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National President



Jon Dowie
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Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515

Dear Members of the House Committee on Oversight and Government Reform:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to submit our views regarding federal employee compensation in advance of the May 18 hearing, “Federal Compensation: An Update.”

NARFE represents the interests of federal and postal employees and retirees, as well as their spouses and survivors, and has more than 215,000 members across the country and abroad.

This hearing is about more than pay. It is about how we value public service, and whether we, as a nation, will support federal compensation strategies that ensure American citizens are served by a competent and well-qualified federal workforce.

Our federal workforce includes the doctors and nurses who care for our veterans, the cybersecurity professionals tasked with protecting critical infrastructure and responding to emerging threats, NASA engineers, NIH scientists, federal law enforcement and intelligence officers, prosecutors and judges. These individuals, and many others who comprise our federal workforce, require adequate compensation. Without it, we cannot recruit the best and the brightest needed to take on the many challenges and address the many threats facing our country.

This hearing also is about hardworking Americans, including postal workers who deliver our mail, TSA agents who ensure safe travels, and many more. All of these workers deserve decent pay, good health insurance and modest retirement security. Should we pursue policies that shrink the middle class, or policies that expand it?

This hearing will focus on a recent report by the Congressional Budget Office (CBO) comparing the compensation of federal and private-sector employees.¹ As the committee with jurisdiction over the federal compensation structure, you should be asking: What policies will this committee and this Congress pursue to ensure competitive federal compensation now, and in the future? Will this committee and this Congress pursue pro-middle-class policies regarding federal employee compensation, health care and

¹ “Comparing the Compensation of Federal and Private-Sector Employees, 2011-2015,” Congressional Budget Office, April 2017, available at: <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52637-federalprivatepay.pdf>.

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retirement security? Or, will you pursue policies that weaken retirement security and promote a race to the bottom?

Unfortunately, recent budget proposals passed by the House of Representatives have supported policies that would undermine the competitiveness of federal compensation, and eliminate or diminish health care and retirement income for hardworking middle-class federal and postal employees. Specifically, the fiscal year 2016 budget resolution passed by the House of Representatives assumed \$318 billion worth of cuts over 10 years to the compensation of middle-class federal workers.² The budget report supported policies that included increasing retirement contributions for current employees, raising the cost of health insurance for both federal and postal employees and retirees, and decreasing the rate of return on the Thrift Savings Plan (TSP) G Fund. The budget resolution simultaneously encouraged the elimination of the federal government's defined benefit pension, while limiting growth potential of the government's 401(k) plan through the change to the G Fund.

The CBO report does not provide adequate justification or support for these policies. The report includes some insightful statistics regarding federal workforce characteristics, but also contains some analytical flaws and suffers from limitations in its underlying data. This letter provides NARFE's view on the report, and will also discuss our views on the implications of the report for federal compensation policy.

Comparing the Federal and Private-Sector Workforces

The CBO report shows that the federal government employs more individuals in professional or business occupations, and overall, is a more highly educated workforce than the private sector.

Furthermore, it concludes that those with higher levels of education are paid substantially less than their private-sector counterparts – with salaries that are 24 percent lower, on average, for federal employees with professional or doctorate degrees, and compensation that is 18 percent lower, on average.

The report shows that the federal government employs substantially more veterans than the private sector, as veterans account for 22 percent of the federal workforce and only 5 percent of the private-sector workforce. Having served as a U.S. Army civilian supporting our military in the aftermath of the Cold War, I am personally proud of the federal government in this regard.

However, the CBO report also claims that federal employees with a college education or less receive greater compensation than their private-sector counterparts with similar levels of education; and that federal employees receive greater compensation, on average, than their private-sector counterparts.

² See H.Con.Res. 27; H.Rpt. 114-47 – Concurrent Resolution on the Budget – Fiscal Year 2016 (illustrative policy options).

With respect to differences in pay, the CBO’s findings conflict dramatically with the findings of the Federal Salary Council, which reported that federal workers are paid, on average, approximately 34 percent less than their private-sector counterparts, based on data collected by the Bureau of Labor Statistics (BLS).³

While the CBO finds greater disparity between the federal and private sectors resulting from differences in benefits, these differences do not explain the conflict with the Federal Salary Council’s findings. As explained below, we believe this may be due to limitations in its underlying data, and flaws in the CBO’s analytical approach.

Flaws and Limitations of the CBO Analysis

While we do not doubt the good faith efforts of the CBO to provide objective analysis, its report suffers from several limitations and analytical flaws.

First, the CBO uses unreliable survey data derived from the Census’ Current Population Survey (CPS). The CPS survey data overstates the number of federal employees by 40 percent, when compared to the actual number of federal employees tracked by the Office of Personnel Management (OPM). While CBO made statistical adjustments in an effort to compensate for this, using such suspect underlying data raises serious questions regarding the validity of CBO’s findings.

Second, the CBO analysis contains several flaws, which either overestimate compensation paid to federal employees or underestimate private-sector compensation. Notably:

- CBO excludes stock option and profit-sharing arrangements for private-sector employment from its analysis on benefits. This exclusion likely results in drastically underestimating private-sector compensation.
- CBO omits cost savings to the federal government arising from recent increases in retirement contributions for new hires, a significant policy change that reduces federal pay to these employees by 3.6 percent compared to those hired prior to 2013.
- CBO penalizes federal employees for being shut out of work due to a congressionally caused government shutdown, noting that federal hourly wages were increased due to a “temporary reduction in the number of hours worked by salaried federal employees.”

³ “Level of Comparability Payments for January 2018 and Other Matters Pertaining to the Locality Pay Program,” Federal Salary Council, December 14, 2016, available at: <https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/federal-salary-council/recommendation16.pdf> . (This memo found a 34.07 percent gap between comparable private-sector jobs and federal jobs.)

- CBO does not control or adjust for the length of time a private-sector employee has been with his or her employer. Federal employees generally have longer tenures with their agencies, and recent reductions in federal hiring have led to increased average federal hourly pay, as longer-tenured employees earn more than newer hires.

These flaws and limitations of CBO's analysis may explain why its findings conflict with the findings of the Federal Salary Council, which shows that federal employees are significantly underpaid, on average.

Implications of CBO Analysis for Policymakers

The CBO report finds that for the most highly educated individuals, federal workers have salaries that are 24 percent less, and total compensation that is 18 percent less, than private-sector workers with other similar characteristics. Reducing compensation across the board for all federal workers, as proposed by some members of Congress, would widen this gap even further. This would harm recruitment and retention of the best and brightest employees that the nation needs.

Federal policy should reflect public values, such as rewarding hard work adequately. If federal compensation were based solely on the claims of the CBO report, it would mean eliminating basic health benefits and retirement security for the lowest-paid employees. We suggest that Congress reject such a race-to-the-bottom approach, and instead focus on improving both retirement income security and the quality and affordability of health care for middle-class workers across the country.

Furthermore, implementing policy based on the CBO's findings could mean eliminating the veterans' hiring preference the federal government provides to reward the men and women who served in our military and seek to continue their national service as civilians. This preference reflects the value we place on serving in our military, and while it may result in a veteran with a slightly lower level of formal education receiving a higher paying federal job than he or she could obtain in the private sector, we believe this is a just reward for their service and an appropriate recognition of the value of their experience through serving in uniform.

It is worth noting that, both with respect to total compensation and benefits, the CBO's findings do not support across-the-board pay or benefit cuts. If implemented, these cuts would fail to distinguish between varying geographic and occupational labor markets, and result in pay cuts for employees the CBO report concludes are underpaid compared to their private-sector counterparts.

Admittedly, the federal government's primary job classification system, the General Schedule, is decades old, and should be re-evaluated and modernized to better reflect the work of today's federal professionals and administrators. Such an endeavor should not be an across-the-board attack on the pay and benefits of the entire federal workforce, which

has been the approach taken thus far in policy proposals endorsed by the House of Representatives in its fiscal year 2016 budget resolution.

Conclusion

We urge members of the committee and Congress to take a measured and thoughtful approach to policies related to federal employee compensation. Such policies should ensure we are offering competitive compensation to the millions of individuals seeking to advance the interests of the American people; and such policies should reflect public values that support decent pay, affordable health care, and a secure retirement for hardworking Americans in both the federal and private sectors.

Thank you for considering NARFE's views. If you have any questions or comments regarding this request, please contact NARFE Legislative Director Jessica Klement at 703-838-7760 or jklement@narfe.org.

Sincerely,



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