

# WebMemo



Published by The Heritage Foundation

No. 3453  
January 12, 2012

## Federal Compensation: Why Government Pay Is Inflated

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### How Does Federal Compensation Compare to Market Rates?

- The average federal employee earns 57 percent greater cash pay and 85 percent greater total compensation (which includes benefits) than the average private-sector worker.
  - This is an apples-to-oranges comparison because federal employees have more education and experience than private-sector workers.<sup>1</sup>
- Controlling for observable skills and characteristics allows economists to make an apples-to-apples comparison between private-sector and federal employees.
  - Doing so shows that the federal pay system gives the average federal employee hourly cash earnings 22 percent above the average private worker's.
  - Including benefits raises the average compensation disparity to between 30 and 40 percent.
- Federal workers receive automatic seniority-based raises irrespective of performance. President Obama's suspension of the annual cost-of-living adjustment does not affect these raises.
- Despite these average pay differences, many federal employees are not overpaid. The General Schedule does not connect pay with performance. Many of the hardest-working and most highly skilled federal employees receive at- or below-market compensation.
- Federal benefits include:
  - More expensive health benefits.
  - Both a defined-benefit and defined-contribution pension plan.
  - Full retirement at 56.
  - Retiree health benefits.
  - Significantly more paid leave than private-sector workers. A federal employee with three years on the job receives all 10 federal holidays, 20 paid vacation days, and 13 sick leave days per year.
- Federal employees enjoy job security irrespective of the state of the economy. Since the recession began, federal employment (not including the Postal Service) has risen by 230,000, or 12 percent. Federal employees are almost never fired for poor performance.
- Federal employees demonstrate with their actions that they receive better compensation in

This paper, in its entirety, can be found at:  
<http://report.heritage.org/wm3453>

Produced by the Center for Data Analysis

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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the public sector than in the private sector: They quit their jobs at one-third the rate of private employees.

### Policy Concerns

- Taxpayers should not sacrifice so that federal employees can enjoy better pay and benefits than they could hope to receive in the private sector.
- Many federal employees retire in their late 50s, collect their pension and retiree health benefits, and then take a second job in the private sector. Taxpayers should not have to subsidize this double-dipping.
- The General Schedule does not connect pay and performance. Workers automatically receive step and grade increases in pay whether they work diligently or not. It is almost impossible to fire an underperforming federal employee. This reduces the productivity of federal workers.

- It would be better to scrap the General Schedule and move to a performance pay system with federal pay tied to market rates and market signals of labor demand.

### Economic Effects

- Reducing federal pay to market rates would save taxpayers approximately \$47 billion per year.
- This reduces the deficit without reducing public services.
- This also frees up more resources for private businesses to save and invest, expanding the economy and creating more jobs.

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1. James Sherk, "Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service," Heritage Foundation Center for Data Analysis Report No. CDA10-05, July 7, 2010, at <http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-are-overtaxed-to-overpay-the-civil-service>.