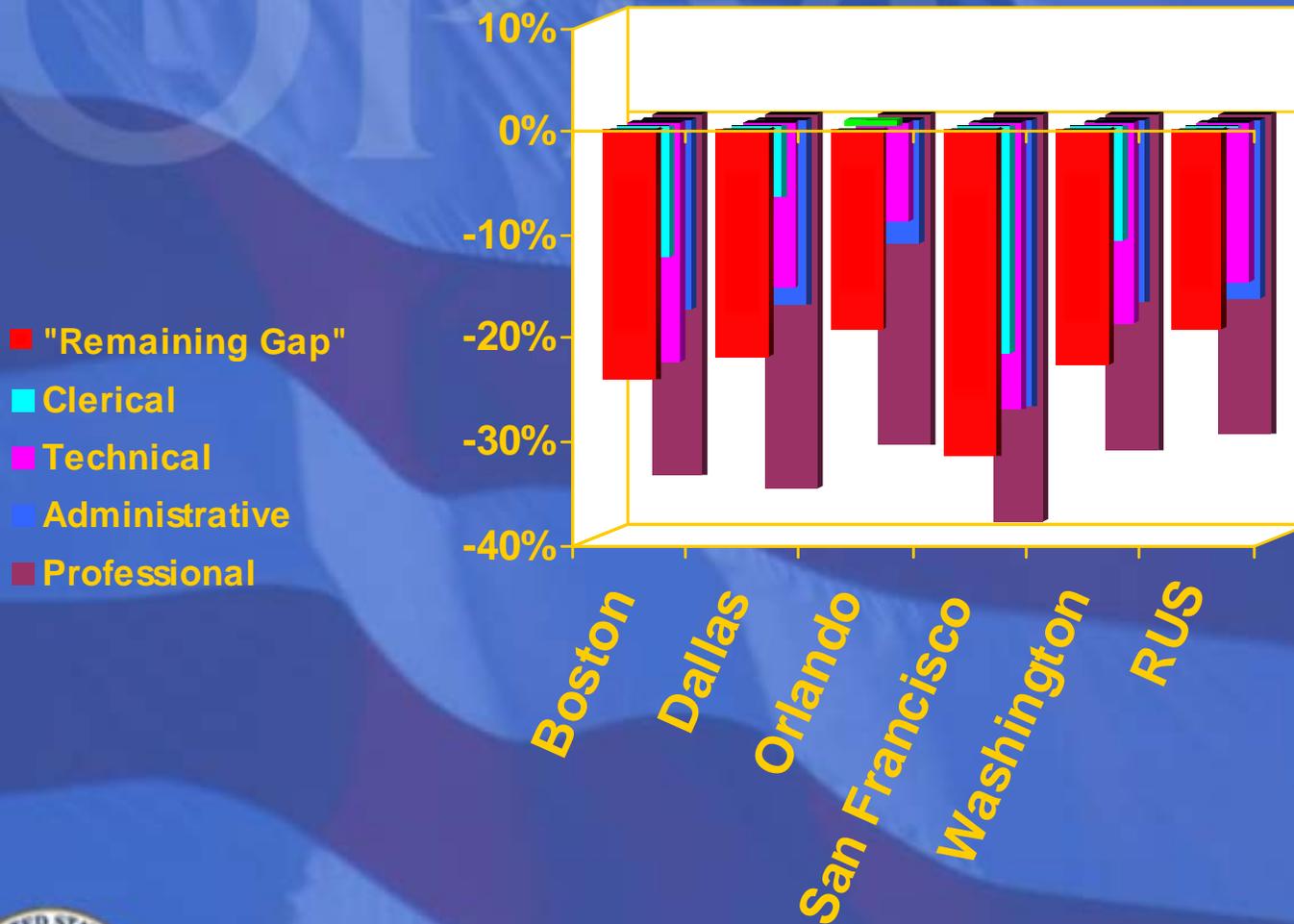
Exploring the Gaps



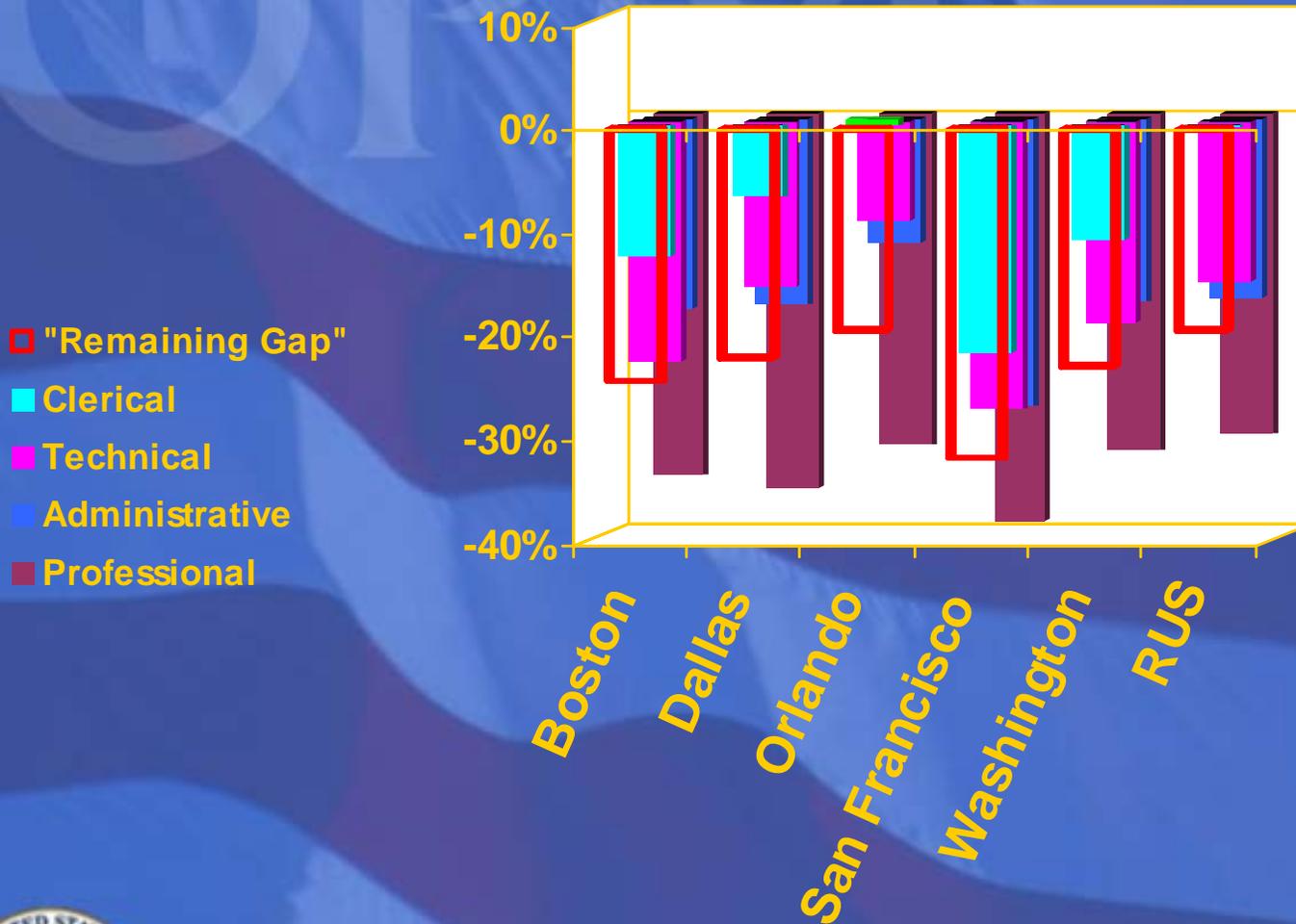
Exploring the Gaps



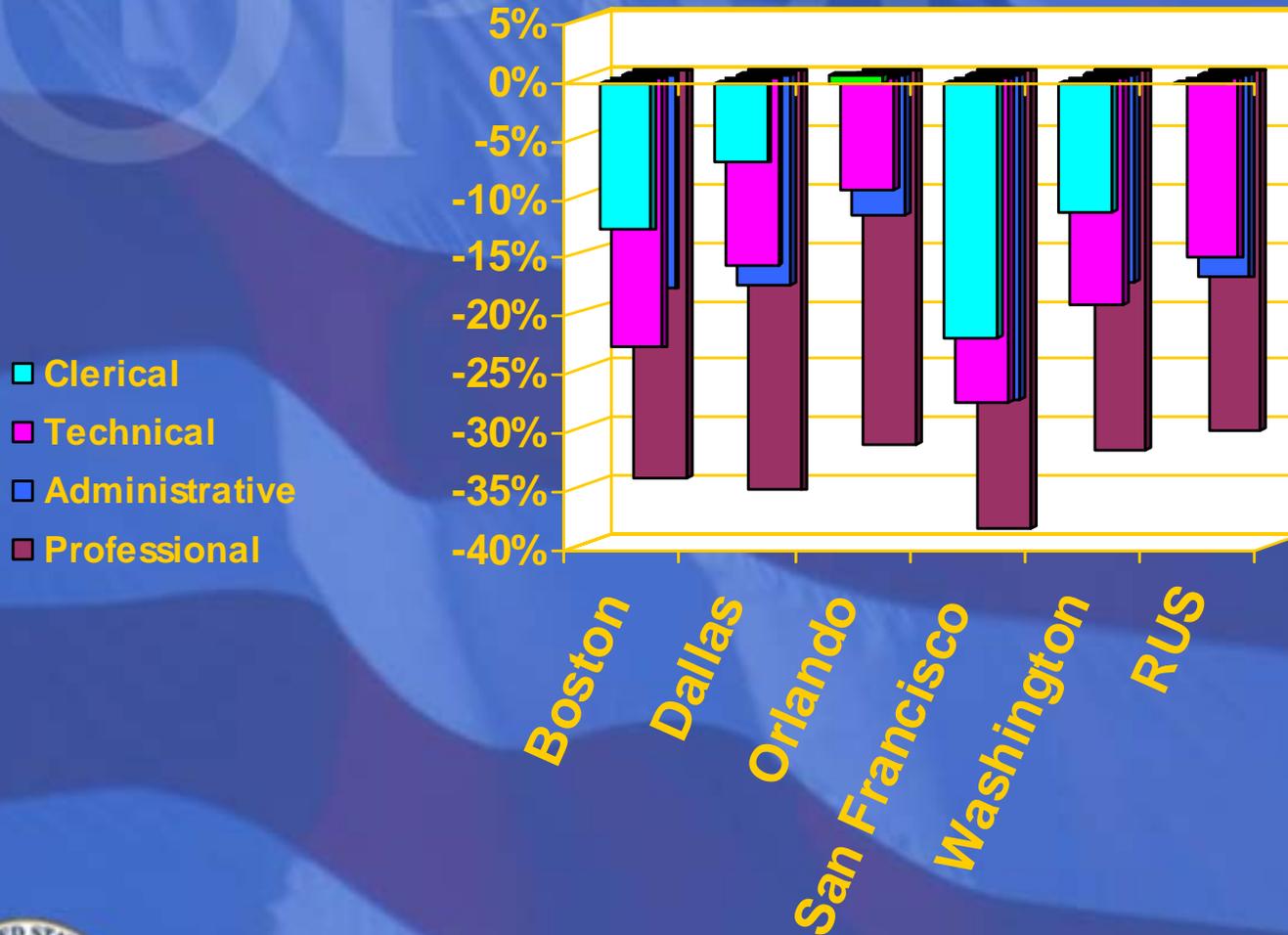
The Gaps Behind "The Gap"



The Gaps Behind "The Gap"



The Gaps Behind “The Gap”



Overall, FEPCA is a Winner

- Successfully implemented and administered a locality-based pay system
- Gained a better understanding of labor markets
- Developed experience in conducting and applying salary surveys
- Introduced market-oriented tools such as recruitment bonuses and retention allowances
- Learned that simplified approach to disparity would eventually and inevitably both overpay and underpay

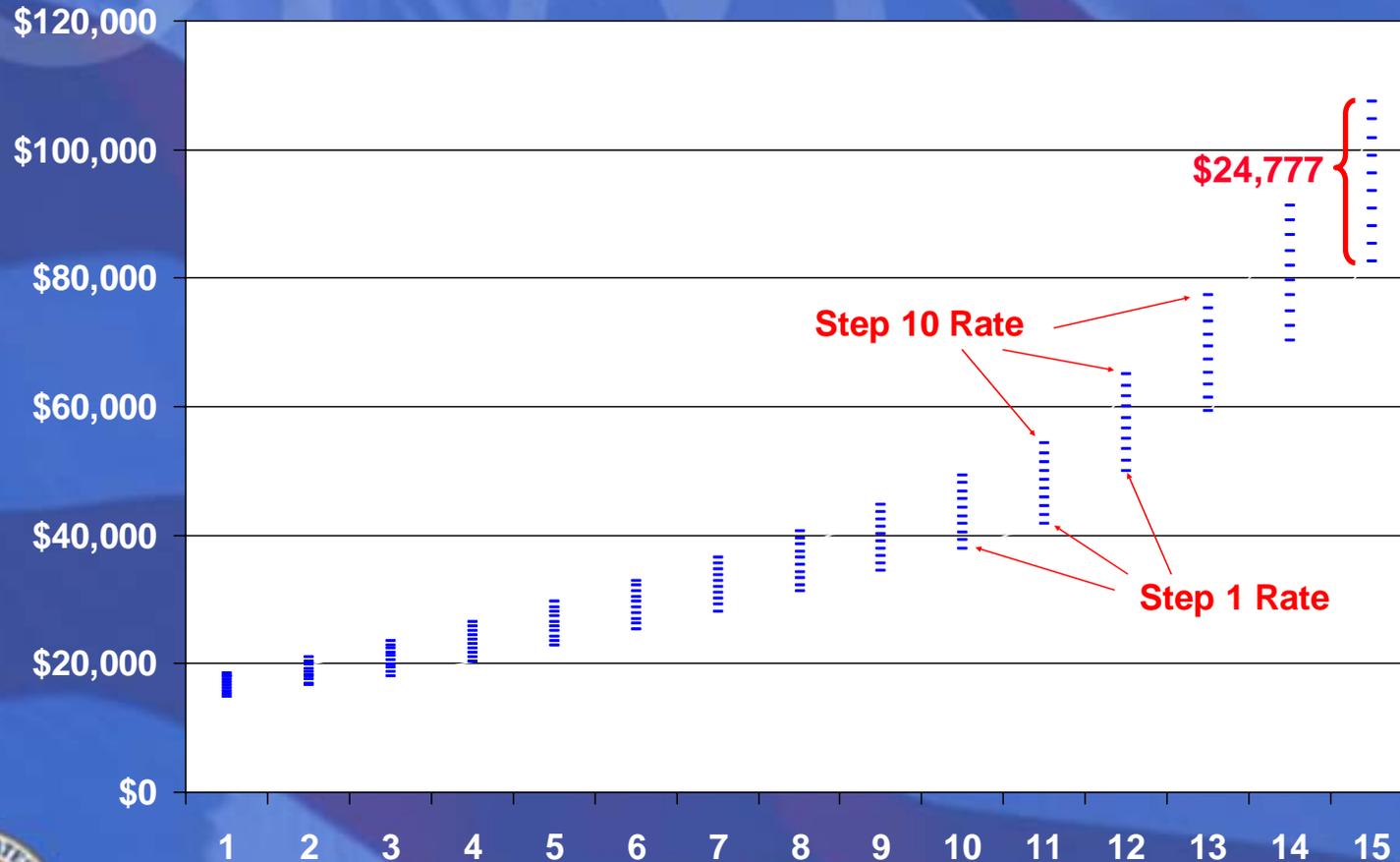


2002 General Schedule Pay Rates

GS	1	2	3	4	5	6	7	8	9	10
1	14,757	15,249	15,740	16,228	16,720	17,009	17,492	17,981	18,001	18,456
2	16,592	16,985	17,535	18,001	18,201	18,736	19,271	19,806	20,341	20,876
3	18,103	18,706	19,309	19,912	20,515	21,118	21,721	22,324	22,927	23,530
4	20,322	20,999	21,676	22,353	23,030	23,707	24,384	25,061	25,738	26,415
5	22,737	23,495	24,253	25,011	25,769	26,527	27,285	28,043	28,801	29,559
6	25,344	26,189	27,034	27,879	28,724	29,569	30,414	31,259	32,104	32,949
7	28,164	29,103	30,042	30,981	31,920	32,859	33,798	34,737	35,676	36,615
8	31,191	32,231	33,271	34,311	35,351	36,391	37,431	38,471	39,511	40,551
9	34,451	35,599	36,747	37,895	39,043	40,191	41,339	42,487	43,635	44,783
10	37,939	39,204	40,469	41,734	42,999	44,264	45,529	46,794	48,059	49,324
11	41,684	43,073	44,462	45,851	47,240	48,629	50,018	51,407	52,796	54,185
12	49,959	51,624	53,289	54,954	56,619	58,284	59,949	61,614	63,279	64,944
13	59,409	61,389	63,369	65,349	67,329	69,309	71,289	73,269	75,249	77,229
14	70,205	72,545	74,885	77,225	79,565	81,905	84,245	86,585	88,925	91,265
15	82,580	85,333	88,086	90,839	93,592	96,345	99,098	101,851	104,604	107,357



2002 General Schedule Pay Rates



The System Is Performance-Insensitive

- System's pay delivery mechanisms carry a strong message:

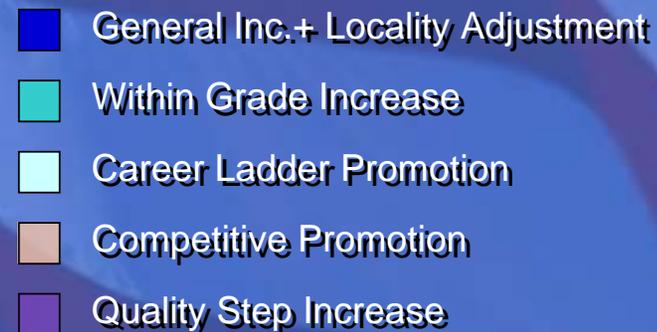
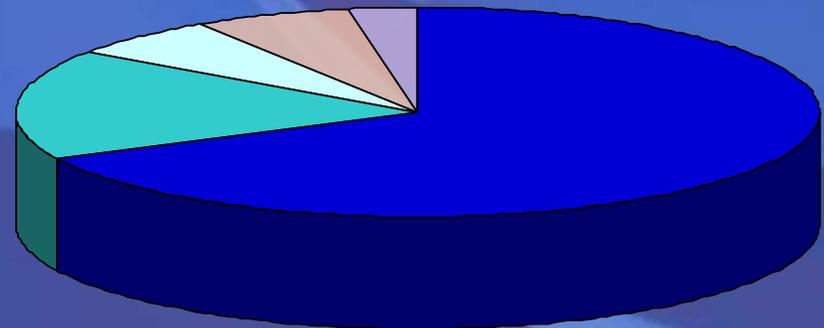
“Performance doesn't matter”

- Lots of latitude to measure performance
- Little latitude to deliver rewards strategically



The Role of Performance in Pay Increases

- Total increase in payroll: 7.1%
- Over three-fourths of the total payroll increase was insensitive
- General increase and locality pay adjustment: 4.8%
- Over half of the remaining 2.3% of payroll increase was also insensitive to performance



Source: Central Personnel Data File — 2000



The Changing Face of Performance

- Shift from process to results
- Changing nature of work
 - Then: “Check your brains at the door”
 - Now: “Be creative”
- Individual can make a difference
- Individual and organizational performance matters



A Look Into the Future

- Federal pay is more market sensitive
- Measures of workforce performance make trusted, credible distinctions
- Agencies have the expertise to plan for their human capital requirements and to make the business case for funding their strategic rewards



Still Need Sensible Pay Delivery Mechanisms

- To align rewards with values and strategy
- To let competencies and performance drive pay
- To create opportunities for substantial variable (non-base) pay
- To achieve fairness by considering multiple dimensions

