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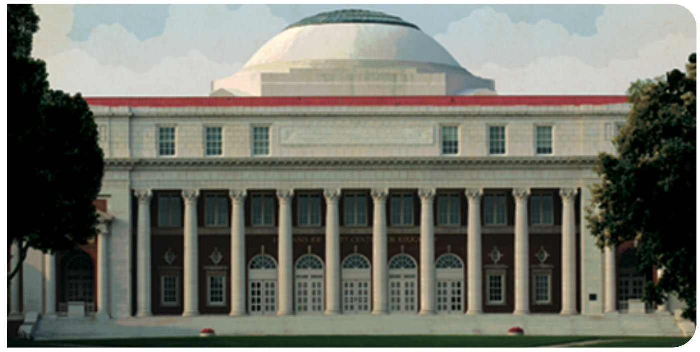
Research Brief



Performance-Based Pay in the Federal Government

February 2008

In "Performance-Based Pay in the Federal Government"—a paper presented at the February 2008 National Center on Performance Incentives research to policy conference—Steve Nelson discusses the evolution of employee pay systems in the federal government, from the inception of the General Schedule to continuing interest in creating more market-driven pay for performance. Nelson concludes that movement away from the General Schedule is likely in the future, but more political momentum is needed to convince employees and other stakeholders that it is in their interest.

The General Schedule and Prospects for Reform

Established in 1949, the General Schedule sets the pay structure for most white collar federal civil servants. It was originally designed to create a fair means of determining equitable pay for all federal employees assigned to similar types of work. Creating this parity allowed the government to meet the merit principle of "Equal Pay for Work of Equal Value" and, in theory, keep pay competitive with the private sector.

Employees advance vertically on the General Schedule by attaining a promotion to a position with greater responsibility. They advance horizontally in their pay grade by meeting both merit-based criteria and attaining greater years of experience. This tenure based system was augmented by the passage of the Incentive Awards Act which allowed managers to award cash bonuses to employees for superior performance.

Reforms to the General Schedule

As the federal workforce shifted from primarily clerical to more knowledge- and skills-based professions, demands for reform of the General Schedule have become more prolific. Under the Civil Service Reform Act (CSRA) in 1978, new legislative authority was granted to develop "demonstration projects" that would help determine whether a change in personnel and management policy could improve federal personnel management. As a result, the use of performance-based and other differentiated pay schemes became more common within individual government agencies. Concurrently, many agencies were asking Congress directly for the right to establish their own pay systems. Without the ability to create a more flexible pay system, they argued, the federal government would be at a disadvantage compared to the private sector in its ability to attract and retain talented employees.

The Federal Employees Pay and Comparability Act of 1990 (FEPCA) allowed all federal agencies to pay bonuses for the recruitment, retention, and relocation of employees. It also expanded salary rates for some employee positions, up to sixty percent higher than the standard General Schedule. Initially it was viewed as the major "fix" to Federal pay flexibility and it brushed aside a major government-wide push to move from the General Schedule and allow pay banding, as was the rage in the private sector. However, the political will to close the pay gap with the private sector prevented full implementation of this Act and the Federal pay comparability was not achieved. Many agencies resorted to unique legislative fixes for themselves.

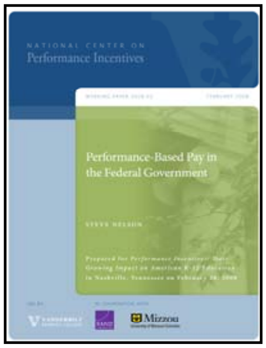
Soon it was apparent that FEPCA was not the major fix first perceived in 1990. In 1995, the National Academy for Public Administration (NAPA), an independent non-profit organization chartered by Congress, released a publication outlining several alternative pay models for federal agencies. Among these models was the option of pay for performance. NAPA concluded that the General Schedule did not provide adequate incentives for high performers, and recommended that the federal government adopt "pay banding," a practice used by 40 percent of Fortune 500 companies which collapses several job pay grades into one in order to address salary shortfalls and attract more candidates. While the private sector increased its use of pay banding and differentiated pay, more than a decade passed before the federal government approved new pay systems or even considered performance pay as a strategy to increase recruitment and retention of employees. While individual agencies relished the idea of using performance for greater accountability and to move organizational performance, the concepts were more broadly included in the 2001 legislation authorizing the Department of Defense personnel system and the 2003 legislation authorizing the Department of Homeland Security and its personnel system variances.

Performance-Based Pay and Current Policy

Making changes to the government-wide system of employee pay was, and remains, a difficult task. In a system where political appointees serve relatively short terms, it is difficult to create a receptive culture for performance pay. One major exception is the Comptroller General of the United States, who heads the GAO for a 15 year term. The Honorable David M. Walker remains a major champion of HR reforms and led the GAO and the government in picking up these recommendations to actually implement a pay for performance system. The GAO Human Capital Reform Act of 2004 helped bring about the large scale transformational changes Mr. Walker wanted to see at GAO and government-wide. These major changes after 2001, coincided with the administration of George W. Bush, in leading a more pronounced movement towards the adoption of a performance-based pay system in an effort to make government agencies and their employees more accountable.

Conclusion

Movement away from the General Schedule remains a work in progress. The objective of basing pay increasingly on performance in order to enhance individual accountability and organizational performance can sometimes be at odds with the basic merit principle of Equal Pay for Work of Equal Value. Performance-based pay initiatives within the federal government have been small-scale and lack uniformity, yet proponents continue their efforts to convince Congress that performance-based pay should be scaled up. Current initiatives in the Department of Defense and the Department of Homeland Security might also provide momentum to move the government as a whole away from the General Schedule because together they are over half of the roughly 2 million Federal employees. A shift to performance-based pay requires the buy-in of many federal government stakeholders and must be carefully developed and implemented to ensure a positive impact on organizational performance while balancing the public need for fairness and adherence to the merit principle of Equal Pay for Work of Equal Value.



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