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HUMAN CAPITAL

Trends in Executive and Judicial Pay Suggest a Reexamination of the Total Compensation Package

Statement of David M. Walker
Comptroller General of the United States





Highlights of [GAO-06-1116T](#), a testimony before the Chairman, Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, U.S. House of Representatives

Why GAO Did This Study

People are critical to the success of the federal government’s overall transformation effort. Yet the government has not transformed, in many cases for decades, how it classifies, compensates, develops, and motivates its employees to achieve maximum results with available resources and existing authorities. This is especially the case with the federal government’s top leadership and federal justices and judges.

Leading organizations understand that they must often change their culture to successfully transform themselves, and that such a change starts with top leadership. Most importantly, senior leaders who are drivers of continuous improvement are needed to stimulate and support efforts to facilitate change and achieve related transformation efforts for the federal government.

At the Chairman’s request, we recently reported on executive and judicial pay—*Human Capital: Trends in Executive and Judicial Pay* (GAO-06-708). This testimony highlights information from that report.

www.gao.gov/cgi-bin/getrpt?GAO-06-1116T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Lisa Shames at (202) 512-6806 or shamesl@gao.gov.

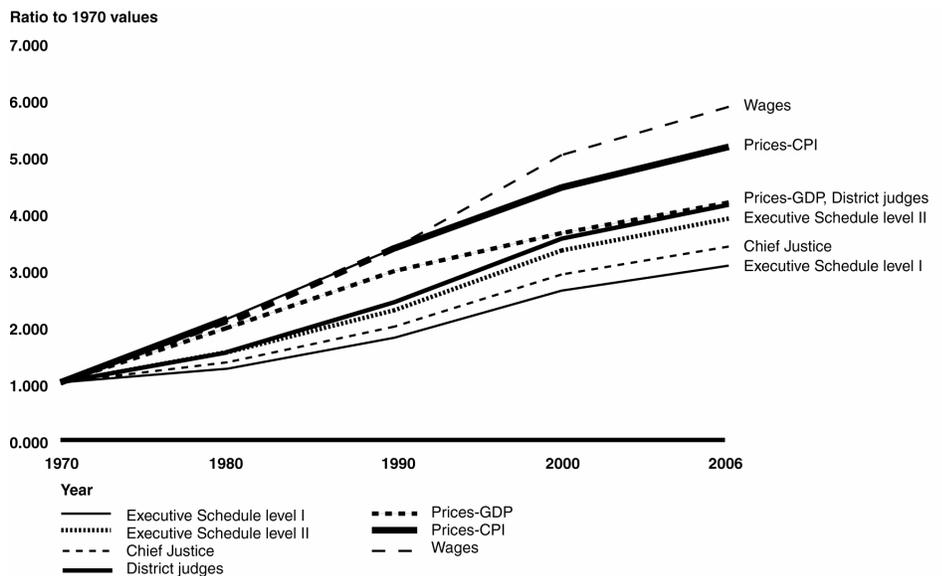
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Trends in Executive and Judicial Pay Suggest a Reexamination of the Total Compensation Package

What GAO Found

The pay rates for selected executive-level positions have not kept pace with the growth of wages from 1970 to 2006, as measured by the National Income and Product Accounts wage index for private industries. As shown below, for example, wages grew at nearly double the rate of basic pay for Executive Schedule level I positions, such as cabinet secretaries, and the Chief Justice.

Cumulative Growth of Selected Executive-Level Pay Rates Compared to Prices and Wages



Source: GAO-06-708.

To remain competitive in the market, organizations, including the federal government, may need to be flexible in the balance between cash and benefits that comprise the total compensation offered to employees. Total compensation includes elements such as cash—basic pay, locality pay, cash awards/bonuses; noncash benefits—annual and sick leave, health insurance; and deferred benefits—retirement (i.e., pension and health), life insurance. Any restructuring of executive and judicial pay should consider basic pay received as one part of the total compensation package.

While the types of experiences, responsibilities, required knowledge and skills, type of appointment, and length of service vary both within and across executive-level positions, moving forward, a commission may be an option for reexamining executive and judicial pay and compensation to ensure that the federal government’s total compensation is both reasonable and competitive in order for the government to obtain and retain the top talent it needs to address current and emerging 21st century challenges in a responsible and sustainable manner.

Chairman Porter, Representative Davis, and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss our recent report on long-term trends in executive and judicial pay that we prepared at your request, Chairman Porter.¹ As I have stated frequently, people are critical to the success of the federal government's overall transformation effort. While progress has been made in addressing human capital challenges in the last few years, significant opportunities exist to improve strategic human capital management to respond to current and emerging 21st century challenges. For example, the government has not transformed, in many cases for decades, how it classifies, compensates, develops, and motivates its employees to achieve maximum results within available resources and existing authorities.² This is especially the case with the federal government's top leadership and federal justices and judges. Leading organizations understand that they must often change their culture to successfully transform themselves, and that such a change starts with top leadership. Most importantly, senior leaders who are drivers of continuous improvement are needed to stimulate and support efforts to facilitate change and achieve related transformation efforts for the federal government.

In our report on executive and judicial pay, we found that generally the salaries for the federal government's senior leaders, including political appointees and federal justices and judges, have not been keeping pace with inflation or the growth of wages over the past 30 years. Our work is consistent with the National Commission on the Public Service's findings that the salaries for top-level government officials have not been keeping pace with inflation or maintaining reasonable relationships to the market. In 2003, the Commission recommended that top-level officials in the executive, legislative, and judicial branches receive significant increases in their salaries to ensure a reasonable relationship to relevant professional positions, such as leaders in not-for-profit and educational organizations or state and local governments.³ The Commission also recommended that

¹GAO, *Human Capital: Trends in Executive and Judicial Pay*, [GAO-06-708](#) (Washington, D.C.: June 21, 2006).

²GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 2005).

³The National Commission on the Public Service, *Urgent Business for America: Revitalizing the Federal Government for the 21st Century* (Washington, D.C.: January 2003).

Congress break the statutory link, which has been in place since 1989, between the salaries of Members of Congress and those of federal justices and judges and senior political appointees. The Commission noted that this contributes to the salaries of executive-level positions falling substantially behind cost-of-living increases and trends in the market's compensation.

Today, I will focus on three key points. Specifically, I will discuss (1) how trends in executive and judicial pay have generally not kept pace with inflation or the growth of wages, (2) how basic pay should be considered along with other benefits when examining the value of total compensation in order to remain competitive to the market for executive and judicial positions, and (3) what principles should guide any possible restructuring of executive and judicial pay in order to attract the talent needed to address 21st century challenges. We have also identified illustrative issues that deserve further reconsideration in moving forward with any executive and judicial pay restructuring. My statement is based on published GAO products that were conducted in accordance with generally accepted government auditing standards.

Trends in Executive and Judicial Pay

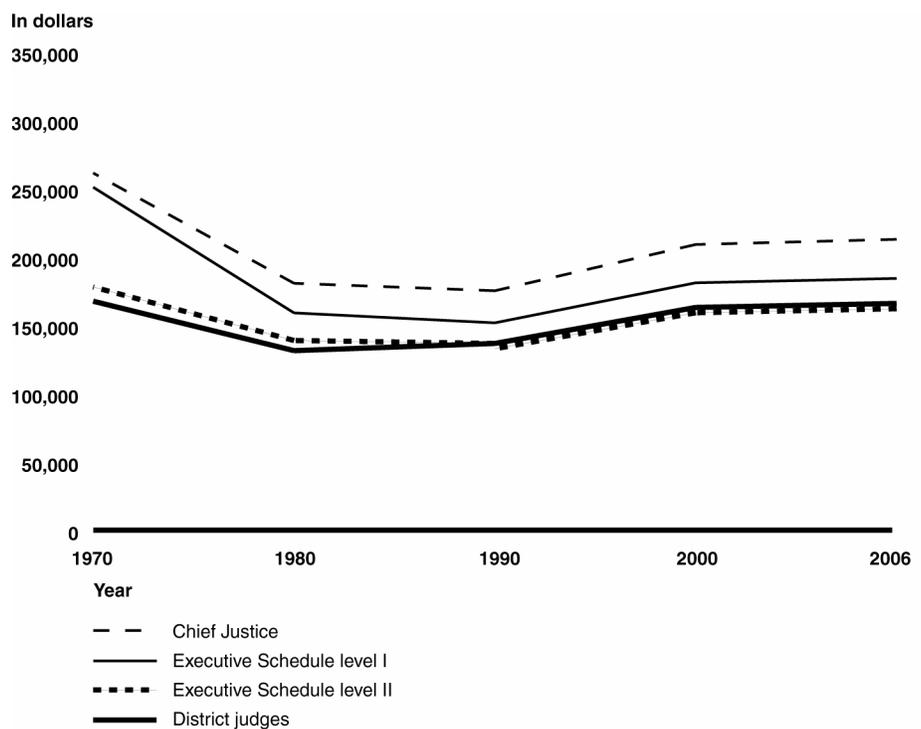
A key trend we reported is that executive-level pay rates generally have not kept pace with inflation since 1970, regardless of the inflation index used. In our recent report, we adjusted the basic pay rates from 1970 for selected executive-level positions to calendar year 2006 dollars using the Bureau of Economic Analysis's Gross Domestic Product (GDP) price deflator and the Bureau of Labor Statistics's Consumer Price Index (CPI). From 1970 to 2006, the CPI has increased at an average annual rate of 4.7 percent, whereas the GDP price deflator has increased at an average annual rate of 4.0 percent. While each index has its strengths and weaknesses in measuring inflation, historically inflation as measured by the CPI has tended to outpace inflation as measured by the GDP price deflator.⁴ For detailed information on the executive-level positions within the selected pay plans and the differences in their nominal and inflation-adjusted basic pay rates, see appendix I.

⁴For more information on these inflation indexes, see the full report on trends in executive and judicial pay, [GAO-06-708](#).

Using the GDP price deflator to adjust for inflation, the basic pay for selected Executive Schedule positions and federal justices and judges has declined from 1970 to 2006, as shown in figure 1. For example, in 1970,

- cabinet secretaries (paid at Executive Schedule level I) were paid \$250,204 (in 2006 dollars) compared to \$183,500 in 2006—a decline of about 27 percent;
- deputy secretaries (paid at Executive Schedule level II) were paid \$177,228 (in 2006 dollars) compared to \$165,200 in 2006—a decline of about 7 percent;
- the Chief Justice was paid \$260,629 (in 2006 dollars) compared to \$212,100 in 2006—a decline of about 19 percent; and
- district judges were paid \$166,802 (in 2006 dollars) compared to \$165,200 in 2006—a decrease of about 1 percent.

Figure 1: Basic Pay Rates for Selected Executive-Level Positions Adjusted for Inflation Using the Gross Domestic Product Price Deflator (in 2006 Dollars)

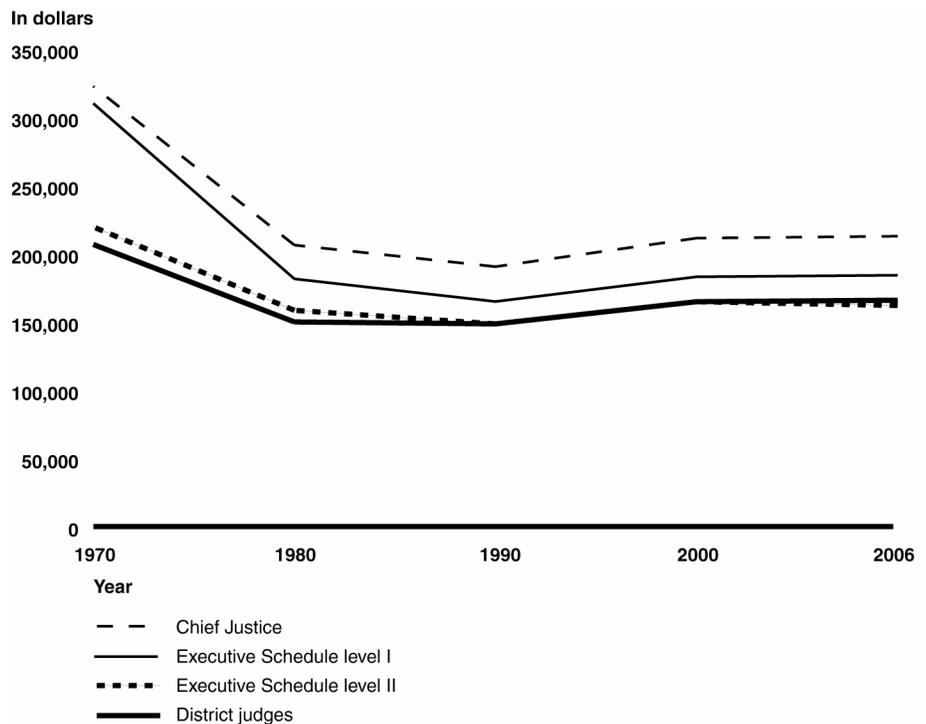


Source: GAO-06-708.

Similarly, the value of the basic pay for selected Executive Schedule positions and federal justices and judges has declined when adjusted for inflation using the CPI. Specifically, as shown in figure 2, in 1970,

- cabinet secretaries (paid at Executive Schedule level I) were paid \$309,049 (in 2006 dollars) compared to \$183,500 in 2006—a decline of about 41 percent;
- deputy secretaries (paid at Executive Schedule level II) were paid \$218,910 (in 2006 dollars) compared to \$165,200 in 2006—a decline of about 25 percent;
- the Chief Justice was paid \$321,926 (in 2006 dollars) compared to \$212,100 in 2006—a decline of about 34 percent; and
- district judges were paid \$206,033 (in 2006 dollars) compared to \$165,200 in 2006—a decrease of about 20 percent.

Figure 2: Basic Pay Rates for Selected Executive-Level Positions Adjusted for Inflation Using the Consumer Price Index (in 2006 Dollars)



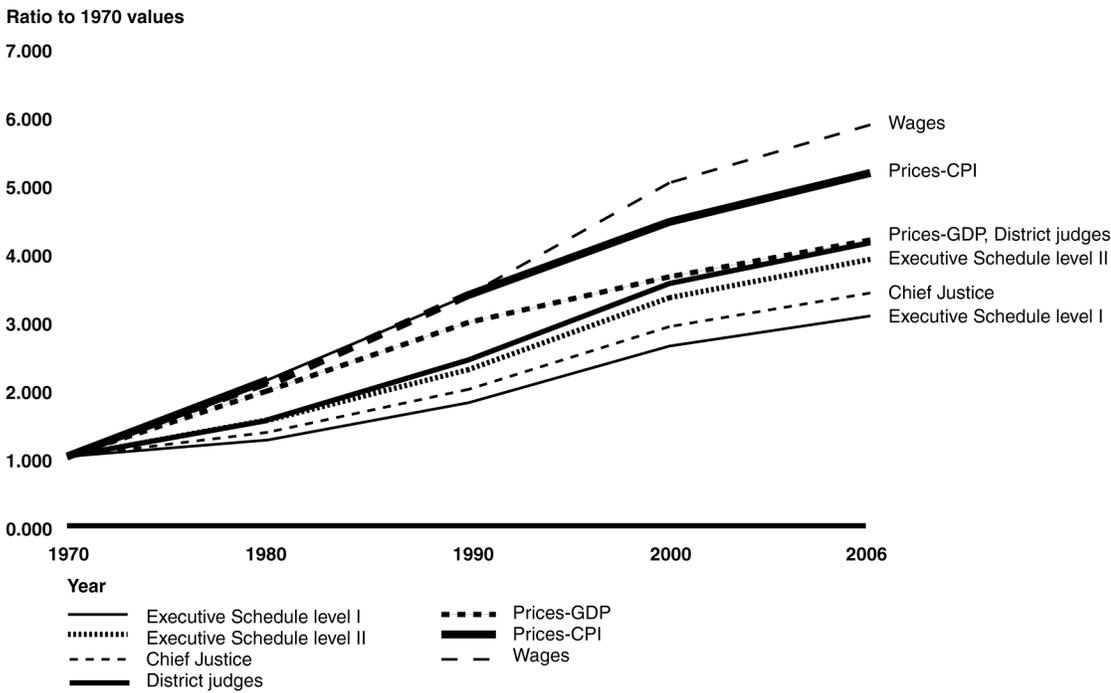
Source: GAO-06-708.

As I previously mentioned, the CPI has tended to outpace inflation as measured by the GDP price deflator. Thus, the differences in inflation-adjusted basic pay rates from 1970 to 2006 are greater when using the CPI than the GDP price deflator.

Another trend we reported is that selected executive-level pay rates have not kept pace with the growth of wages from 1970 to 2006. To measure the growth of wages, we used the Bureau of Economic Analysis's National Income and Product Accounts wage index for private industries.⁵ As shown in figure 3, wages have grown at a greater rate from 1970 to 2006 compared to the basic pay for selected executive-level positions. Specifically, wages grew at nearly double the rate of basic pay for Executive Schedule level I positions, such as cabinet secretaries, and the Chief Justice.

⁵This wage index provided a continuous series of wage data from 1970 to 2006. Wage and salary data pertaining to a more narrowly defined sector of the nonfederal workforce (e.g., white collar workers) was not available during this time period.

Figure 3: Cumulative Growth of Selected Executive-Level Pay Rates Compared to Prices and Wages



Source: GAO-06-708.

Notes: Cumulative growth when normalized to 1970 values (1970=1). Price growth is based on the GDP price deflator and the CPI. Wage growth is based on the Bureau of Economic Analysis's National Income and Product Accounts wage index for private industries.

The Value of Total Compensation for Executive and Judicial Positions

While executive and judicial pay overall has declined in value when adjusted for inflation, any restructuring of executive and judicial pay should consider basic pay received as one part of the total compensation package. We have reported that a competitive compensation system that provides individuals a mix of base pay plus other incentives can help organizations attract, motivate, and retain a quality workforce.⁶ Total compensation includes elements such as cash—basic pay, locality pay, cash awards/bonuses; noncash benefits—annual and sick leave, health insurance; and deferred benefits—retirement (i.e., pension and health), life insurance.

⁶GAO, *Human Capital: Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems*, GAO-05-832SP (Washington, D.C.: July 27, 2005).

It is important to note that the value of the total compensation will differ given an individual's choice (e.g., to use child care facilities or purchase life insurance), each agency's program decision (e.g., to participate in the student loan repayment program), and the types of compensation elements that are offered to different positions. In particular, we found that the cash, noncash, and deferred benefits vary within and across the different executive-level positions. For example, at present, selected Executive Schedule positions, administrative law judges (ALJs), inspectors general (IGs), and federal justices and judges do not receive cash awards/bonuses due to the nature of their positions, while career senior executives may receive them. All of the executive-level positions may receive noncash benefits, such as health and life insurance and retirement. However, there are differences in retirement, such as larger benefits, for federal justices and judges compared to other executive-level positions.

Organizations, including the federal government, may need to be flexible in the balance between cash and benefits that comprise the total compensation offered to employee groups in order to remain competitive in the market. For example, we recently reported for military personnel that the current mix of compensation is highly inefficient for meeting near-term recruiting and retention needs.⁷ We reported that pay received today is generally accepted as a far more efficient tool than future cash or benefits for recruitment and retention of military personnel, especially given the fact that the active duty workforce is mainly comprised of people in their twenties. The vast majority of that workforce preferred a lump-sum cash payment versus deferred compensation in the form of an annuity when given the choice. More generally, in discussing what incentives attract individuals to public service, the Merit Systems Protection Board has reported that people come to work for and stay with the federal government for a variety of reasons besides base pay. Among these reasons, obviously, is the desire to make a contribution and the personal pride or satisfaction in their work as well as the variety of benefits provided to employees.⁸

⁷GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, [GAO-05-798](#) (Washington, D.C.: July 19, 2005).

⁸U.S. Merit Systems Protection Board, *The Federal Workforce for the 21st Century: Results of the Merit Principles Survey 2000* (Washington, D.C.: September 2003).

Thus, the federal government may need to shift the balance of total compensation between pay and benefits in its pay plans in order to recruit and retain the needed talent. While we did not determine in our recent report the balance of total compensation between pay and benefits within and across executive-level positions, overall federal civilian employees receive, in broad terms, most of their compensation—about 67 percent—in salary and wages and about 33 percent in the form of benefits or deferred compensation.⁹ For workers in private industries, we recently reported that their salary and wages made up 71 percent of total compensation, while benefits accounted for 29 percent.¹⁰ However, additional analysis would be needed to determine if these ratios correspond to executive and judicial positions. For example, unlike other federal employees, federal justices and judges are permitted to retire with full pay and benefits when the sum of the judge’s age and number of years on the bench is 80.

Principles for Restructuring Executive and Judicial Pay

The federal government needs to attract and retain the quality and quantity of executive leadership necessary to address 21st century challenges. To help the government remain competitive with the relevant markets, any restructuring of executive and judicial pay should be guided by a set of principles. Executive and judicial pay plans should be

- **sensitive to hiring and retention trends**—actual trends, such as demographic, workforce, and economic trends and their effects on the federal government’s ability to hire and retain high-quality persons for these positions are considered;
- **reflective of responsibilities, knowledge and skills, tenure, and contributions**—the positions are appropriately compensated to reflect these differences both within and across executive-level pay plans;
- **transparent**—Congress, leadership, and the public can easily understand the value of the compensation and contributions;

⁹[GAO-05-798](#).

¹⁰GAO, *Employee Compensation: Employer Spending on Benefits Has Grown Faster Than Wages Due Largely to Rising Costs for Health Insurance and Retirement Benefits*, [GAO-06-285](#) (Washington, D.C.: Feb. 24, 2006).

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- **market-sensitive**—the compensation of the relevant markets (e.g., private or nonprofit sectors) is appropriately considered;
 - **flexible to economic change**—changes in the nation’s economy, such as extraordinary economic circumstances or severe budgetary constraints, can be accommodated;
 - **sustainable**—over the longer term, given known cost trends and risks and future fiscal imbalances, executive-level pay plans are financially sustainable; and
 - **competitive**—reasonable total compensation and other elements necessary to attract and retain leadership can help ensure the optimum use of taxpayers’ dollars and make the most efficient allocation between cash and noncash benefits.

Issues for Reconsideration in Executive and Judicial Pay

While the types of experiences, responsibilities, and required knowledge and skills vary both within and across executive-level positions, as well as the type of appointment and length of service, there are several illustrative issues that deserve further reconsideration in possibly restructuring executive and judicial pay.

- **Maintaining a reasonable relationship across executive-level positions.** In 1970, there was no overlap in the pay for the Executive Schedule and the other executive-level positions, such as career senior executives. Specifically, the lowest pay level of the Executive Schedule (level V) covering positions such as commissioners or general counsels of smaller agencies was greater than the maximum basic pay for career senior executives. By 1990, these pay plans began to overlap so that the lowest paid political appointees under the Executive Schedule were making less than the highest paid career senior executives. By 2006, the pay for Executive Schedule level II covering positions such as deputy secretaries of cabinet departments equaled the maximum basic pay for career senior executives not including cash awards/bonuses.

A commission may be an option for reexamining executive and judicial pay and compensation and exploring ways to maintain a reasonable relationship across these executive-level positions and to the relevant markets, such as nonprofit and educational organizations or state and local governments. This would help ensure that the federal government’s total compensation is reasonable and competitive in order for the government to obtain and retain the top talent it needs. In

1967, Congress established the Commission on Executive, Legislative, and Judicial Salaries (known as the Quadrennial Commission) to study salaries of political appointees, Members of Congress, federal justices and judges, and other top-level government officials every 4 years and report to the President on its recommendations for salary increases. The Commission—composed of nine individuals appointed from the private sector—was to recommend salary increases for these positions in order to maintain a reasonable relationship between these positions and with private sector salaries. The President accepted the recommended salary increases for these positions, which went into effect in 1969. For example, the salary for cabinet secretaries increased from \$35,000 in 1968 to \$60,000 in 1969. In 1989, Congress abolished the Quadrennial Commission, transferring its authority and responsibilities to the Citizens’ Commission on Public Service and Compensation. However, this Commission, which was to be appointed during fiscal year 1993 and then every fourth fiscal year, has never been appointed. Commission members were to be appointed from private life by the President, Congressional leadership, and the Chief Justice, among others.

- **Recognizing equity issues.** At our recent panel on the authorities and responsibilities of IGs, the majority of panel participants stated that the pay structure for IGs needed to be addressed given the importance of providing reasonable and competitive compensation.¹¹ Currently, there are differences in the basic pay rates for IGs based on the level of appointment, even though the powers and duties extended to IGs in either appointment are essentially the same. Most IGs for cabinet departments and major agencies are appointed by the President subject to Senate confirmation (paid at Executive Schedule level IV). However, IGs for some agencies, such as the National Science Foundation and the Securities and Exchange Commission, are appointed by the agency head and paid at varying amounts including General Schedule grade 15 or Senior Executive Service (SES) pay rates. Such equity issues should be examined in any restructuring of executive-level pay.
- **Considering performance-based bonuses.** There are executive-level positions that are not eligible to receive bonuses (or awards) due to the nature of the positions. For example, selected Executive Schedule positions that are appointed by the President subject to Senate

¹¹GAO, *Highlights of the Comptroller General’s Panel on Federal Oversight and the Inspectors General*, GAO-06-931SP (Washington, D.C.: Sept. 11, 2006).

confirmation (including selected IGs), ALJs, and federal justices and judges do not. Bonuses awarded within a system that incorporates appropriate safeguards may be an option for rewarding individuals in these positions for their contributions. Appropriate safeguards, including reasonable transparency and appropriate accountability mechanisms, can help ensure fairness and prevent abuse. Any bonuses must be performance-based with a mechanism for assessing individuals' performance from multiple sources of input. In addition, checks and balances to help ensure that the positions' independence is not compromised are especially important for IGs, federal justices and judges, and selected other positions.

- **Recognizing anomalies between comparable pay plans.** There are anomalies between comparable pay plans, such as for the career SES and senior level/scientific or professional (SL/ST) positions. For example, as of January 2004, the aggregate pay cap (basic pay plus awards/bonuses) for SES and SL/ST positions is higher for individuals whose agencies have performance management systems certified by the Office of Personnel Management with concurrence from the Office of Management and Budget. However, the higher basic pay cap only applies to SES members under certified performance management systems, not SL/ST positions.

Conclusions

As I have discussed, leading organizations understand that they must often change their culture to successfully transform themselves, and that such a change starts with top leadership. To help attract this talent, restructuring of executive and judicial pay—guided by a set of principles—may be necessary to help the government remain competitive with the relevant markets. However, any restructuring of executive and judicial pay should consider basic pay received by executive-level positions as one part of the total compensation package. Further, the federal government may need to shift the mix of total compensation between pay and benefits in order to recruit and retain the needed executive-level talent. Moving forward, a commission may be an option for reexamining executive and judicial pay and compensation to ensure that the federal government's total compensation is both reasonable and competitive in order for the government to obtain and retain the top talent it needs to address current and emerging 21st century challenges in a responsible and sustainable manner.

Chairman Porter, Representative Davis, and Members of the Subcommittee, this concludes my statement. I would be pleased to respond to any questions that you may have.

Contact and Acknowledgments

For further information regarding this statement, please contact Lisa Shames, Acting Director, at (202) 512-6806 or shamesl@gao.gov. Janice Latimer made key contributions to this statement.

Appendix I: Percentage Differences in Nominal and Inflation-Adjusted Basic Pay Rates for Executive-Level Positions from 1970 to 2006

Executive-level positions within the selected pay plans	1970—Pay rates (in dollars)			2006—Pay rates (in dollars)	Percentage differences from 1970 to 2006		
	Nominal	Inflation-adjusted (GDP)	Inflation-adjusted (CPI)	Nominal/Inflation-adjusted (GDP and CPI)	Nominal	Inflation-adjusted (GDP)	Inflation-adjusted (CPI)
Executive Schedule—level I (e.g., cabinet secretaries)	\$60,000	\$250,204	\$309,049	\$183,500	206	(27)	(41)
Executive Schedule—level II (e.g., deputy secretaries, Senators, and Members of the House of Representatives)	42,500	177,228	218,910	165,200	289	(7)	(25)
Executive Schedule—level III (e.g., undersecretaries and deputies of most agencies)	40,000	166,802	206,033	152,000	280	(9)	(26)
Executive Schedule—level IV (e.g., selected inspectors general, chief financial and information officers)	38,000	158,462	195,731	143,000	276	(10)	(27)
Executive Schedule—level V (e.g., commissioners, associate directors)	36,000	150,122	185,429	133,900	272	(11)	(28)
Senior Executive Service—for agencies with performance management systems that are not certified	35,505	148,058	182,880	152,000	328	3	(17)
Senior Executive Service—for agencies with certified performance management systems	35,505	148,058	182,880	165,200	365	12	(10)
Senior-level/scientific or professional	35,505	148,058	182,880	152,000	328	3	(17)
Administrative law judges	35,505	148,058	182,880	152,000	328	3	(17)
Members of Boards of Contract Appeals	29,752	124,068	153,247	152,000	411	23	(1)
General Schedule grade 15, step 10	29,752	124,068	153,247	139,774	370	13	(9)
Chief Justice	62,500	260,629	321,926	212,100	239	(19)	(34)
Associate justices	60,000	250,204	309,049	203,000	238	(19)	(34)
Circuit judges	42,500	177,228	218,910	175,100	312	(1)	(20)
District judges	40,000	166,802	206,033	165,200	313	(1)	(20)
Judges of the U.S. Court of International Trade	40,000	166,802	206,033	165,200	313	(1)	(20)

Source: GAO.

Notes: We provided the maximum basic pay rates for the Senior Executive Service, senior-level/scientific or professional, administrative law judge, and Board of Contract Appeals positions and included locality pay for the Washington, D.C./Baltimore area in the basic pay rates for the senior-level/scientific or professional, administrative law judge, Board of Contract Appeals, and General Schedule grade 15, step 10, positions in 2006.

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