

Statement of the Honorable
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before the

Subcommittee on Federal Workforce, Postal Service,
and the District of Columbia

on

“Federal Pay Policies and Administration”

July 31, 2007

Good afternoon, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the Federal Government’s pay administration policies.

OPM’s Role

OPM’s role in setting Federal pay is predicated on the merit system principle – stipulated by Congress in the Civil Service Reform Act of 1978 – that equal pay should be provided for work of equal value, with appropriate consideration of rates paid by employers in the private sector, and with appropriate incentives and recognition provided for excellence in performance. In support of this principle, OPM has responsibility for the setting of pay rates for the General Schedule, which covers 1.3 million employees. We also manage the Federal Wage System, covering roughly 200,000 employees, and the certification process for the Senior Executive Service performance-based pay system covering 7,000 employees. In addition, OPM administers special pay rates; regulates recruitment, relocation, and retention incentives; and conducts and evaluates demonstration projects and alternative personnel systems.

General Schedule

The General Schedule is the primary Governmentwide pay system, covering professional, administrative, technical, and clerical occupations. Under the law, General Schedule pay is to be based on principles of equal pay for substantially equal work, and comparability with non-Federal pay rates.

The General Schedule consists of two pay components, a base General Schedule and 32 locality pay schedules covering the 48 contiguous states. Absent Congressional or Presidential action, OPM adjusts the base General Schedule each year, based on the

movement in the Employment Cost Index published by the Bureau of Labor Statistics (BLS). The geographic market-based pay component of the General Schedule is known as locality pay, which is adjusted based on BLS surveys in each of 32 defined locality pay areas. Locality pay was established by the Federal Employees Pay Comparability Act of 1990 (FEPCA) when it became apparent in the 1980's that Federal salaries were falling below those in the private sector, although the automatic statutory locality raises under FEPCA have never taken effect.

Federal Wage System

The Federal Wage System (FWS) covers trade, craft, and laboring occupations. It is the policy of Congress that FWS pay rates in a given local area be based on principles of equal pay for substantially equal work, relative differences in pay when there are substantial differences in work requirements, pay rate levels maintained in line with prevailing pay levels, and pay rate levels maintained so as to attract and retain a qualified workforce.

The pay rates for FWS occupations are determined by wage surveys in each of 132 appropriated fund local wage areas. A similar system covers nonappropriated fund positions. OPM's role is to manage the FWS. We prescribe policies and procedures for wage surveys to ensure uniform pay-setting for FWS occupations. We also support the Federal Prevailing Rate Advisory Committee, which makes recommendations with regard to the operation of the FWS.

SES Performance Appraisal Certification

OPM certifies, with Office of Management and Budget (OMB) concurrence, agency SES performance appraisal systems. Agencies with certified systems have higher pay ceilings and aggregate pay limitations than those with non-certified systems. OPM conducts a comprehensive review of certification packages supplied by agencies in support of their requests.

The certification process has been largely embraced by agencies, and the higher pay limit for certified agencies provides some relief with respect to the encroachment of the General Schedule on the SES pay range. This encroachment results from pay adjustments to the Executive Schedule, upon which pay rates for the SES are based, that are limited to the increase in the ECI component of the General Schedule pay adjustment.

Special Rates and Recruitment, Retention, and Relocation Incentives

OPM also plays a role in administering flexibilities with respect to pay.

OPM may establish higher rates of basic pay—special rates—for a group or category of General Schedule (GS) positions in one or more geographic areas to address existing or likely significant handicaps in recruiting or retaining well-qualified employees. OPM

may establish special rates for nearly any category of employee—i.e., by series, specialty, grade-level, and/or geographic area.

Agencies may request special rates at any time. In addition, OPM conducts an annual review of special rates each year and implements special rates adjustments in January to coincide with the across-the-board pay adjustments to the General Schedule.

Before locality pay was first implemented in 1994, special rate employees covered under title 5 authority made up approximately 13 percent of the GS workforce. Today, special rate employees covered under title 5 authority make up approximately 4 percent of the GS workforce. In addition to higher locality pay rates surpassing many existing special rates over time, certain pay flexibilities, such as recruitment, retention, and relocation incentives, have provided agencies with more strategic and targeted alternatives to special rates.

These incentives, known collectively as the 3Rs, were further revised by Congress in the Federal Workforce Flexibility Act of 2004. They constitute important pay flexibilities that agencies use to attract, retain, and relocate individuals in the Federal service. The 3Rs are strategic tools agencies can use to address staffing problems in certain occupations and grade levels at specific work locations. OPM regulates the conditions under which the 3Rs can be used, but in most cases, agencies can implement or terminate the use of these incentives very quickly and without obtaining OPM approval.

Demonstration Projects

OPM can establish and evaluate personnel demonstration projects to test changes in Governmentwide human resources management systems. Navy's China Lake demonstration project, established in 1980, was the first of these. OPM has conducted numerous evaluations of its performance-based pay and pay band interventions. The China Lake demonstration project was made permanent in 1994.

Since 1980, OPM has approved 17 demonstration projects: 4 were completed, 3 were made permanent by separate legislation based on successful evaluation results, and the Commerce Demo, the DOD Acquisition Workforce Demo (AcqDemo) and the 8 DOD Lab Demos are currently active. Most of the demonstration projects have implemented performance-based, broadband pay systems, and OPM evaluations have concluded that these interventions have produced improvements to agency results-oriented performance culture and the ability to recruit and retain a high-quality workforce. OPM has also responded to Congress's request for evaluations such as the one by Senators Collins and Voinovich of other alternative personnel systems authorized by Congress during this decade (https://www.opm.gov/about_opm/reports/aps_10-2005.asp).

Legislative Proposals

The Administration has proposed legislation for senior-level and senior technical or professional (SL/ST) positions that would mirror SES certification provisions. The

Senior Professional Performance Act of 2007 would increase the maximum rate of basic pay for certain SL/ST positions to EX III from the current limit of EX IV. The proposal further provides that in the case of an agency that has a performance appraisal system that is certified by OPM as making meaningful distinctions based on relative performance, the maximum rate of basic pay for such positions will be EX II. Like the SES, SL/ST's would no longer be eligible for locality pay under the proposed legislation.

In addition, the Administration has also proposed legislation which would provide that certification of an agency's SES performance appraisal system would be in effect for up to 24 months, beginning on the date of certification, and could be extended for up to 6 months. Current law specifying that the certification is in effect for 2 calendar years has placed agencies at an unintended disadvantage when their appraisal systems are certified near the end of a calendar year.

Mr. Chairman, we are very pleased that both of these proposals I just referenced were recently approved by the Senate Committee on Homeland Security and Governmental Affairs as S. 1046, introduced by Senator George Voinovich. We are hopeful the Senate and House will adopt this bill before the end of this current session of Congress.

OPM has also proposed legislation that would extend locality pay to nonforeign areas outside the contiguous 48 states. Currently, employees in many of those areas receive Cost of Living Allowance (COLA) payments, rather than locality pay. The COLA program was implemented in 1948 and affects about 50,000 employees. COLA payments are based on the relative living costs between the COLA areas and Washington, DC. COLA payments are not subject to Federal income tax, but also do not count in the calculation of retirement annuities. The proposed legislation would gradually replace COLA with locality pay over seven years, to mitigate effects on the retirement systems and on agency budgets.

Mr. Chairman this statement outlines the many processes used to determine pay and the underlying policies that constitute the myriad Federal pay systems. I would be happy to answer any questions you or the other Subcommittee Members may have regarding my statement.