

# FEDERAL-POSTAL COALITION

## Executive Summary

### Analysis of CBO Study

#### “Comparing the Compensation of Federal and Private-Sector Employees”

As the federal government employs 2.1 million civilian workers and expends \$200 billion a year on wages and benefits, ensuring the equity of federal employee compensation is essential for the prudent expenditure of taxpayer dollars and to maintain an efficient federal workforce. A Congressional Budget Office (CBO) study, “Comparing the Compensation of Federal and Private-Sector Employees,” issued in January 2012, concluded that federal employees are compensated better than private sector employees.

The national member organizations of the Federal-Postal Coalition believe the analytical approach used by the CBO study is flawed, as well as some of the resulting conclusions relative to the compensation of federal and private sector employees. The CBO study is not consistent with the conclusions of the Federal Salary Council.

The attached analysis includes, **Key Considerations in Comparing the Compensation of Federal and Private Sector Employees**, which indicates that as one of the nation’s largest employers with 1.7 percent of the workforce, the federal government must set a standard of basic fairness. Our section on **CBO’s Analytic Approach** indicates the CBO did not measure comparable jobs in the public and private sector, which undermines their derived conclusions. In October 2012, the Federal Salary Council found federal workers are paid an average of 34.6 percent less than the private sector.

Our analysis also includes, **Significant Differences between the Federal and Private Sector Workforce**, which account for variances in the average compensation. In general, federal employees have higher levels of education than the private sector and also have a higher proportion of “white-collar” jobs. While federal “blue-collar” jobs may be similar to the non-federal sector, they often have substantially greater skill requirements and levels of responsibility.

A true measure of the value of federal employment compensation is the government’s ability to recruit and retain new hires. In the section on **Attracting and Maintaining a Quality Federal Workforce**, we note there is currently less interest in working for the federal government. A recent survey by the National Association of Colleges and Employers (NACE) indicates that only 2.3 percent of graduates plan to pursue careers in federal government.

In **Additional Factors to Consider Regarding Federal Employee Compensation**, we note the CBO study is from 2005 through 2010 and does not reflect that federal employees are currently in the third year of a congressionally mandated pay freeze. Like other Americans, federal workers face the same challenges as other middle class families in difficult economic times. Many federal employees may also be facing the loss of their jobs based on funding cuts mandated in the debt ceiling agreement.

The CBO study serves to worsen the public perception of this issue as some may inappropriately use the conclusions drawn to justify continuing federal pay freezes and further reduction of compensation, which would detract significantly from the efficiency of the federal workforce. On behalf of the 4.6 million federal and postal workers and annuitants represented by the national member organizations of the Federal-Postal Coalition, we urge you to consider this communication and our views.

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## Analysis of CBO Study

### “Comparing the Compensation of Federal and Private-Sector Employees”

The Congressional Budget Office (CBO) issued the study, “Comparing the Compensation of Federal and Private-Sector Employees,” in January 2012. With growing concern about the federal budget, greater attention has been focused on federal employee compensation and the size of the federal workforce. This study presented a statistical analysis and comparison of the difference between wages and benefits of full time federal and private sector employees between 2005 and 2010.

The CBO study concluded federal employees are paid 16% more on average in total compensation (wages and benefits), than similar private sector employees. It indicated on average federal employees were paid about 2 percent more than private sector workers, but almost 48 percent more in benefits. These conclusions are not consistent with the Federal Salary Council, which found in its October 2012 annual report that federal employees are underpaid approximately 34.6 percent. The CBO organized the study based on various levels of education and found a significant variance with this comparison. The compensation in both wages and benefits for federal employees without college degrees was significantly greater than that of private sector employees with similar levels of education. For college educated federal employees, wages were about equal or less than the private sector. Benefits were 8 to 15 percent higher for federal employees with college degrees, and 18 percent less for federal employees with a professional or doctoral degree.

As the federal government employs approximately 2.1 million civilian workers and expends \$200 billion a year on wages and benefits, ensuring equity of federal employee compensation is essential for the prudent expenditure of taxpayer dollars and to maintain an efficient federal workforce. However, the analytical approach used in the CBO study is flawed, as well as some of the resulting conclusions relative to the compensation of federal and private sector employees.

### Key Considerations in Comparing the Compensation of Federal and Private Sector Employees

- The government must provide its employees with adequate compensation that will allow it to retain the best civilian workforce. There must be a balance between competitive wages and benefits and a satisfying work environment for those who believe in the value of public service. The importance of the mission and the commitment to public service is particularly important to the most educated and highly paid federal employees.
- As one of the nation’s largest employers with 1.7 percent of the U.S. workforce, the federal government must set a standard of basic fairness. Despite portrayals of “generous” federal benefits, federal employees do not receive paid dental or vision coverage or paid parental leave, nor do they receive lucrative pensions. While many private employers have slashed health insurance and retirement benefits for their employees, our government cannot and should not support a race to the bottom for hard working Americans.
- There is no single private sector model for retirement benefits. The private sector uses a wide range of benefit models, whose use varies depending on the size of the firm and the sector of business. Furthermore, many private sector companies offer benefits to employees that the federal government does not, such as paid parental leave, education credits, and tuition reimbursement. Comparing federal benefits to a generic “private sector” is not a realistic or equitable comparison.

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## **CBO's Analytic Approach**

- The CBO's expertise is in statistical analysis and applying the rules of congressional budget scoring. In preparing the study, the approach taken by the CBO was to examine average compensation costs for employees in the federal and private sector workforces and account for differences in characteristics, rather than comparing equivalent jobs done in each sector. As a result, any derived conclusions from this analytic method must be questioned.
- Useful pay comparability measures require data from job matches in the public and private sector. The Federal Pay Agent and the Federal Salary Council are required by law to measure federal salaries against the private sector, as well as state and local governments. This job comparison methodology utilizes the Bureau of Labor Statistics (BLS), which has consistently found a pay gap in favor of the private sector. The latest BLS report, released in October 2012, shows that federal civilian workers are paid an average of 34.6 percent less than the non-federal sector. This is an 8.1 percent increase over the prior year's gap, which is largely attributable to the continued federal pay freeze.

## **Significant Differences Between the Federal and Private Sector Workforce**

- The federal and private sector workforces differ in many ways and this accounts for variances in the average compensation. A higher percentage of federal employees (33 percent) work in professional occupations as compared to the private sector (18 percent). This translates to more formal training and experience, which partially accounts for the fact that the average age of federal employees is four years higher than the private sector (45 versus 41).
- Federal employees have higher levels of education, with 51 percent earning at least a bachelor's degree, compared to 31 percent of the private sector workforce.
- The federal government has a higher proportion of "white-collar" jobs than the private sector with many lower skilled and lower paid federal jobs recently contracted out.
- The primary reason federal benefits average higher than the private sector is because some private employers provide little or no employee benefits.
- Comparing the federal "blue collar" workforce to private sector jobs has its own set of difficulties and there are significant differences. It is essential to understand that many jobs in the federal government are unique to the government. While federal "blue collar" jobs may be similar to the non-federal sector, they often have substantially greater skill requirements and levels of responsibility. For example, a federal employee working as an electrician in a military depot with electronic weaponry requires a much different skill set than a private sector electrician doing residential work.
- Most federal employment positions require US citizenship and personnel security clearances resulting from September 11, which would naturally increase federal employee compensation in comparison to the private sector.

## **Analysis of Significant CBO Findings Regarding Comparison of Wages**

- Overall, the wage gap between the private and public sectors, as computed by CBO, is not wide – federal employees on average are paid about 2 percent more than their private sector counterparts.
- The CBO concluded that the most highly educated federal employees with a professional or doctoral degree are underpaid by 23 percent as compared to the private sector. Those with a bachelor's or master's degree, which is nearly half of the federal workforce, have wages that are comparable with their private sector counterparts. However, the CBO found that federal

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employees with less than a college degree, the lowest-paid federal employees, earn about 20 percent more and have more generous benefits than do their private-sector counterparts.

- While CBO found that at most education levels federal employees fared better than the private sector, it failed to account for several variables. The CBO study noted, “Even among workers with similar observable characteristics, however, employees of the federal government and in the private sector may differ in other traits, such as motivation or effort, that are not easy to measure but that can matter a great deal for individuals’ compensation.” Therefore, there may be other factors unmeasured in this study that also affect compensation as the CBO points out.

## **Comparing and Determining the Value of Benefits**

- Significant attention is focused on the CBO study finding that on average for all workers, the cost of benefits was 48 percent higher for federal civilian employees than for private sector employees. However, it is very important to note that “CBO’s estimates of differences between the two sectors are more uncertain than its estimates of wages” because of the complexity of measuring benefits.
- Benefits for federal employees are the same regardless of occupation, while benefits vary greatly in the private sector. This makes the calculations derived by the CBO study difficult to accept on face value. The federal government, as any responsible business should, provides its employees with basic benefits such as paid sick leave and health insurance coverage.
- A major reason for the large alleged benefit gap is the employer cost for defined benefit pensions. Many large corporations that employ “blue collar” workers in the private sector offer no defined benefit pensions at all. The CBO should not have included data from such corporations as it is not a comparable standard and is a significant contributor to the perceived overcompensation of the federal workforce with regard to benefits.
- The CBO study acknowledges that its quantification of federal benefits is more difficult than its estimation of wages because of the cost of future defined benefit pensions. The total benefit calculation for federal employees is inflated by unfunded liability payments that do not benefit current workers and should not be included in their average benefit compensation.

## **Attracting and Maintaining a Quality Federal Workforce**

- A key issue and true measure of the value of federal employment compensation is the government’s ability to recruit and retain new hires. Although the CBO study acknowledges this was beyond the scope of its analysis, indications are there is currently less interest in working for the federal government. Recently, the National Association of Colleges and Employers (NACE) conducted an online survey of 35,000 college students and found only 2.3 percent of them plan to pursue careers in federal government. This is the lowest percentage since NACE started surveying students in 2008. With 102,500 federal vacancies in fiscal 2012, the federal government will have problems filling these positions with top quality recruits.
- Although recent figures suggest fewer college students plan to enter federal government service than in prior years, retaining new hires is perhaps a more significant human capital challenge. Employee surveys indicate many younger federal employees want to leave federal employment. This identifies a perception problem about working in government and the recent attacks on federal employee pay and benefits will only serve to exacerbate the situation.

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## **Additional Factors to Consider Regarding Federal Employee Compensation**

- The CBO study's analysis is from 2005 through 2010 and does not reflect the decline in relative federal wages for the current or prior year. Federal employees already endured a two-year congressionally mandated pay freeze (2011 and 2012) and this affects any current comparison of compensation. In addition, the President proposed a very modest (0.5 percent) pay increase for fiscal 2013, which is significantly below the average private sector pay increase according to the Office of Management and Budget and the President's budget proposal, but the current Continuing Resolution has extended the pay freeze for at least six more months. Like other Americans, federal employees have suffered from rising health care costs, decreasing housing values and financial assets, and face all of the same challenges as other middle class families in these difficult economic times.
- Federal employees have worked diligently to serve the American people over the past eighteen months despite the repeated prospect of government shutdowns and attacks on federal pay and benefits. Many federal employees are facing the loss of their jobs based on funding cuts mandated in the debt ceiling agreement. Agencies are already facing difficulty delivering services the American public needs and wants. This greatly affects critical service areas, including law enforcement, public health, national defense, and the delivery of care and benefits to veterans, the elderly, and the disabled.
- Approximately 373,000, or 13 percent, of all federal employees are not eligible for the 2011 and 2012 payroll tax reduction because they are covered by the Civil Service Retirement System (CSRS) and do not pay into Social Security. These workers sit alongside their FERS-covered counterparts, yet will not receive equal benefits under an otherwise fair and equitable piece of legislation.

## **Conclusion**

The study from CBO does not solve the debate over federal versus private sector compensation. In fact, it may worsen public perception of this issue as some may inappropriately use the conclusions drawn to justify continuing federal pay freezes and further reduce compensation, which would seriously detract from the efficiency of the federal workforce.

If one were to accept the CBO study conclusions, it would suggest severely reducing the compensation of the lowest-paid federal workers, with the focus on slashing basic benefits, while increasing salaries for the highest paid federal employees. Is this really warranted? Office of Personnel Management Director John Berry said he is skeptical of the CBO report, and we concur. As indicated above, the approach taken by the CBO study to compare federal benefits to the private sector is flawed and should be re-evaluated.

October 26, 2012