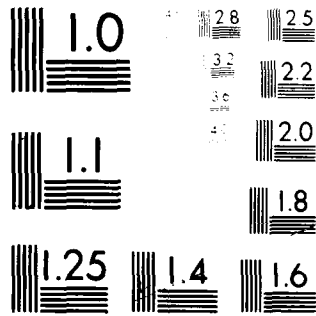


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AUGUST 26, 1981

The Honorable Mary Rose Oakar
Chair, Subcommittee on Compensation
and Employee Benefits
Committee on Post Office and Civil
Service
House of Representatives

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Dear Madam Chair:

Subject: Alternatives to the Current Method of Computing
General Schedule Pay (FPCD-81-60)

This report responds to your March 10, 1981, letter request-
ing us to determine the costs that could be saved if the method
of compensating General Schedule employees was based on the actual
work hours in a calendar year. 'General Schedule employees' annual
salaries are based on 2,080 hours, or 260 workdays, even though
there are usually one or two additional workdays in a calendar
year for which employees are also paid. Our review showed that
computing biweekly pay using either actual or average work hours
in a year would reduce Government costs by approximately \$120
million annually.

As you requested, we reviewed the legislative basis for es-
tablishing the existing method for computing pay, examined al-
ternatives to the current method, and examined the impact these
alternatives would have on payroll systems. We identified two
feasible alternatives to compensate employees on the basis of
either actual or average work hours in a calendar year.

LEGISLATIVE BASIS FOR COMPUTING
GENERAL SCHEDULE PAY

The Congress passed the Federal Employees Pay Act of 1945
(5 U.S.C. 5504) to (1) simplify payroll procedures and computa-
tions and (2) correct inequities in the method used to pay over-
time to salaried employees. The law provides that General
Schedule employees will receive their annual base salary over
26 biweekly pay periods of 80 hours each and establishes the
following method for computing biweekly pay:

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- The annual salary is divided by 2,080 hours to determine an hourly rate.
- The hourly rate is rounded to the nearest cent.
- The hourly rate is multiplied by 80 hours to determine biweekly pay.

Before 1943, most departments and agencies had no legislation specifying how many hours a salaried Federal employee had to work to complete a basic workweek. Individual departments and agencies determined this. In 1943, the Congress passed the temporary War Overtime Pay Act to establish a regular 40-hour workweek for salaried employees. The act authorized overtime payments for any work exceeding 40 hours. Furthermore, the act defined the salaried work year to be 360 days--using 2,880 hours (360 X 8) as the divisor for computing overtime hourly rates.

The War Overtime Pay Act expired in June 1945, and to replace it, the Congress enacted the Federal Employees Pay Act of 1945. At that time, the House Committee on Civil Service's objective was to establish pay administration policies that would be uniform for Federal salaried employees. The Committee stated that pay procedures for these employees should be consistent with procedures for Federal blue-collar workers, who were authorized to work a basic 40-hour work week over a 52-week period, or 2,080 hours. The Committee said that using 2,080 hours as the divisor for determining salaried employees' hourly rates would

- create more equitable overtime pay administration for white-collar workers who, because of the 2,880 hourly divisor in the 1943 act, received a relatively lower overtime rate than blue-collar workers and
- realistically reflect the actual hours worked by salaried employees in any given year.

Furthermore, the Committee said that salaried employees' payroll computations could be simplified by allocating pay over 26 bi-weekly pay periods instead of the 24 semimonthly pay periods used at that time.

ALTERNATIVES TO 2,080-HOUR METHOD OF COMPUTING HOURLY PAY

The 2,080-method for computing hourly pay is based on a 260-day work year, even though some years contain 261 or 262 workdays. Thus, the General Schedule pay administration procedures do not reflect the actual workdays in every calendar year, and in some years employees receive an annual salary for less than a full year's work. Because 26 biweekly pay periods cover only 364 days in a calendar year, the end of a payroll year gradually

moves away from the end of the calendar year. For example, a payroll year beginning on January 1 would end on December 30. The next year it would end on December 29, the next year December 28, etc. This slippage of 1 or 2 days each year (2 days for Leap Year) continues for about 11 or 12 years until the pay periods are re-aligned with the end of the calendar year. The result is that in the 11th or 12th year, employees receive pay--a 27th paycheck--for an additional pay period.

Two alternative methods are available which would better reflect the actual number of workdays in a year and would not substantially alter the present white-collar pay administration procedures. These alternatives would maintain the simplicity of the current pay administration procedures and would not change the 26 biweekly pay system.

Under one alternative, the annual salary could be divided by the actual work hours in each year--2,080, 2,088, or 2,096--to compute employees' hourly rates. This method would require that the appropriate divisor be determined each year and entered into the payroll system.

A second alternative would be to use 2,087 work hours every year as the divisor to determine hourly rates. This method would not reflect the actual number of work hours in a calendar year, but would be more precise than the current method because it represents the average number of work hours over a 28-year perpetual calendar cycle--the time it takes for the calendar to repeat itself. This method would require that 2,087 hours be substituted in the law for 2,080 hours in determining hourly rates. This would be a one-time change and would not have any subsequent effect on the payroll systems.

On the basis of a total General Schedule work force of about 1.4 million employees in fiscal year 1979, we calculated that either alternative would result in reduced costs to the Government of about \$120 million annually. ^{1/} This occurs because these employees would receive a reduced hourly rate for basic pay which would also lower hourly premium pay rates. Furthermore, the decrease in payroll costs would reduce the Government contribution for retirement. The following table shows the reduced costs in basic pay, premium pay, and the Government's share of retirement costs generated by each alternative.

^{1/}This cost reduction would result in some decrease in Federal income tax receipts.

Annual cost reductions

	<u>Actual-hour method</u>	<u>2,087-hour method</u>
	(millions)	
Basic pay	\$90.2	\$88.6
Premium pay	3.2	3.1
Government's share of retirement costs	<u>26.9</u>	<u>26.4</u>
Total	<u>\$120.3</u>	<u>\$118.1</u>

We believe that changing the present method of computation to either alternative is a matter for the Congress to decide. The 2,087-hour method would reduce the average General Schedule employees' salary payments by \$62 a year. The reduction would range from \$41.60 for a GS-1 step 1 employee to \$166.40 for a GS-15 step 1 employee. The actual work-hours method would also reduce annual salaries in most years by comparable amounts. Such a change may have a negative effect on employee morale, especially in view of the fact that General Schedule employees have not received full comparability increases in recent years.

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We did not obtain agency comments because this is an informational report containing no recommendations.

As your office requested, we do not plan to distribute this report until 10 days after its issue date. At that time, we will send copies to the Office of Personnel Management, the Office of Management and Budget, and other interested parties and will make copies available to others upon request.

Sincerely yours,

Milton J. Jordan
Acting Comptroller General
of the United States

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