FEDERAL EMPLOYEE PAY

NARFE urges members of Congress to support annual adjustments to federal pay rates based on average private-sector pay increases. *Federal pay rates should be adjusted annually to maintain the competitive pay required to recruit and retain a well-qualified and high-performing workforce. For calendar year 2020, NARFE supports inclusion of an average federal pay increase of at least 3.1 percent through the appropriations process, or independent passage of H.R. 1073, which would provide a 3.6 percent average pay increase.*

Federal Employees' Pay Comparability Act of 1990

The Federal Employees' Pay Comparability Act of 1990 (FEPCA) provides the framework for federal pay rate adjustments. FEPCA directs federal pay rates to increase by the average increase in private-sector pay, as measured by the Employment Cost Index (ECI), minus 0.5 percent.[1] As such, federal pay policy consistently trails behind changes in private-sector pay.

Pursuant to FEPCA, federal employees should receive a 2.6 percent increase in federal pay rates in January 2020, prior to any amount being provided for locality pay rate increases.[2] This suggested percentage increase is 0.5 percent less than the 3.1 percent increase in wages and salaries paid to workers in the private sector, as measured by the ECI. An average 0.5 percent increase to locality pay rates would therefore allow federal pay rate adjustments to maintain parity with private-sector pay increases. H.R. 1073 would provide a 1 percent average increase to locality rates to compensate for previous freezes.

An average 3.1 percent federal pay increase would not only be consistent with FEPCA, but it would fall right in line with projected private-sector pay increases for 2019, according to World at Work and Willis Towers Watson, which project average private-sector pay increases of 3.2 and 3.1 percent respectively.[3]

However, while FEPCA sets the baseline for federal pay rates, the president may propose an alternative pay increase for federal employees if he determines that "because of national emergency or serious economic conditions affecting the general welfare," such a pay adjustment would be inappropriate. For FY19, the president's budget proposed a pay freeze, which he officially ordered in December 2018. The president's FY20 budget is not expected to be released until the week of March 11, 2019. Whether the president proposes another pay freeze, a reduced pay adjustment or otherwise, Congress has the authority to determine federal pay adjustments.

Congressional Action

In the decades prior to 2010, Congress routinely authorized specific pay rate adjustments through the appropriations process. Even in 2010, Congress passed a two-year federal pay freeze through the appropriations process, which was extended a third year, leaving pay frozen in calendar years 2011 through 2013. Congress only began to abrogate its authority to appropriate (or not) a pay-rate adjustment beginning in fiscal year 2014, when appropriations were silent on federal pay adjustments, and have been through 2018. But Congress re-assumed its authority for calendar year 2019, and appropriated a 1.9 percent average pay increase – 1.4 percent across the board, and a 0.5 percent average increase to locality pay rates – in the February omnibus.

---

[1] For FY20, the relevant change in the ECI is from the 3rd quarter of 2017 to the 3rd quarter of 2018, the most recent annual change in private-sector pay prior to the development of the president's budget for the upcoming fiscal year.

[2] Locality pay differs by geographic areas and is designed to close the gap between private-sector pay and federal pay in comparative labor markets.

[3] See: World at Work Salary Budget Survey, July 28, 2018, available at: https://worldatwork.org/docs/research-and-surveys/sbs/SBS2018_19_TopLevelData_NonParticipants.pdf; Willis Towers Watson Survey, August 14, 2018, available at: https://www.willistowerswatson.com/en-US/press/2018/08/us-employees-in-line-for-slightly-larger-pay-raises-in-2019.

For more information, please contact Jessica Klement, Staff Vice President of Advocacy, at jklement@narfe.org, or John Hatton, Director of Legislative and Political Affairs, at jhatton@narfe.org.

FEDERAL EMPLOYEE PAY

Unlike the pay freeze authorized at the end of 2010, we are no longer in the middle of a recession and unemployment rates, which average around 4.0 percent, are at their lowest since 2000. We are not in the middle of "national emergency or serious economic conditions." Rather, the economy is strong, and labor markets are increasingly competitive. Freezing federal pay will only exacerbate recruitment and retention challenges for the most in-demand federal occupations.

Federal vs. Private-Sector Pay Comparisons

The Federal Salary Council, an advisory board to the executive branch, found that, as of April 2018, ***private-sector workers are paid 31.86 percent more than federal workers engaged in substantially equal work***. The FSC compares federal and private-sector pay for similar jobs based on Bureau of Labor Statistics survey data.

In an April 2017 report, the Congressional Budget Office (CBO) found that when benefits are weighed, America's most educated and experienced federal workers earn about 18 percent ***less*** in total compensation than they would if they worked in the private sector. But the report also found that federal workers with less experience and education earned slightly more than their counterparts in the private sector.

Differences in the aggregate findings between FSC and CBO are due to differing methodologies. FSC uses job-to-job comparison, whereas CBO uses a human capital model. Furthermore, while the CBO study controls for occupation, general education and years of work experience, it does not take into account level of job responsibility, specialized training and length of tenure with an employer, all of which employers take into account when determining pay. Federal jobs often involve high levels of responsibility and require specialized training or a high-security clearance.

Both the FSC findings and CBO report at least account for the fact that the federal jobs tilt heavily toward higher paying occupations. In fact, 57.1 percent of the federal workforce consists of the highest paid occupations, such as lawyers, doctors, engineers and managers, compared to just 36.2 percent of the private sector.[4] Yet groups like the Cato Institute continue to make claims such as: "Federal workers now receive 80 percent more compensation, on average, than do workers in the U.S. private sector." Such claims are then recycled by news outlets and on Capitol Hill, leading to the misperception that federal workers are overpaid, when, in fact, they are not. Not only does Cato fail to compare similar jobs, it relies on data for the total compensation of federal civilian employees that include catch-up payments from the government to the Civil Service Retirement and Disability Fund (CSRDF) for previously accrued liabilities, and payments for benefits to those already retired. In so doing, it inflates federal pay numbers without an equivalent increase to private-sector pay.

Federal Pay Modernization

NARFE supports efforts to modernize the process for setting and adjusting federal rates to better reflect occupational and geographic labor markets, and to integrate merit-based pay increases into the system. The current system uses outdated methods to match federal and private-sector pay rates. However, under the current system, the best way to maintain competitive pay is to adjust federal pay rates based on average private-sector pay increases.

---

[4] FY19 White House Budget, Analytical Perspectives, "Strengthening the Federal Workforce," p. 67, available at: https://www.whitehouse.gov/wp-content/uploads/2018/02/ap_7_strengthening-fy2019.pdf.

For more information, please contact Jessica Klement, Staff Vice President of Advocacy, at jklement@narfe.org, or John Hatton, Director of Legislative and Political Affairs, at jhatton@narfe.org.