

STATEMENT OF THE HONORABLE DAN G. BLAIR
DEPUTY DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

on

COMPENSATION REFORM FOR FEDERAL EMPLOYEES

APRIL 1, 2003

MADAM CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

GOOD AFTERNOON. ON BEHALF OF THE DIRECTOR OF THE OFFICE OF PERSONNEL MANAGEMENT (OPM), KAY COLES JAMES, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS COMPENSATION REFORM FOR FEDERAL EMPLOYEES.

SHORTLY AFTER HER APPOINTMENT AND CONFIRMATION AS THE DIRECTOR OF OPM, KAY COLES JAMES ASKED OPM STAFF TO TAKE AN IN-DEPTH LOOK AT THE WAY THE FEDERAL GOVERNMENT PAYS ITS WHITE-COLLAR EMPLOYEES. THE PRODUCT OF THAT REVIEW WAS A WHITE PAPER, ENTITLED "A FRESH START FOR FEDERAL PAY: THE CASE FOR MODERNIZATION." THE WHITE PAPER WAS DESIGNED TO "LET THE CONVERSATION BEGIN." ALTHOUGH IT PURPOSELY DID NOT LAY OUT SPECIFIC PROPOSALS FOR CHANGING THE WAY WHITE-COLLAR EMPLOYEES ARE PAID, THE WHITE PAPER DID LAY BARE A NUMBER OF

PROBLEMS WITH THE FEDERAL GOVERNMENT'S CURRENT WHITE-COLLAR PAY AND JOB EVALUATION SYSTEMS. THE WHITE PAPER CONCLUDED STRAIGHTFORWARDLY THAT THE GENERAL SCHEDULE PAY SYSTEM—

- (1) IS ANTIQUATED AND SUITS THE WORKFORCE STRUCTURE OF 1950, NOT TODAY'S KNOWLEDGE WORKERS;
- (2) HAS MINIMAL ABILITY TO ENCOURAGE AND REWARD ACHIEVEMENT AND RESULTS;
- (3) DOES NOT ADEQUATELY REFLECT MARKET PAY LEVELS; AND
- (4) PRECLUDES AGENCIES FROM TAILORING PAY PROGRAMS TO THEIR SPECIFIC MISSIONS AND LABOR MARKETS.

SINCE THE RELEASE OF THE WHITE PAPER A YEAR AGO, THE CONVERSATION ABOUT PAY MODERNIZATION HAS CONTINUED IN A NUMBER OF FORUMS. LAST YEAR, CONGRESS ENACTED LEGISLATION ESTABLISHING A NEW DEPARTMENT OF HOMELAND SECURITY (DHS). IN SO DOING, CONGRESS RECOGNIZED THE NEED OF THE NEW DEPARTMENT FOR A MODERNIZED APPROACH TO COMPENSATION BY AUTHORIZING THE DIRECTOR OF OPM AND THE SECRETARY OF HOMELAND SECURITY JOINTLY TO DEVELOP AND ESTABLISH NEW HUMAN RESOURCES SYSTEMS FOR DHS, INCLUDING NEW BASIC PAY SYSTEMS. WE ARE NOW IN THE INITIAL STAGES OF WORKING WITH DHS MANAGERS AND EMPLOYEES TO IDENTIFY OPTIONS FOR FURTHER CONSIDERATION LATER THIS YEAR.

EARLY THIS YEAR, THE NATIONAL COMMISSION ON THE PUBLIC SERVICE, CHAIRED BY PAUL VOLCKER, ISSUED ITS REPORT, ENTITLED “URGENT BUSINESS FOR AMERICA: REVITALIZING THE FEDERAL GOVERNMENT FOR THE 21ST CENTURY.” AMONG THE MANY THOUGHT-PROVOKING CONCLUSIONS OF THIS REPORT WAS THAT “THE FEDERAL GOVERNMENT MUST BE RESHAPED, AND THE SYSTEMS THAT SUPPORT IT MUST BE ROOTED IN NEW PERSONNEL MANAGEMENT PRINCIPLES THAT ENSURE MUCH HIGHER LEVELS OF GOVERNMENT PERFORMANCE.” THE REPORT RECOMMENDS THAT THE CURRENT GENERAL SCHEDULE SYSTEM BE ABOLISHED AND NOTES THAT, UNDER THE PRESSURE FOR BETTER PERFORMANCE, MOVEMENT AWAY FROM THE GENERAL SCHEDULE HAS ALREADY BEGUN. WE AGREE WITH THE VOLCKER COMMISSION THAT ANY NEW PAY SYSTEM FOR FEDERAL EMPLOYEES MUST BE DESIGNED SO THAT AGENCIES CAN BETTER RECOGNIZE AND VALUE THE COMPETENCIES AND CONTRIBUTIONS OF THEIR EMPLOYEES.

THE PRESIDENT’S BUDGET FOR FISCAL YEAR 2004 INCLUDES TWO PROPOSALS THAT ARE DESIGNED TO HELP THE FEDERAL GOVERNMENT BEGIN TO CREATE A PAY-FOR-PERFORMANCE CULTURE. THE FIRST OF THESE PROPOSALS IS THE ESTABLISHMENT OF A NEW “HUMAN CAPITAL PERFORMANCE FUND.” UNDER THE ADMINISTRATION’S PROPOSAL, \$500 MILLION WOULD BE APPROPRIATED IN FY 2004 FOR ALLOCATION BY OPM TO AGENCIES THAT SUBMIT A PLAN TO USE THEIR SHARE OF THIS FUND FOR PERFORMANCE-BASED INCREASES IN BASIC PAY.

THE HUMAN CAPITAL PERFORMANCE FUND WOULD BE AN IMPORTANT NEW TOOL FOR USE BY FEDERAL AGENCIES IN REWARDING HIGH-PERFORMING EMPLOYEES. IT POINTS THE WAY TOWARD GREATER EMPHASIS ON EMPLOYEE PERFORMANCE AND CONTRIBUTIONS TO MISSION ACCOMPLISHMENT, RATHER THAN LONGEVITY. BY REQUIRING ROBUST PERFORMANCE MANAGEMENT AS A CRITERION FOR FUNDING, IT WOULD ALSO PROVIDE AN INCENTIVE FOR AGENCIES TO IMPROVE THEIR PERFORMANCE MANAGEMENT SYSTEMS AND HUMAN CAPITAL STRATEGIES AND ALIGN THEM MORE CLOSELY WITH THEIR MISSION AND GOALS.

THE PRESIDENT'S PROPOSAL TO ESTABLISH A NEW HUMAN CAPITAL PERFORMANCE FUND WOULD NOT AFFECT THE OPERATION OF THE GENERAL SCHEDULE PAY SYSTEM ITSELF. INDIVIDUAL EMPLOYEES WOULD REMAIN AT THEIR EXISTING GRADE AND STEP AND WOULD CONTINUE TO RECEIVE ANNUAL ACROSS-THE-BOARD PAY INCREASES, LOCALITY PAYMENTS, AND PERIODIC WITHIN-GRADE INCREASES. ANY PAYMENT FROM THE HUMAN CAPITAL PERFORMANCE FUND, HOWEVER, WOULD BE TREATED AS BASIC PAY FOR RETIREMENT AND BENEFITS PURPOSES AND WOULD STAY WITH THE EMPLOYEE IN FUTURE YEARS.

THIS PROPOSAL WOULD LEAVE THE GENERAL SCHEDULE PAY AND JOB EVALUATION SYSTEM BASICALLY INTACT. BUT IT IS AN IMPORTANT FIRST STEP IN OUR EFFORTS TO BRING PERFORMANCE-BASED COMPENSATION TO THE FEDERAL GOVERNMENT. WITH THIS PROPOSAL, WE CAN BEGIN

DISTINGUISHING BETWEEN HIGH AND LOW PERFORMERS IN A MEANINGFUL WAY.

THE SECOND BUDGET PROPOSAL TO INCREASE THE PERFORMANCE-SENSITIVITY OF FEDERAL PAY SYSTEMS FOCUSES ON THE GOVERNMENT'S SYSTEM FOR COMPENSATING SENIOR EXECUTIVES. THE ADMINISTRATION RECOGNIZES THAT "PAY COMPRESSION" WITHIN THE SENIOR EXECUTIVE SERVICE (SES) COULD RESULT IN SERIOUS RECRUITMENT AND RETENTION PROBLEMS. PERHAPS EVEN MORE IMPORTANTLY, THE CURRENT STRUCTURE OF THE SES PAY SYSTEM—UNDER WHICH MORE THAN 60 PERCENT OF ALL SENIOR EXECUTIVES RECEIVE EXACTLY THE SAME SALARY—FAILS TO SUPPORT THE OBJECTIVE OF DEVELOPING A PAY-FOR-PERFORMANCE CULTURE IN THE FEDERAL GOVERNMENT. IF WE CANNOT DEMONSTRATE THE VALUE OF A PERFORMANCE-ORIENTED PAY SYSTEM FOR OUR SENIOR EXECUTIVES, HOW CAN WE EXPECT TO FOSTER THE DEVELOPMENT OF PERFORMANCE-ORIENTED PAY SYSTEMS FOR THE REST OF THE FEDERAL WORKFORCE?

THE ADMINISTRATION'S SES PAY REFORM PROPOSAL WOULD ELIMINATE THE FIXED PAY LEVELS WITHIN THE CURRENT SES PAY SYSTEM IN FAVOR OF AN OPEN PAY RANGE WITH A HIGHER PAY CAP. BY ALLOWING FEDERAL AGENCIES TO ADJUST PAY FOR SES MEMBERS WITHIN A LARGER PAY RANGE, AGENCIES WOULD BE ABLE TO MAKE MEANINGFUL DISTINCTIONS IN PAY BASED ON EACH INDIVIDUAL EXECUTIVE'S PERFORMANCE AND CONTRIBUTION TO THE AGENCY'S MISSION AND GOALS. A "ONE SIZE FITS ALL" PAY SYSTEM DOESN'T

WORK FOR SENIOR EXECUTIVES ANY BETTER THAN IT WORKS FOR OTHER EMPLOYEES, AND WE ARE EAGER TO SHOW THAT A PERFORMANCE-ORIENTED PAY SYSTEM CAN WORK FOR SENIOR EXECUTIVES.

WE BELIEVE THE ADMINISTRATION'S "HUMAN CAPITAL PERFORMANCE FUND" AND SES PAY REFORM PROPOSALS REPRESENT MAJOR STEPS TOWARD THE LONGER-TERM GOAL OF MODERNIZING FEDERAL PAY SYSTEMS. WE ARE CONFIDENT THAT THESE PROPOSALS WILL KEEP THE CONVERSATION MOVING IN THE RIGHT DIRECTION. THESE TWO PROPOSALS TO INCREASE THE PERFORMANCE SENSITIVITY OF FEDERAL PAY SYSTEMS ARE GROUND-BREAKING.

SOME OF THE PROBLEMS DESCRIBED IN OPM'S WHITE PAPER WILL REQUIRE DIFFERENT SOLUTIONS. THIS IS PARTICULARLY TRUE FOR OUR BASIC JOB EVALUATION SYSTEM, WHICH REQUIRES MAKING DISTINCTIONS AMONG 15 SEPARATE GRADE LEVELS OF WHITE COLLAR WORK. MODERN KNOWLEDGE-BASED WORK IS SIMPLY NOT SUITED TO SUCH PIGEON-HOLING, AND OPM REMAINS COMMITTED TO PROPOSING MORE MODERN APPROACHES TO MEET THE MERIT SYSTEM PRINCIPLE OF PROVIDING EQUAL PAY FOR WORK OF EQUAL VALUE.

AS A FINAL POINT BEFORE CLOSING, I ALSO WANT TO ACKNOWLEDGE THE IMPORTANT PART THAT EFFECTIVE PERFORMANCE MANAGEMENT WILL PLAY IN ANY REFORM OF FEDERAL COMPENSATION. OPM'S WHITE PAPER NOTES HOW

CREDIBLE, RELIABLE PERFORMANCE MEASURES THAT MAKE APPROPRIATE PERFORMANCE DISTINCTIONS ARE CRITICAL TO SUCCESSFULLY INCREASING THE LINK BETWEEN PERFORMANCE AND PAY.

WE ARE MINDFUL THAT MANY AGENCIES HAVE WORK TO DO TO GET THEIR PERFORMANCE MANAGEMENT PROGRAMS AND PRACTICES INTO SHAPE TO SUPPORT PAY-FOR-PERFORMANCE. SUPERVISORS AND MANAGERS MUST BE TRAINED AND HELD ACCOUNTABLE FOR SETTING CLEAR EXPECTATIONS, PROVIDING ONGOING FEEDBACK, MAKING MEANINGFUL DISTINCTIONS AMONG LEVELS OF EMPLOYEE PERFORMANCE, AND ACTING ON THOSE DISTINCTIONS.

THIS CONCLUDES MY REMARKS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.