



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

Monday, August 31, 1998
CPM 98-04

MEMORANDUM FOR: Heads Of Executive Departments And Agencies

FROM: Henry Romero Associate Director

Subject: The Pay Agent's Decision on Locality Pay Survey Data

On August 5, 1998, the President's Pay Agent (the Directors of the Office of Personnel Management and the Office of Management and Budget and the Secretary of Labor) announced a decision on the use of data obtained from a new salary survey approach developed by the Bureau of Labor Statistics (BLS) in recommending locality pay adjustments under the Federal Employees Pay Comparability Act of 1990 (FEPCA). The new salary survey approach is called the National Compensation Survey (NCS) program.

In a letter to the Federal Salary Council, the Pay Agent stated that the NCS program has several advantages over the previous salary survey program. However, the Pay Agent concluded that certain major aspects of the new survey approach would have to be improved before NCS data could be used for making pay comparisons under the locality pay program. (A copy of the Pay Agent's letter is attached.)

Following the announcement of the Pay Agent's decision, several reports suggested that the effect of this decision was that the Clinton Administration had "abandoned" the pay formula used to calculate white-collar civilian Federal pay increases and "scrapped" a new method of estimating the pay gaps. Other reports stated that this decision leaves the formula for determining pay adjustments for the year 2000 "in limbo," that new survey methods will be devised to calculate pay gaps for the pay raise due in 2000, or that this decision is part of an effort by the Administration to propose a thorough overhaul of the Federal pay system. The purpose of this memorandum is to clarify the effect of the Pay Agent's decision.

The Pay Agent's decision has no effect on the pay increase for January 1999. The President recently announced his support for a 3.6 percent pay raise in 1999 for Federal civilian and military personnel and urged Congress to enact legislation providing for such an increase. As required by FEPCA, any locality payments authorized for 1999 will be calculated on the basis of the pay disparities reported in the Pay Agent's 1997 report to the President.

The Pay Agent's decision will affect the recommendations made to the President later this year regarding locality payments in January 2000. But the Administration has not "abandoned" the "formula" used to compare Federal and non-Federal white-collar pay rates. Instead, the Pay Agent has decided--for the year 2000--not to use NCS data in calculating the pay disparity in each locality pay area. The reasons for this decision are stated in the Pay Agent's letter to the

Federal Salary Council. Nor has the Administration decided to "scrap" the new salary survey approach developed by BLS. The Pay Agent's letter states that it will work with BLS, in consultation with the Federal Salary Council, to ensure that surveys conducted under the NCS program will be suitable for making pay comparisons under the locality pay program.

For the purpose of its recommendations to the President regarding locality payments in January 2000, the Pay Agent will use data collected in previous salary surveys conducted by BLS to supply the non-Federal data needed for the comparisons required by FEPCA. No new *survey methods* will be devised for this purpose. Thus, the "formula" for determining pay adjustments in 2000 is "in limbo" only to the extent that decisions need to be made about precisely how the data from previous salary surveys will be used in the pay comparison process. We expect the Federal Salary Council to make its recommendations on this issue within the next couple of months.

Finally, there is no direct relationship between the Pay Agent's recent decision and the Office of Personnel Management's plan to study the Federal compensation system. The Pay Agent's decision was made entirely within the context of the current annual pay adjustment process, as set forth in FEPCA. However, the difficulties associated with surveying non-Federal "levels of work" by pay locality under FEPCA have reinforced our general view that it is time to take a much broader look at the entire Federal compensation system. Consequently, we anticipate that OPM's study of the Federal compensation system will include a review of the annual pay adjustment process and that this review will take recent salary survey problems into account before reaching any conclusions about whether and how the current system should be changed.

The President's Pay Agent

Washington, D.C. 20415-0001
August 5, 1998
Governor William J. Sheffield
Chairman, Federal Salary Council
1900 E Street NW.
Washington, DC 20415-0001

Dear Mr. Chairman:

The President's Pay Agent has carefully considered the views and recommendations of the Federal Salary Council on the use of National Compensation Survey (NCS) data in recommending locality pay adjustments under the Federal Employees Pay Comparability Act of 1990.

We believe the NCS program has several advantages over the previous salary survey program, including being less costly, being less burdensome on respondents, and offering greater occupational coverage. However, after evaluating the test surveys and the first round of the pilot surveys, we have concluded that certain major aspects of the NCS program, including some of those raised by the Federal Salary Council, would have to be improved before we could use NCS data for making pay comparisons under the locality pay program. Therefore, we do not plan to use NCS data for the purpose of making recommendations to the President later this year

regarding the locality payments that would be received by covered Federal employees in January 2000 if such payments were made in accordance with 5 U.S.C. 5304. In consultation with the Federal Salary Council, the Pay Agent will work with the Bureau of Labor Statistics to ensure that surveys conducted under the NCS program will be suitable for making pay comparisons under the locality pay program.

As you know, the Administration, under the leadership of the Office of Personnel Management, is committed to developing a credible alternative to the current annual pay adjustment process and also to proposing legislative changes to achieve a modernized performance-oriented system of total compensation that can adapt to a variety of missions, structures, labor markets, and work technologies and keep total costs apparent to managers who are held accountable for managing those costs. Much has changed in the field of employee compensation during the past decade. Many employers have reevaluated and refined their compensation systems to ensure that they are more market-sensitive. These new systems often incorporate features designed to meet organizational goals. In addition, there has been a slow, but steady increase in the number of skill- or competency-based pay systems.

Given these developments, it has become increasingly difficult to continue to operate a pay adjustment system that is based on comparisons of pay for the same "levels of work." We are counting on the valuable insights of members of the Federal Salary Council, as well as other key stakeholders, in developing proposals for changing the Federal compensation system. It is important for all to recognize that the outcome of these efforts may very well dictate an entirely new approach to adjusting Federal pay rates in the future.

In the short term, however, we need the Council's advice concerning suitable alternatives to the use of NCS data for the purpose of carrying out our statutory responsibility to make recommendations regarding locality payments in January 2000 under the current law. Given our decision not to use NCS data for this purpose, we are obliged to use data from the most recent surveys conducted under the former Occupational Compensation Survey Program (OCSP). For the year 2000, at least two options now appear to be available: (1) use the local pay disparities calculated for the purpose of the Pay Agent's 1997 report to the President; or (2) use appropriate rates of change in the nationwide Employment Cost Index to update OCSP data, and recalculate the pay disparity in each locality pay area on the basis of March 1998 Federal employment information. We would be happy to consider other options that may be suggested by the Council.

The Pay Agent's staff is ready to assist you in forming your recommendations for locality payments in January 2000 and in exploring options for the future. Thank you for your work in support of the locality pay program.

Sincerely,

Janice R. Lachance, Director
Office of Personnel Management
Jacob J. Lew, Acting Director
Office of Management and Budget
Alexis M. Herman
Secretary of Labor