Matching the Market: Classifying Jobs and Setting Pay

WHAT WE PROPOSE

Modernize the decades-old federal General Schedule (GS) job classification system to better reflect the work of today's federal professionals and administrators, and use it to match federal occupations—and federal pay—to comparable jobs in the private and nonprofit sectors, as well as in state and local governments.

THE PROBLEM

The federal workforce is treated as a single entity for purposes of compensating professional and administrative personnel, rather than as employees engaged in a set of highly differentiated occupations—an approach that is unheard of among successful private-sector organizations. This federal pay-setting process undermines the ability of the government to attract and retain high-quality, white-collar talent because it treats the workforce as a unified mass, and it bears little relationship to the compensation rates paid for similar work in the broader labor market.

Determining what the labor market is paying starts with classifying jobs. That is how employers determine the relative value of jobs—internally compared with one another and externally with respect to positions in other organizations. The federal government's way of going about that determination is archaic. The General Schedule, once the state of the art in personnel management, is now more than six decades old. The job classifications in the General Schedule reflect a time when more than 70 percent of federal employees performed clerical or low-level administrative work, and it has little connection to the knowledge work performed by a majority of today's civil servants.

Worse, statutory distinctions between those classifications—represented by the 15 General Schedule pay grades—are arbitrary and arcane. For example, a civil service position may be classified at grade GS-11 because its work is of "marked difficulty and responsibility" or at GS-12 if its duties are judged to be of "a very high order of difficulty and responsibility." As a consequence, the ability to evaluate the relative value of federal jobs internally and externally—for example, to set benchmark salary ranges for comparable work—is close to impossible.

The bottom line: It is difficult to know how federal jobs—and federal salary rates—compare with the competition, and as a consequence the current system for making adjustments to those rates is fatally flawed.

Each year, for example, the Federal Salary Council posits a double-digit salary gap between the federal and private sectors and recommends government-wide salary rate adjustments, only to find them received with skepticism and suspicion from all quarters. Even in times of budget plenty, many on Capitol Hill argue that they

are too high, the unions counter that they are too low, and experts inside the executive branch privately concede that, paradoxically, they are a little bit of both.

And each year, the president declares yet another economic emergency so as to trigger an escape clause that according to the 1990 Federal Employees Pay Comparability Act (FEPCA) allows the administration and Congress to pick a number for a pay increase that typically doesn't satisfy anyone. Bad enough in good times, but in times of real economic emergency, the net result is no across-the-board pay increase at all, no matter how justified. To be sure, FEPCA tried to get it right. It operationalized the principle of geographic market-based pay for civil servants in statute, and it relied on a pay-setting process that, given the data available at the time, was both analytically reasonable and politically palatable. Now we need to complete the job by adding occupational market sensitivity for pay.

However well intentioned the General Schedule and FEPCA may have been, they are now obsolete. Dramatic changes in the nature and stature of federal work, wide fluctuations in the labor markets in which the federal government competes for talent and even changes in the kinds of salary data available to the Office of Personnel Management (OPM) all have contributed to pay grades and pay rates that are suspect. Attempts to match the market through annual, across-the-board salary adjustments do little more than further fuel the wrong debate over whether federal civil servants are paid too much or too little, rather than the real issue of whether they are being paid in the right way.

THE SOLUTION

The current pay-setting process should be replaced with one that compares federal and nonfederal salaries and benefits on an occupation-by-occupation basis, proposes a change in the government's total compensation costs based on those comparisons and, given an overall compensation budget enacted by Congress, provides far greater discretion to the executive branch to actually manage those costs. Under this plan, funds from the total compensation budget could be used to more precisely target benefits and pay rate and pay range increases by occupation, work level and location, to keep the federal government on par with its labor market competition.

At the same time, the General Schedule as it applies to professional and administrative positions that are today classified at GS grades 5 through 15—and account for 65 percent of the workforce—should be replaced by a far simpler, five-level classification framework, with each level representing a much wider range of duties and responsibilities to more closely reflect the work of a modern civil service. Further, Congress should legislate only the broadest contours of that framework, empowering OPM—in close consultation with the President's Management Council (PMC) and the National Council on Federal Labor-Management Relations—to define and, as necessary, refine the details of those work levels and occupation-based classification standards administratively in order to keep pace with the changing nature of government work.

HOW IT WOULD WORK
CLASSIFICATION

For white-collar professional and administrative positions currently classified at GS-5 to GS-15, a new classification system would replace those grade levels with five distinct classification levels, from entry to executive. While Congress would establish this framework in law, it should not require detailed, rigid definitions for those levels. Instead, OPM would be empowered to flesh out and, when appropriate, adjust those levels administratively, in consultation with the PMC and the National Council on Federal Labor-Management Relations. OPM also would be authorized to issue more detailed, occupation-specific classification standards for each level as necessary. It would issue standards for classifying supervisory and managerial positions within all the work levels at full performance or above, with those who are entrusted to lead federal employees receiving a pay differential. Here is what those levels would look like:

ENTRY / DEVELOPMENT

This level would be reserved for professional and administrative employees just beginning their federal careers, from their initial career-conditional appointment and examination period through graduation from trainee to full-performance, career status. The entry and development level would accommodate new undergraduates without significant work experience as well as entrants with advanced education and some relevant experience.

FULL PERFORMANCE I

This encompasses employees who graduate from the entry/development level or demonstrate they can meet all of the performance requirements for a particular job at full performance level. Promotion to this level would be noncompetitive but not automatic. The employing agency would be required to make an affirmative, competency-based assessment in that regard. External candidates who meet those standards could be appointed directly into Full Performance I status.

FULL PERFORMANCE II

This category is intended to accommodate positions that require competencies comparable to those classified at Full Performance I but involve greater complexity, scope or responsibility. For

A NEW JOB CLASSIFICATION SYSTEM

FOR WHITE-COLLAR PROFESSIONAL AND ADMINISTRATIVE POSITIONS, GS LEVELS 5 TO 15

FULL PERFORMANCE II

Jobs that require employees to ha
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involving greater complexity, scop

FULL PERFORMANCE I (GS 11–12)*

Employees who have moved up from the entry/development level or have demonstrated they can meet performance requirements for a particular journey-level job

ENTRY / DEVELOPMENT (GS 5–11)*

Professional and administrative jobs for employees just beginning their federal careers

*GS grades are for reference only and may not align with final design or salaries

example, a budget position classified at Full Performance I in a field office may be classified at Full Performance II at an agency headquarters because of its agency-wide scope. Promotion to this performance level would be competitive. Supervisors and managers of Full Performance I and II employees also would receive a pay differential.

EXPERT OR MANAGER

Where classification at the first three levels would be based on the duties and responsibilities of a particular job, classification at the Expert or Manager level would be individualized and awarded on the basis of an employee's superior technical or functional expertise or broader management responsibilities—in other words, a dual track that gives agencies and employees more choices. Unlike today's General Schedule system, those with superior technical qualifications could be promoted and compensated accordingly, without forcing them to become a manager to progress. On the other hand, those that aspired to and demonstrated the aptitude for

SENIOR EXECUTIVE / SENIOR PROFESSIONAL (SES, SL AND ST)*

Positions currently in the Senior Executive Service or the senior technical and senior leader ranks

MANAGER (GS 12–15)*

Jobs assigned management and supervisory responsibilities

EXPERT (GS 14–15)*

Individuals with superior technical or subject-matter expertise

(GS 12–13)*

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managerial and, eventually, executive ranks could pursue that track.

SENIOR EXECUTIVE / SENIOR PROFESSIONAL

This level would encompass today's Senior Executive Service (SES), Senior Level (SL) and Senior Scientific and Technical (ST) positions, as well as comparable senior service systems such as those in the FBI and the Drug Enforcement Administration (see pages 35-38).

This new system would not alter the current federal wage system for assigning grades and pay for blue-collar jobs in the trade and crafts such as carpenters, plumbers, mechanics, machinists and warehousemen, which is already relatively market-sensitive compared to the General Schedule system. Similarly, we are not recommending any change to the current classification or pay system for clerical and lower-graded technical jobs. These positions are a rapidly declining percentage of the federal civil service and are generally filled from local labor markets. If recruiting and retention rates are any guide, their pay is relatively competitive in those local labor markets.

This simplified five-level system would be far more fluid than today's etched-in-statute General Schedule, a fluidity that is consistent with today's workplace. Having this framework will help employees understand how they can progress in their careers. While this system and all of its standards would be common to the entire federal enterprise, a key element of this framework would shift the focus of job classification away from semantic debates over grade level to meaningful distinctions regarding the labor market and performance. In that regard, it would enable the federal government to better match the market by facilitating the comparison of its work and pay levels with those of its competitors.

HOW IT WOULD WORK
SETTING PAY

We advocate a system in which Congress and the White House decide what the federal government's total compensation budget ought to be for each year, with salary ranges for individual occupations and locations set administratively by the executive branch through a process that is based on measurable market data and other factors, just like any large private-sector organization. Individual agencies would then apply those occupation-based salary ranges to determine the best mix of grades and occupations, all within their separate appropriations. Establishing a clear pay-setting process based on market data will improve the transparency and credibility of the system and will ensure that the federal workforce stays competitive with the broader labor market for its key occupations.

An occupation-based approach to pay comparability

The system we propose would begin with OPM comparing federal salary data for benchmark professional and administrative occupations—that is, occupations that are common to the federal government, such as information technology specialists, accountants, procurement professionals and engineers—with their private-sector, nonprofit and state and local counterparts. Comparisons would be limited to first-tier, Fortune 500 companies as well as large state and local governments

and nonprofits that meet certain size or gross revenue standards, as those are the federal government's principal competitors in the professional and administrative labor market. There are some occupations for which market data will be more challenging because the government essentially makes the market for those jobs, such as air traffic controllers or intelligence analysts, but we expect tailored approaches that will seek to best approximate what the market requires.

Occupation-specific private-sector salary data could be purchased from private-sector compensation firms that regularly conduct sophisticated salary and benefit surveys of the labor market. The Bureau of Labor Statistics (BLS) used to collect occupation-based salary data but stopped because of budget cuts; it could be funded to do so again. In either case, the BLS ultimately should be responsible for certifying that the market data collected for federal salary comparison purposes, whether by them or by a private compensation firm, is accurate and meets the highest professional and methodological standards. The cost of collecting or certifying such data is relatively minor compared to the cost of over- or under-paying hundreds of thousands of federal employees.

Taking total compensation into account

Based on that BLS-certified data, OPM would compare the cash-equivalent value of the benefits provided by the federal government with those offered by private, nonprofit and other governmental employers. There will be methodological and other challenges to making such comparisons, but if the federal government's pay-setting process is to have credibility with Congress and the American public, a total compensation approach to salary and benefits is imperative. Such an approach is critical to knowing and managing the true cost of the civil service, and is standard operating procedure for virtually all other large employers.

While a more occupation-based approach to setting and adjusting the salary rates and ranges for government professionals would be used, a standard government benefit package and a standard government contribution to that package would be retained to take full advantage of its enterprise-wide scale. For example, the balanced, strong risk pool supporting the Federal Employees Health Benefit Program is what keeps its costs manageable. However, the cash-equivalent value of the government's benefit package would be taken into account in comparing the federal government's total compensation levels, occupation-by-occupation compared with the private sector and state and local governments.

Targeted, occupation-specific pay increases instead of across-the-board raises

Based on the data, as well as other relevant factors such as offer/acceptance and attrition rates, OPM would develop a notional salary rate and range adjustments for each benchmark occupation by classification level as necessary. This would represent OPM's best judgment based on both qualitative and quantitative considerations. For example, OPM could recommend that the maximum salary rate for expert-level engineers be increased by 4 percent based not only on the market for engineers, but also higher-than-normal attrition, while the salary rates for full performance engineers might remain flat. As noted, annual benefit increases, such as the cost of average annual premium increases to the Federal Employee Health Benefit Program, would also be taken into account.

These recommendations would be submitted to the National Council on Federal Labor-Management Relations for review and comment and, ultimately, to the PMC. The PMC would make a final recommendation to the director of OMB and the president for approval. Unlike the current pay-setting process, an occupation-based approach doesn't lend itself to a single, across-the-board pay adjustment. There are just too many possible permutations, but the sum total of those permutations would be aggregated along with benefit cost increases in the president's annual budget submission to Congress.

No more economic emergencies, just budget and judgment

The new system would abandon the practice of determining and announcing a pay gap each year between the public and private sectors. That practice has eroded the credibility of FEPCA and has never served its intended purpose—to drive annual across-the-board increases to close that gap. FEPCA's escape clause, the declaration of a national economic emergency, also should be abandoned as a means of avoiding an automatic across-the-board increase. That clause has been exercised as a matter of course regardless of macroeconomic conditions, leaving it to the administration and Congress to reach an agreement on whether to provide a single, across-the-board pay increase, typically without much thought to its labor market considerations.

Instead, Congress and the White House should decide what the federal government's total payroll budget ought to be for the budget year, and allow the executive branch to administratively determine salary rate and range increases and decreases occupation-by-occupation, according to the market. Agencies would then be left to manage within their separate payroll appropriations, adjusting the size and mix of their workforces to optimize that budget.

Administrative discretion to set occupation-specific pay ranges within budget

Once the federal government's total annual compensation budget is established, the executive branch would have administrative discretion to set and adjust the salary ranges for each of the various benchmark occupations within that budget. OMB—in consultation with the PMC and the National Council on Federal Labor-Management Relations—would allocate that budget by occupation and classification level, factoring in locality adjustments and benefit increases. OMB could issue a separate salary schedule for each benchmark occupation, with salary ranges for each occupation's five classification levels. Depending on an analysis of the market, it could group those occupations with separate salary schedules into larger job families such as budget and finance, human resources, procurement, information technologists, scientific and engineering jobs and medical professionals.

In addition to setting minimum and maximum salaries for each benchmark occupation, OMB in consultation with the PMC and the labor-management council, also would set the market point for each salary range within an occupation. The market point or midpoint represents the competitive position of that federal occupation's salary level compared to the rest of the market—in other words, the going rate for professionals in comparable private-sector and state and local government jobs. That adjustment would be independent of any adjustment to the range's minimum or maximum salary rate. In other words, the market point could be increased or decreased even while those minimum and maximum rates remain unchanged.

An increase in the minimum of a salary range would result in an automatic increase for employees who are at that minimum. If an upward adjustment is made to the market point within the range for a particular occupation, all employees who are at that market point and whose performance meets or exceeds expectations, would have an automatic adjustment made to the new market point. All other employees in the salary range would be eligible for an adjustment based on their performance.

An employee who fails to meet performance expectations would receive no pay increase. Even if that employee is being paid at the salary range's minimum amount and that lower limit is increased, a pay adjustment would not be granted. Rather, employees would remain frozen at a below-the-line salary level unless and until their performance meets expectations. Similarly, an increase in the maximum amount of an occupation's salary range would not necessarily mean that employees already paid at that maximum would automatically receive that increase. Instead, they would still have to exceed expectations to earn an increase up to that new limit.

Conversion and entry

Current employees would be placed into one of the five classification levels established by the new classification system according to occupation-specific job evaluation standards issued by OPM. If their current salary upon placement exceeds the maximum pay for the salary range associated with their classification level, they would not lose pay. Instead, they would retain their salary at the time of conversion, and further adjustments would depend on their performance. Thus, an above-range employee who meets performance expectations would not be eligible for any pay increases triggered by adjustments to that salary range's market rate. However, an employee who exceeds expectations could still receive a performance bonus above the salary range's maximum. The last thing we want to do is demoralize high performers.

Employees entering federal service would have their pay set somewhere between the minimum and maximum salary for their classification level. The specific amount in that range would be at the hiring agency's discretion and judgment, depending on such issues as the criticality of its need, its personnel budget and the employee's qualifications and experience, even if it means that competition between agencies for the same candidate could drive up starting salaries. Entry-level employees without significant experience would have their pay set closer to the range minimum, with entrants with superior qualifications brought in at a salary level at, or potentially even above, the market rate.

Locality pay and salary caps

The new system would not change the current process for making general locality pay adjustments in the form of add-on differentials to each salary schedule. While that process has some flaws, it generally has allowed the federal government to keep pace with increases in the cost of labor in various locations. Those increases would not be measured by occupation and work level. While locality pay increases by occupation would be the ideal, location-specific salary schedules for each of a dozen or more occupations—for each of five work levels—is just too complex, at least for now. The idea is to keep the system relatively simple to start, even if it comes at the expense of some precision.

In theory, a market-based pay system should be bounded only by the limits set by the labor market for a particular family of occupations. However, no matter how scientific and objective that pay-setting process may be, the reality is that the American public and our political system most likely will insist on

some reasonable limits to federal pay. Few elected officials would support salaries in the mid-six-figure range, even if that's the going rate for senior executives and professionals with comparable responsibilities in the private sector.

Accordingly, limitations on federal pay are inevitable, especially for senior executives. Nonetheless, the upper limit for the very top career executives, as well as highly technical non-executives like physicians, attorneys, scientists and engineers, should be to Executive Level I or the pay of the vice president—at least for those newly designated enterprise executives in our proposed Tier 4.[2]

2 The IRS has the authority to set the salary of certain critical pay executives at a level equivalent to the vice president and has used it to bring in experienced private-sector executives. However, most of these individuals still had to take a significant pay cut.