NTEU
The National Treasury Employees Union

Testimony of

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And Government Reform

"Federal Employee Compensation: An Update"

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Chairman Chaffetz, Ranking Member Cummings and members of the Committee, thank you for allowing NTEU to share its thoughts on federal employee pay and benefit programs. As National President of NTEU, I represent over 150,000 federal employees in 31 agencies and I appreciate the opportunity to discuss these important issues.

While the impetus for today's hearing is the recently released Congressional Budget Office (CBO) report comparing compensation for federal and private sector employees, I fear the real reason is an effort to justify cuts to the pay and benefits of the middle class federal worker. Numerous reports have confirmed that the middle class is shrinking and that income inequality is becoming a major issue of concern in the US. This begs the question as to why Members are looking to further that inequality by cutting pay and stripping basic healthcare and retirement benefits from middle class workers who work for the federal government?

According to a recent survey by Willis Towers Watson, chief executive salaries increased by 6% in 2016 — more than the 4% increase in 2015 and the highest increase since 2013. At the same time,, the average private-sector employee saw only a 3% raise in their annual salary last year — the same they received the previous three years—which, when taking inflation into account, is essentially stagnant wage growth. However, this is still higher than what federal employees received. Using the relevant Department of Labor Employment Cost Index (ECI) data, private industry wages have increased 12.7% over the last six years. Federal retirement and Social Security benefits have been adjusted by 8.8 % and military pay has risen % during this time period, as compared to a cumulative 5.4% pay increase for GS federal workers. A separate study from Equilar found a far more startling fact: the average CEO pay reached $16.6 million in 2016, which is 135 times greater than the starting pay for a member of the federal government's Senior Executive Service of $123,175. Meanwhile, America's middle class continues to shrink and lost 30% of its wealth over the last four decades.

The federal government employs nearly 2.1 million people across the United States—85% of which are outside of the DC metro area. It currently covers 8.2 million individuals enrolled in the Federal Employees Health Benefits Program (FEHBP) and 2.6 million employee and survivor annuitants with its retirement programs. Given the numerous reports about the shrinking middle class and the significant impact a reduction in pay and benefits will have on local economies, it is inane to try to strip health and retirement benefits from middle class workers and further increase income inequality in the US.

At this time, I'd like to discuss in turn the pay, healthcare, and retirement benefits provided to federal workers featured in the CBO report and express my strong concerns with cutting these vital benefits.

PAY

The pay system for the large majority of white collar federal employees is known as the General Schedule (GS). Its main thesis is that federal pay should be comparable to pay for similar work in the private sector. In 1990, Congress enacted the Federal Employees Pay Comparability Act (FEPCA), which introduced the concept of locality adjustments to make the pay system more sensitive to geographic market forces. Previous to that, federal pay was based on comparability to similar private sector jobs, but the same average annual adjustment was given to all GS employees. Under FEPCA, employees were to receive an annual across the board adjustment equal to half a percent below the increase in the Employment Cost Index, which measures non-federal wages, and a locality adjustment based on the size of federal vs. private sector wage gaps around the country. In practice, the formula set in FEPCA was never fully implemented and Congress (or the Administration) has set annual pay adjustments for federal employees almost every year. In fact, federal employees routinely suffer from pay-freezes and below-market increases.

But one provision of FEPCA that has been implemented requires the Bureau of Labor Statistics (BLS) to conduct surveys across the country to determine whether there are gaps between federal pay and private sector pay. BLS then provides that information to the President's Pay Agent, which consists of the Secretary of Labor, the Director of the Office of Management and Budget (OMB) and the Director of the Office of Personnel Management (OPM), who have the statutory responsibility of submitting a report to the President each year that lists pay gaps in certain locality areas as well as a national average gap. Over the years, the Pay Agent has consistently reported gaps showing lower pay for federal employees to the President.

For example, in 2016 the Pay Agent, consisting of Tom Perez (Labor Secretary), Shaun Donovan (OMB Director) and Beth Cobert (Acting OPM Director), issued its 2015 report for locality pay in 2017 and that report stated the average pay disparity as of March 2015 was 34.92 percent. (p. 22). In 2008 the Pay Agent consisted of Elaine Chao (Secretary of Labor), Jim Nussle (OMB Director) and Michael Hager (OPM Director) and that report stated the average "pay disparity as of March 2008 was . . . 23.25 percent." (p. 25).

Unlike the CBO, which compares professionals based on employee educational attainment, the BLS uses data from the National Compensation Survey and the Occupational Employment Statistics program to compare actual job duties, not just job titles, which is important given the incredibly complex work federal employees are required to do. For example, how many budget analysts in the private sector oversee multi-billion dollar agency budgets? How many logistics managers in the private sector implement the deployment of tens of thousands of troops and their supplies? How many mechanics work on nuclear submarines? This methodology used by BLS was deemed "impeccable" by Dr. Charles Fay when he testified before this Committee in 2007.

Yet another outstanding part of the GS pay system, which may also account for the discrepancy in federal and private sector compensation in the CBO report, is that the federal pay system does an excellent job of requiring pay equity in the federal government, which can account for the difference in pay and benefits in the CBO report. In 2012, the female-to-male earnings ratio in the U.S. was 0.77, meaning that, in 2012, female full-time, year-round (FTYR) workers earned 77% as much as male FTYR workers. According to OPM, in 2012, women working in the federal government were paid 87 cents for every dollar that a man was paid. OPM also found that men and women in many occupations make comparable pay. The salary gap for supervisors and managers was less than five cents on the dollar, and for women in the Senior Executive Service (SES), the highest level of Federal leadership, the gap is less than one penny on the dollar. Part of the reason for the greater percentage of equal pay is the fact that the rules on federal pay are set in statute with transparent regulations so that everyone knows what the standards and requirements are and what the consequences of actions are. The General Schedule has rules, standards and evaluations, which must be written. It has both merit and market based components, and is a performance-based system. Non-performers can be denied merit pay increases while outstanding performers can be given a variety of rewards, including quality step increases, as well as retention and recruitment awards. With these rules, there is limited ability for favoritism, discrimination or other non-merit determinations to come into play. This is an area where the federal government is leading by example and others should follow.

HEALTH BENEFITS

The FEHBP is the federal government's employer sponsored healthcare program administered by OPM that covers close to 9 million federal employees, retirees, and their families. Enrollees can choose among many different types of plans, including HMOs, fee for service plans, and high deductible catastrophic plans. Enrollees pay on average 30% of the total premium cost, which is higher than the average 18% that private sector workers pay for their premiums for individual plans.

Despite this fact, the federal government is a model employer and should remain so rather than risk the health and financial security of its employees. The Integrated Benefits Institute, which represents major U.S. employers and business coalitions, says poor health costs the U.S. economy $576 billion a year, according to a 2012 report. Of that amount, 39 percent, or $227 billion is from "lost productivity" from employee absenteeism due to illness or what researchers called "presenteeism," when employees report to work but illness keeps them from performing at their best. By being a leader in this area and providing wellness programs, strong healthcare benefits, and adequate leave programs that allow employees to get well and not contribute to the spreading of their illness among the workforce, the federal government has avoided these losses, and strengthened the US economy as well.

RETIREMENT

In the 1980s, Congress, working with federal sector unions, management groups and associations, reformed the federal retirement system. The Federal Employees Retirement System (FERS) was created 24 years ago to replace a defined benefit system (the Civil Service Retirement System (CSRS)) that had a serious and growing unfunded liability problem similar to those faced by many state plans today. FERS solved that problem and has recently been referred to as a model by many diverse pension experts. Retirement age, cost-of-living adjustments (COLAs) and the basic defined pension benefit formula for determining pension payments are less generous under FERS than under CSRS. The FERS retirement system is fully funded and financially sound, with no unfunded liability. It is comprised of Social Security, a small defined pension and employee and employer contributions to the Thrift Savings Plan, a 401(k) type plan. Most federal employees must work 30 years and be 55 years of age before being eligible for an unreduced annuity.

In 2012, Congress made a significant change to FERS and increased the amount new employees are required to contribute to their defined benefit plan-- by 2.3% to 3.1% of their salaries. Then in 2013, Congress acted again to increase the retirement contributions of federal employees under FERS by requiring new employees as of January 1, 2014, to pay an amount that was 1.3 % higher than the last change, for a total of 4.4%. However, these changes were not made in an effort to improve or strengthen the program, but rather to reduce the federal deficit.

The CBO reports that health and retirement benefits for the majority of federal workers are significantly higher than comparable individuals in the private sector. This seems ridiculous when you consider the fact that under FERS federal retirement pensions are not overly generous. The typical federal employee with a lifetime of service in the federal government will have an annuity from the defined benefit of approximately $1,049 per month. The government's 401(k)-like fund, the Thrift Savings Plan, may provide an annuity of around $400 per month if the average employee is able to fully contribute 5 percent of salary for 30 years.

However, when you consider how corporate America has slashed worker's retirement benefits, it makes sense. According to the Board of Governors of the Federal Reserve System, as of 2013, approximately 31 percent of Americans reported having zero retirement savings and lacking a defined-benefit pension. This finding is not new and means that nearly one-third of people in the United States currently have no money put away in any type of retirement account to supplement their Social Security benefits. Among respondents ages 55 to 64—those nearest to retirement—19 percent still reported having no savings or pension.

Given that so many still lack access to the primary savings vehicles used by workers today: workplace retirement plans, it should not come as a surprise that such a large share of Americans lacks any savings. As of 2014, only 65 percent of private-sector workers had access to a retirement plan through their jobs, and only 48 percent participated in one.

As America's population ages, the economic well-being of retirees and their families will be increasingly important to the overall health of the national economy. To secure economic independence and dignity in retirement for all American families, it is imperative to ensure that working families are able to save for retirement. According to the Center for American Progress, a worker with a hybrid plan, part defined benefit and part 401(k), is nearly 2.3 times as likely to maintain their standard of living in retirement as a worker with a typical 401(k) account making identical contributions. Given the impact adequate retirement plans have on the US economy and the inadequate savings by American workers, it is imperative that the federal government lead by example as a model employer and provide a strong retirement plan—part defined benefit, Social Security, and the Thrift Saving Plan—and not join the race to the bottom—exacerbating income inequality in the US and hurting the middle class.

IMPACT OF HEALTH AND RETIREMENT BENEFITS ON RECRUITMENT AND RETENTION

Despite the CBO report's findings on the difference in the health and retirement benefits between the federal government and the private sector, surveys show that those benefits are key to the federal government's recruitment and retention efforts. This is especially important in the federal government where duties are often complex, have far reaching implications and take time to learn. Whether it is a senior physicist or researcher at the Department of Energy or a scientist or statistician at the Food and Drug Administration, it is important to retain good employees not only for their skills and experience, but also for the morale of the organization, which impacts productivity.

According to the 2016 OPM Federal Benefits Survey, employees expressed that their TSP, FERS/CSRS, retiree and employee health benefits were extremely important to them (90%-95.3% of respondents). The availability of a retirement annuity had the largest self-reported impact on recruitment and retention. The highest scores were seen when participants were asked to rate the extent to which the availability of a retirement annuity through FERS or CSRS had influenced their decision to take a job with the federal government. The same was true when asked how the benefit influences their decision to remain in a federal job.

The FEHBP also has a significant impact on recruitment and retention. More than two-thirds of respondents reported that the availability of health insurance through the FEHBP influenced their decision to take a Federal job to a “moderate” or “great” extent, while 77.5 percent of respondents reported that the availability of health insurance through the FEHBP influences their decision to stay with their job to a “moderate” or “great extent.”

These results suggest that health and retirement benefits are major players in recruitment and retention. This is in line with private sector recruitment and retention strategies, according to the Society for Human Resource Management, as health care is the top benefit leveraged by organizations to recruit (85%) and retain (74%) employees. This is followed by retirement savings/planning, which is used by 72 percent of organizations to recruit and by 62 percent to retain employees. However, it is also common for larger private sector employers to provide additional benefits that federal workers do not have: stock options, paid parental leave, and employer contributions to vision and dental benefits. If the federal government were to cut benefits for health care and retirement, it would lose whatever edge it has in recruiting and retaining top talent and adversely impact the important services the federal government provides to the American people.

CONCLUSION

Our nation’s federal employees are some of the most dedicated workers in the country. The United States benefits daily from the knowledge and skills of the highly trained individuals who work in public service. Federal workers fight disease and promote better health; protect the environment and parks in the United States; promote economic growth; and serve on the front lines in the fight to defeat terrorism and maintain homeland security. To show our appreciation over the past few years, federal workers faced a three year pay freeze, were asked to pay more towards their retirement, paid more for their FEHBP, and experienced unpaid furloughs. Yet, some of the hardest working people I represent, like Tax Examiners at the IRS or Customs and Border Protection Officers, earn less than $30,000 a year. To consider further cutting the pay, retirement, or health care benefits of these federal workers in order to join the private sector in its race to the bottom will only further squeeze the middle class, increase income inequality in the US, risk the overall economic and retirement security of the nation, as well as the skill-set of our civil servants. I urge the Committee to protect our federal workers and the middle class.

Thank you again for the opportunity to share my views with you today.