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FEDERAL PAY

Introduction

Wages and salaries paid to federal employees are governed by statute. Two pay systems cover most federal employees. Hourly workers in the skilled trades are paid under the Federal Wage System. Salaried workers in professional, administrative, and technical occupations are paid under the General Schedule's Locality Pay System. Both pay systems are based on the principle of local labor market comparability. Successive Congresses and administrations have failed to adhere to this principle, causing federal wages and salaries to fall far below the standards set in the private sector and state and local governments. Federal employees in both pay systems are underpaid relative to their non-federal counterparts and have experienced a decline in living standards over the past decade.

Federal wages and salaries need a substantial adjustment both to restore the living standards of federal employees and to help agencies recruit and retain a federal workforce capable of carrying out the crucial missions of our government. Not only are federal employees paid less than their counterparts in the private sector and state and local government, but their wages and salaries do not begin to keep up with the cost of living. This practice is penny-wise and pound foolish, undermining agencies' best efforts at recruitment and retention and imposing tremendous costs associated with hiring and training. Throughout the government, experienced and highly effective federal employees reluctantly leave federal service in order to obtain higher wages and salaries from other employers.

White Collar Pay

The Federal Employees Pay Comparability Act (FEPCA) provides the basis for the operation of the pay system that covers most salaried federal employees. The law defines market comparability as 5% below salaries paid in the private sector and state and local government for jobs that are performed by federal employees. Recognizing that labor markets vary by region, FEPCA created distinct pay localities among urban areas with large concentrations of General Schedule, or salaried, federal employees.

Under FEPCA, annual pay adjustments are supposed to include two components. The first is a nationwide, across-the-board adjustment based on the Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), a broad measure of changes in pay in the private sector and state and local government. The second is the locality adjustment. Locality adjustments are based on the size of gaps between federal salaries and those paid to workers in the private sector and state and local government who perform the same jobs as federal employees. Pay gaps are calculated using BLS Occupational Employment Statistics data.

FEPCA set a schedule for gradual closure of gaps until 2002 when full comparability payments would be made, with full comparability defined as five percent below market rates. However, remaining pay gaps still average around 27% and are likely widening as recent pay adjustments have lagged well behind the rate of inflation and the rate of private sector wage growth. In fact, no administration or Congress has provided pay adjustments according to the law's schedule for closing locality pay gaps since 1994.

For 2027, AFGE urges the Congress to provide at least a 4.1% pay adjustment for federal employees. The formula used to arrive at 4.1% for 2027 follows FEPCA's calculation of the relevant ECI (September 2024 to September 2025) plus an additional 1.0% to be distributed among the localities. The ECI adjustment would be 3.1% (ECI of 3.6% minus half a percentage point). The locality adjustment for 2027 should be at least 1%. Locality adjustments are meant to further the process of reducing the locality pay gap that currently averages in excess of 27% nationwide and help to maintain the purchasing power of federal employees.

The proposed 4.1% adjustment for 2027 is modest relative to the size of the pay gap between federal and non-federal wages and salaries, and low compared to the lost purchasing power federal employees have suffered over the past decade. However, an increase of 4.1% would demonstrate respect for the hard work and dedication of federal employees and start to make up for losses imposed during previous budget battles.

Perhaps most important, it would do more for recruitment and retention of the next generation of federal employees than any of the changes to hiring practices being contemplated. Direct hiring and excepted service hiring, both of which undermine the competitive service and the apolitical civil service, would be entirely unnecessary if federal wages and salaries were closer to market rates. Meaningful progress toward closing the federal-nonfederal pay gap not only does right by the civil service, it protects the system's integrity for future generations.

Blue-Collar Pay

Federal blue-collar workers' pay is governed by a statutory "prevailing rate" system that purports to match federal wages with those paid to workers in skilled trades occupations in the private sector. That system has never been permitted to function as intended. Instead, annual adjustments have been capped at the average adjustment provided to white collar federal employees under the General Schedule (GS). Prevailing rates are defined in the law as fully equal to market rates paid in the private sector, unlike "comparability" in the white-collar system, which is defined as 95% of market rates.

The white-collar system uses BLS data to determine non-federal rates and thus the gap between federal and non-federal pay. However, the blue-collar system relies on surveys conducted by local teams that include union and management representatives from the agency in the local wage area with the largest number of blue-collar employees. These local survey teams are prohibited from using any data from local building trades union scales. The data are used to create wage schedules that describe local prevailing rates.

For the past two decades, Congress has added language to appropriations bills that guarantees that blue-collar federal employees receive the same annual adjustments as their white-collar

coworkers. Although the boundaries of local wage areas are different from the General Schedule, the language grants the same annual pay adjustment to all salaried and hourly workers within a given white-collar locality.

This policy of equal annual pay adjustments continues the practice of failing to provide hourly workers with prevailing rates, as required by law. On the upside, it assures that no hourly worker's pay adjustment is less than the adjustment received by GS workers in that locality. The establishment of this floor on annual increases for FWS workers was a tremendous AFGE accomplishment. But the imposition of a ceiling in the annual Financial Services General Government Appropriations bill, which has been in effect for decades longer than the floor, actually reduces the size of the annual pay adjustment that some WG workers would receive if that ceiling were not in place. As such, AFGE supports retaining the floor but lifting the ceiling on annual pay adjustments for FWS workers.

Efforts to “Reform” the Federal Pay Systems

Over the past several years, there has been a concerted effort to disparage and discredit the locality pay system for General Schedule employees. It has been derided as inflexible, antiquated, and inadequate for recruiting and retaining a talented federal workforce. The pay gap calculations have been ridiculed as “guesstimates” despite being based on BLS data using sound and objective statistical methods. These arguments are window-dressing for a much more malicious agenda.

Advocates of replacing the GS locality system with a so-called pay-for-performance system actually propose to reallocate federal payroll dollars in ways that will disadvantage lower paid employees and introduce favoritism and politics into the allocation of federal pay.

The outlines for a new system have received backing from conservative think tanks and contractors eager for the opportunity to administer the new systems. They have proposed paying higher salaries to those at the top of the current scale who are supportive of the current administration and lower salaries to those considered disloyal, or are in the middle and bottom. This reallocation would occur through a formal system that considers both market data by occupation and individual performance, and an assessment of support for a particular political agenda. Although the reallocation is not explicit, in the absence of a large increase in the overall federal payroll, some salaries would have to be reduced to pay for increases for those at the top. In the first Trump administration, political appointees used the Federal Salary Council and the Pay Agent to advance just such a plan.

The National Security Personnel System (NSPS), a short-lived experiment in “performance pay” in the Department of Defense during the George W. Bush administration, provides ample evidence of the pitfalls of such a plan. Indeed, Congress repealed authority for this system a mere three years after its inception because the discretion given to Pentagon managers over pay adjustments produced larger raises for white males and much lower raises for everyone else. It was found to be profoundly discriminatory in outcome with no measurable improvement in productivity or performance. Morale and trust in the integrity of the system both plummeted.

Contractors posing as “good government” groups have also argued against paying federal employees market-rate wages and salaries by claiming that non-salary benefits should be included when comparing private and public sector compensation. This approach would penalize federal employees for the fact that their employer provides subsidized health insurance and retirement benefits unlike some of the largest private employers in the U.S. The fact that roughly half of American workers receive no retirement benefit from their employer¹ should not be grounds for denying federal employees pay adjustments that allow them to keep up with the cost of living.

The virtues of the current system are rarely acknowledged. A December 2020 study by the Government Accountability Office (GAO) confirmed that the federal pay system does a far better job of avoiding pay discrimination by gender than private-sector pay systems, which allow broad discretion in pay-setting and pay adjustments. The GAO study² found that the gender pay gap in the federal government was 7 cents on the dollar as of 2017. Similar studies of the private sector reveal a gender pay gap of 18 cents on the dollar, more than double that of the federal sector. On average, for every \$35,000 earned by males, women in the private sector are paid \$28,700 and in the federal sector are paid \$32,550. Of course, these gender-based differences should not exist at all, but the federal government has made more progress than the private sector in closing these gaps.

This relative advantage in the area of pay equity is not the only systemic virtue of the current pay system. Its structure is designed to create a good balance among several factors: market sensitivity, career mobility, internal equity, flexibility and recognition of excellence. All of these are attributes of a functional pay system if the system receives adequate funding. However, budget politics, “bureaucrat bashing,” and a lack of understanding of the statistical processes used to compare federal and private sector pay combine to deprive a very fair system of the funds it needs to operate well. There is no fundamental problem with the GS system that adequate funding would not solve.

Congressional Requests:

1. Provide at least a 4.1% federal pay increase for 2027. The adjustments set forth in these bills aim to bring federal pay more in line with private sector pay. In the 35 years since the passage of FEPCA, the nationwide average pay gap has barely budged. This year, Congress should act to make at least some progress on closing the pay gap for purposes of market comparability, retention, recruitment, and to help restore the living standards of federal employees.

Enact legislation that ensures that federal civilian employees receive an annual pay adjustment no lower than that provided to the military and to federal law enforcement officers.

2. Resist the calls for pay “reform” that will introduce politics into the federal pay-setting and inevitably reduce pay and benefits for federal employees who are in the middle and lower grades of the General Schedule. Any system that rewards those at the top by providing less.

To those suspected of failing to support the administration's political agenda or are at the bottom and middle of the pay system should be strongly opposed, no matter how compelling the obfuscating rhetoric of modernization might sound.

3. Last year, President Trump provided the same annual pay adjustment to military and civilian federal workers who worked in law enforcement positions. All civilian employees should be provided with at least the same pay adjustment as military employees, following a long-established tradition. While law enforcement officers certainly deserved their 2025 pay adjustment, their non-LEO coworkers deserve the same adjustment. Going forward, we ask the Congress to continue the longstanding practice of treating the entire civilian federal workforce the same with regard to annual pay adjustments.