



AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

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National President

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November 14, 2012

Dear Senator:

On behalf of the American Federation of Government Employees, AFL-CIO, which represents 650,000 federal workers in 67 agencies throughout the nation, I strongly urge you to oppose any additional cuts to federal employee compensation during the upcoming deliberations to address deficit reduction. **To date, federal employees and their families are the lone group of Americans who have made sacrifices to deficit reduction. We have suffered cuts worth more than \$100 billion over ten years, all of which were made to reduce deficits.** Enough is enough. It's time for others to step up.

Specifically, federal employees have endured a two-year (2011 and 2012) pay freeze which saves \$60 billion over ten years. The 2013 pay raise will be only 0.5% and even that low amount will be delayed until April, the combination of which will save an additional \$28 billion.

Federal and postal employees were forced to pay **50%** of the cost of the Unemployment Insurance extension passed in February 2012, which saved \$15 billion over ten years. To achieve that savings, federal employees hired after 2012 will be required to contribute 3.1% of their salaries to their pensions, compared to the current level of 0.8%. It is important to remember that under Congressional budget rules, increases in federal employees' salary contributions to retirement score as **tax increases**.

For new, lower and middle-grade employees, like the ones AFGE represents, these changes will be harsh:

- *For a GS-3 nursing assistant earning **\$27,322** while working in a VA hospital psychiatric ward, this will be a **\$628** annual tax increase.*
- *For a GS-5 USDA meat and poultry inspector earning **\$31,825** while protecting Americans from E. Coli and other deadly diseases caused by contaminated meat, this will be a **\$732** annual tax increase.*
- *For a GS-7 federal penitentiary correctional officer earning **\$38,790** while guarding ruthless gang leaders in dangerously understaffed institutions, this will be an **\$893** annual tax increase.*

We fully expect new employees at these income levels to be forced to invest in their Thrift Savings Plan ((401)(k) plan equivalent) at a much lower level than is prudent for retirement planning purposes. In order to have a secure retirement, employees should contribute at least



5% of pay to the TSP. If they do not reach this level, these modestly paid employees will lose out on future earnings of their own savings, as well as the government match, and have much lower post-retirement living standards than Congress and the Reagan Administration intended when designing the Federal Employees Retirement System.

Federal employees have given up \$60 billion (over 10 years) in the unprecedented two-year pay freeze, and the 0.5% raise delayed to April 2013 saves an additional \$28 billion. That's a total of \$88 billion. Adding the \$15 billion in savings from the UI bill's 2.3% tax increase on post-2012 hires brings the **total sacrifice by federal employees so far to \$103 billion over ten years.** (This does not include the massive downsizing in federal employment that we expect will result from the discretionary spending caps established by the Budget Control Act.)

Meanwhile, millionaires, billionaires, federal contractors, large corporations, recipients of agriculture subsidies, and hundreds of other legitimate targets haven't given up a nickel. It's not "shared sacrifice" if no one else is sharing in the pain.

Although the actual size of the federal service contractor workforce is unknown (which is completely indefensible), we do know that it is immense. For example, in the Defense Department, total civilian personnel funding increased from \$41 billion in 2001 to \$69 billion in 2010; during that same period, total service contract funding increased from \$104 billion to \$181 billion.

Defense contractors can charge taxpayers up to \$763,029 for the compensation of a single employee. This statutory compensation limit is based on the average level of compensation received by the top five employees of all Securities and Exchange Commission-registered corporations with sales in excess of \$50 million per year. This averaging results in a number that is applied as a compensation cap.

However, in non-DoD agencies, only the five most highly compensated executives at each contractor are held to this cap. Other contractor employees can be – and are – frequently reimbursed by taxpayers for more than \$763,000.

With budget cuts looming, it is fiscally irresponsible to allow private contractors to get away with this. Since 1998, the compensation cap on government contracts has more than doubled. Over the past 12 years, the increase in allowable government compensation to contractors has outpaced inflation by 53 percent. The increase authorized by the Office of Federal Procurement Policy in April 2012 alone represented a 10 percent increase in allowable contractor compensation while military personnel – the brave men and women actually risking their lives in defense of the nation – saw an increase of less than 2 percent and the pay of civilian federal employees was frozen. Private firms are free to pay their employees whatever they deem they are worth, but contractors should not be reimbursed by the taxpayers for such exorbitant rates.

Estimates obtained from senior DoD staff indicate that capping reimbursement of compensation to \$200,000 per contractor employee would result in savings of at least \$5 billion a yearⁱ. A senior Army official testified the savings would be even higher.ⁱⁱ

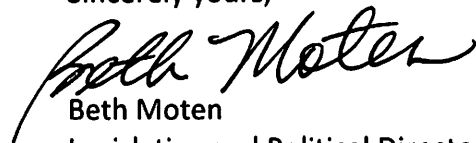
Contrary to what some contractors claim, compensation levels over \$230,000 are not required to find and retain a talented workforce. David Wineland, an employee of the Commerce Department's National Institute of Standards and Technology (NIST), just won the Nobel Prize for physics for his work to improve atomic clocks, a technology that underlies everything from smart phones to GPS mapping. Many other Nobel Laureates work at government labs earning well below \$200,000 a year.

The Commander in Chief of the United States earns \$400,000 a year. The Secretary of Defense earns \$200,000 to manage a military and civilian workforce of over 2 million. Members of Congress receive \$174,000 a year. An enlisted soldier's starting pay is under \$20,000 a year. And the average American worker earns less than \$43,000.ⁱⁱⁱ It is grossly unfair to expect working people to pay for the inflated salaries of contractor employees. Senate legislation is pending to correct these abuses: Section 842 of the FY 2013 National Defense Authorization Act (S. 3254) would lower the \$763,029 cap to \$230,700 for defense contractors. The Senate version of the FY 2013 Financial Services Appropriations bill would lower the cap to \$400,000 for non-DoD contractors.

The loyal, patriotic, working class and middle class Americans who make up the civilian federal workforce have done their part to address the budget deficit. I strongly urge you to turn your attention to those who have not yet sacrificed. The best place to start is with federal contractor compensation.

If you have any questions, I can be reached by email at motenb@afge.org.

Sincerely yours,



Beth Moten
Legislative and Political Director

ⁱ 98 Fed. Contracts Rep. 320, September 10, 2012.

ⁱⁱ Jay Aronowitz, Deputy Assistant Secretary of the Army (Force Management, Manpower and Resources) submitted the following response to a Senate request: If a \$400K/Full Time Equivalent (FTE) Rate Cap was applied to the Fiscal Year (FY) 2011 Army Inventory of Contract Services, labor costs reported in the Contractor Manpower Reporting Application (CMRA) for FY 2011 would be reduced by \$6B (approximately 15% of the \$41B in invoices reported in FY 2011 for contract services). Post-Hearing Questions for the Record Submitted to Jay Aronowitz, Deputy Assistant Secretary, Force Management, Manpower and Resources U.S. Department of Army from Senator McCaskill, "Contractors: How Much Are They Costing the Government?" March 29, 2012, p.3.

ⁱⁱⁱ National Average Wage Index for 2011, Social Security Administration. <http://www.ssa.gov/oact/cola/AWI.html> (Accessed October 17, 2012).