



## **Pay Compression in the DoD Workforce**

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### **Abstract**

The U.S. Department of Defense (DoD) seeks to attract and retain the best civilian workforce to ensure the highest quality products are delivered to our Soldiers. DoD civilian workers are a key element of the National Defense Strategy and successfully modernizing our military; hence recruitment and retention of these resources is paramount. This qualitative study examines pay compression and the impacts on the DoD Civilian Workforce. Pay compression is a mismatch in employee pay based on one or more conditions such as position, qualifications, seniority, or supervisory status.

The research revealed factors that contribute to pay compression including candidate supply and demand, failure to correct for market changes when giving raises, minimum wage increases, poorly structured or broad pay scales, pay transparency, differences in terms, mergers or acquisitions, pay caps, and federal regulations. Specific to the Federal workforce, which includes the DoD Civilian workforce, many of the factors that drive pay compression are controlled by federal regulations such as pay scale, pay caps, annual adjustments, and rules for pay increases.

One of the most cited factors for pay compression in the Federal workforce was pay caps. While locality pay was instituted to help bring pay parity for Government Civilians, the pay cap counters the benefit by creating pay compression within the workforce. The pay cap most heavily impacts those employees in areas where the greatest help is needed to compete with Industry for personnel. The issue with pay caps has grown over the years as it continues to impact more locality regions and greater populations of Government Civilian employees.



The research revealed three major impacts of pay compression to include culture and employee morale, turnover and retention rates, and legal challenges. If not addressed, pay compression can have detrimental impacts on an organization.

For the DoD Civilian Workforce, recommendations put forth to counter these issues include exempting locality pay from pay caps, conducting annual assessments of pay compression, and leveraging alternate means for addressing pay cap issues. These measures aim to ensure that compensation is both fair and reflective of the diverse roles and responsibilities within the DoD, thereby enhancing the overall effectiveness and satisfaction of the workforce.

## Introduction

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“Trapped in a General Schedule created in 1949, the Federal Government is not in a position to compete with industry.” (Briefel, 2022)

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The United States is heavily engaged in a global race to maintain status as a dominant world power that can survive the next generation of geopolitical challenges. “We are in the midst of a strategic competition to shape the future of the international order” (Biden, 2022, para.2). Part I of the 2022 National Security Strategy issued by President Biden identifies three lines of effort as a part of the strategy to maintain a free, open, prosperous, and secure international order. One of the key lines of effort seeks to modernize and strengthen our military to ensure that it remains competitive with other major powers. Part II of the 2022 National Security Strategy identifies investments needed to ensure the U.S. maintains a competitive edge. A key investment identified is modernizing and strengthening our military. “The most important investments are those made in the extraordinary All-Volunteer Force of the Army, Marine Corps, Navy, Air Force, Space Force, Coast Guard—together with our DoD Civilian workforce” (Biden, 2022, “Modernizing and Strengthening our Military” section).

DoD Civilian workers are a key element of the National Defense Strategy and successfully modernizing our military; hence recruitment and retention of these resources is paramount. A group of U.S. Representatives led by Rep. Eleanor Holmes Norton recently highlighted pay compression as an issue impacting DoD Civilians and introduced the Pay Compression Relief Act bill (Abse, 2023). Pay compression, also referred to as salary or wage compression, occurs when the pay of one or more employees is very close to the pay of more-experienced employees in the same job, or even those in higher-level jobs, including managerial positions (Society for Human

Resource Management, n.d.). For instance, imagine two employees: one with 10 years of experience in a managerial role and another who just started in an entry-level position. Due to pay compression, their salaries might be almost identical, even though their responsibilities and experience levels are vastly different.

The DoD Civilian General Schedule (GS) pay scale was designed in 1949. While alternate pay systems were added, these mostly tie back to the GS pay scale with an equivalent grade. DoD Civilian employees are bound to this GS pay scale, which can make it difficult to compete with Industry. “Trapped in a General Schedule created in 1949, the Federal Government is not in a position to compete with industry” (Briefel, 2022, p.19).

The complexities of pay compression within the DoD Civilian Workforce have ramifications not only for the current workforce but also for the future of the U.S. Defense Industry. Understanding these intricacies is essential for effective policymaking and ensuring that the U.S. remains a dominant force on the global stage. This study endeavors to delve into the root causes, the widespread impacts, and the potential avenues for addressing the challenges associated with pay compression in the DoD Civilian Workforce.

## **Background**

“By human nature, performance is incentive-driven” (Bruneau, 2023, p.11). While the incentives that drive each individual may vary slightly, a job implies that employees are working for financial compensation. Employees need money to survive and care for their families; hence, salary is at least part of the incentive equation for almost everyone. In American culture, people generally expect higher wages in return for greater responsibility and performance. Pay compression can blur the lines of that relationship when newer employees of lesser responsibility

and contribution earn the same or similar wages as the more advanced, longer-term employees (Insperity Staff, n.d.).

Recruitment and retention of highly qualified and uniquely skilled individuals is a challenge for many organizations. “Research shows that pay compression was a reality for a whopping 56% of American companies last year” (Owainati, 2023, para 5). While there are a number of factors that affect retention, one issue that can greatly impact employees but often goes unaddressed is pay compression (Owainati, 2023).

The challenge of pay compression is not a new concern. However, pay compression in the DoD Civilian workforce has become more of a discussion topic as the DoD seeks to find and retain individuals with uniquely advanced skillsets to help modernize our military.

### **Problem Statement**

In a letter to the Speaker of the House and the President of the Senate on the Alternative Plan for Pay Adjustments for Civilian Federal Employees, President Biden stated, “We must attract, recruit and retain a skilled workforce with fair compensation in order to keep our government running, deliver services and meet our nation’s challenges today and tomorrow” (Biden, 2023, para.5).

Retention of highly skilled employees is a continuous problem for DoD organizations. One of the challenges associated with these recruitment and retention efforts is pay compression. To add complexity to this problem, the DoD Civilian workforce is regulated by multiple policies and restrictions on pay and compensation.

It is essential that the DoD ensure a highly skilled workforce now and in the future. This requires a mix of experienced employees as well as fresh talent. Recruiting for the DoD in a highly competitive environment is a challenge for many DoD organizations. DoD Civilians under the

age of 30 make up a mere 7% of the federal workforce, and they have attrition rates higher than the overall average attrition rate for DoD Civilians (Friedman, 2022). Retention of DoD Civilians will also prove more challenging as the pay gap between Government and Industry increases. The pay for Government Civilians in 2023 was capped at \$183,500, while the pay for Government Contractors in Industry was capped at \$619,000 (Shire & Buchanan, 2023). This delta makes retaining more senior DoD Civilians a challenge. With 30% of DoD Civilians eligible for retirement in the next 5 years, this could lead to significant personnel issues for many organizations (Friedman, 2022).

Pay tables for the DoD are published by the United States Office of Personnel Management (U.S. OPM), the chief resources agency and personnel policy manager for the Federal Government. These pay tables apply across the Federal Workforce. The demand for certain skillsets as well as the cost of living is higher in some areas than others, which can devastate recruitment and retention in those areas. 5 U.S.C. 5304 and 5 U.S.C. 5305 provide authority for the U.S. OPM to establish locality rates and special rates to address the issues of skillset and regional recruitment and retention challenges. However, also within 5 U.S.C. 5305, most GS employees are capped at the rate for level IV of the Executive Schedule, which is \$191,900 in 2024. This pay cap bounds the pay scale and limits compensation for the DoD Civilian Workforce.

### **Statement of Purpose**

The purpose of this study is to examine the pay compression in the DoD Civilian Workforce, identify factors contributing to pay compression, and assess impacts of pay compression to the DoD Civilian Workforce.

**Research Questions**

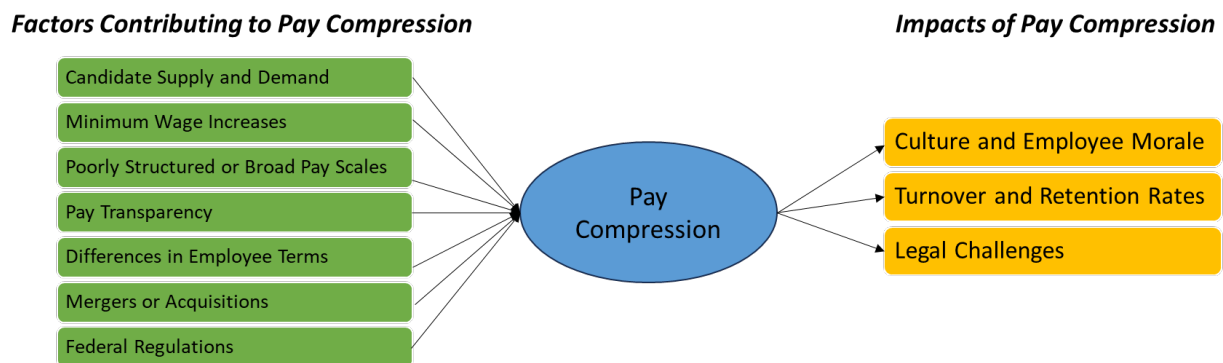
1. What is pay compression?
2. What are the factors contributing to pay compression in the DoD Civilian Workforce?
3. What are the impacts of pay compression on the DoD Civilian Workforce?

**Conceptual Framework**

This research examines pay compression in the DoD Civilian Workforce. This research first identifies definitions of pay compression, with specific focus as it relates to the DoD Civilian Workforce. The study will then assess the factors that contribute to pay compression in the DoD Civilian Workforce. Finally, the study will identify impacts of pay compression to the DoD Civilian Workforce and the important mission that they support. The Concept Model for this research is shown in Figure 1.

**Figure 1**

**Research Concept Model**



**Significance of This Research**

The DoD Civilian Workforce is the powerhouse behind the nation’s military, offering critical skills, talents, and abilities required to provide equipment to our soldiers. However, as of 2024, pay compression, exacerbated by federal pay cap issues, has emerged as a significant

challenge, affecting 35 of the 58 different locality pay areas. This issue impacts the areas in which vital skillsets are hardest to attract and retain and also affects some of the most experienced and senior DoD Civilians (Norton, 2023).

This study is crucial as it delves into how pay compression could undermine the DoD's strategic objectives by jeopardizing its ability to maintain a skilled and motivated workforce. Addressing pay compression for DoD Civilians will help the U.S. ensure a strong Civilian workforce to provide the best solutions for the warfighter.

### **Overview of the Research Methodology**

This research leverages a qualitative approach to exploring the subject of pay compression. Research was done leveraging Google, Google Scholar, Defense Acquisition Library, and Franklin Covey. Sources consist of published articles, books, policies, and Government public release data. Following a thorough literature review, an analysis of the information identified is provided along with opportunities for further research.

### **Limitations of the Study**

This research is qualitative and does not include survey results from any DoD Civilians. All research data is from publicly available sources. This research was limited by available time to complete the paper. This paper addresses general factors and impacts of pay compression but focuses on impacts to DoD Civilians.

### **Summary**

As the United States continues in the battle for maintaining relevancy as a major world power, the DoD faces the critical task of modernizing the tools and equipment needed to defend the United States. The DoD Civilian Workforce is vital to the success of equipping the U.S. Armed Forces. However, recruitment and retention of this DoD Civilian Workforce present growing

challenges amid an evolving strategic landscape. Among the issue at the forefront is pay compression, an issue affecting a significant portion of DoD Civilians. This paper aims to enlighten DoD Leadership and Policy Makers with a better understanding of pay compression, the factors that contribute to pay compression, and the impacts of pay compression on the DoD Civilian Workforce. This research intends to spark informed discussions and guide policy decisions, helping maintain readiness and competitiveness.



## **Literature Review**

### **Introduction**

The literature review provides a study of the literature relevant to the proposed research questions. The review begins with examining the definition of pay compression. The review proceeds to examine factors that contribute to pay compression. Finally, the review concludes by examining impacts on the DoD Civilian Workforce caused by pay compression.

### **Statement of Purpose**

The purpose of this study is to examine pay compression in the DoD Civilian Workforce, identify factors contributing to pay compression, and assess impacts of pay compression to the DoD Civilian Workforce.

### **Research Questions**

1. What is pay compression?
2. What are the factors contributing to pay compression in the DoD Civilian Workforce?
3. What are the impacts of pay compression on the DoD Civilian Workforce?

### **Definition of Pay Compression**

Pay compression is a growing phenomenon that is impacting multiple organizations, including the DoD Civilian Workforce. Pay compression is also known as salary compression or wage compression. The literature review identified the following definitions of pay compression.

Pay compression, also referred to as salary or wage compression, occurs when the pay of one or more employees is very close to the pay of more-experienced employees in the same job, or even those in higher-level jobs, including managerial positions. (Society for Human Resource Management, n.d., para. 1)

“Pay compression or salary compression, is a situation where there is a small difference in pay between employees irrespective of their skills, experience, or tenure” (Hampton, 2023, “What is the Meaning of Pay Compression” section).

“Pay compression occurs when pay differentials between employees in the same job or between supervisors and subordinates are too small to be considered equitable” (Cadena, L., 2020, para.2).

“Pay compression is what happens when there is little difference between the wages earned by a tenured employee and newcomer, or between a junior- and senior-level employee working within the same job family” (Owainati, 2023, para.2).

“Pay compression occurs when employees’ compensation does not accurately capture their experience level or skill set” (McNamara, M. 2023, para.1).

“Pay compression, also known as wage compression or salary compression, describes a situation where there is little to no difference in pay between employees with different levels of experience, skills, and qualifications” (Simpson, S. 2023, “Key Takeaways” section).

“Pay compression occurs when employees with more seniority receive pay rates nearly equal to newer employees” (Henley A., Benson G., & McMahan G., 2004, “Abstract” section.)

“Wage compression, also known as salary or pay compression, occurs when newly-hired, less-experienced employees earn close to what current employees make” (Tansey, 2022, “What is Wage Compression” section).

Several publications define pay compression specific to Federal Government employees. The following definitions address pay compression for Federal workers, which includes the DoD Civilian Workforce.

Pay compression refers to when a federal worker, typically in the Senior Executive Service or the upper echelons of the General Schedule, is paid at or near the federal pay cap, meaning that when the president or Congress implements the annual federal pay raise each January, they miss out on some or all of the portion of the pay raise that goes toward increases in locality pay. (Wagner, 2023, para.2)

In the federal government, pay compression has occurred due to a restriction or a cap on pay raises above a specified level for senior-level employees. The result is no difference or negligible differences in pay between people who have different skill sets, experience levels or pay grade levels. (Smith, 2023, “What is Pay Compression” section)

While multiple references provide definitions for pay compression, the definitions vary. The findings section will explore the similarities and deltas in these definitions and provide a consolidated definition.

### **Factors Contributing to Pay Compression**

The literature review identifies multiple factors that contribute to pay compression that can impact any organization. Pay compression is generally not intentional or malicious, and sometimes can result from well-intentioned changes (Simpson, 2023).

#### ***Candidate Supply and Demand***

Retaining a highly skilled workforce is a challenge across complex technical markets. When there is scarcity of candidates, companies often offer higher salaries to attract new employees. When these employees are brought in at high salary levels, their pay may come close

to or exceed long term or more experienced employees causing pay compression (Shuster, 2023). Pay compression can be caused by the change in market rate for a particular skillset. With a tight labor market, recruiting new talent becomes more expensive than the talent recruited just a few years ago (Tansey, 2022).

### ***Failure to Correct for Market Changes when Giving Raises***

Many organizations offer annual raises of 3% to 5%, but sometimes this does not keep up with inflation; hence employees that are only getting the standard raises each year might actually get less effective pay over time (Shuster, 2023). Market rates for starting salaries may increase at a faster rate than organizations can afford to give to all employees. If new talent is brought in at a high rate and existing employees do not get equitable increases, it often results in pay compression. (Insperity Staff, n.d.).

### ***Minimum Wage Increases***

Legally mandated changes such as a change in minimum wage can cause pay compression (Insperity Staff, n.d.). If there is a rapid jump in minimum wage and companies raise starting salaries but not the salaries of existing employees, this can cause wage compression (Tansey, 2022).

### ***Poorly Structured or Broad Pay Scales***

Broad pay scales are great for flexibility of pay; however, pay bands can become gray areas across different levels of seniority. For instance, many organizations will have multiple levels of employees but one large pay band within which most of the employees reside. This can lead to pay compression (Shuster, 2023). In cases with poorly structured compensation structures, higher wages may go to those who ask or negotiate better (Tansey, 2022).

### ***Pay Transparency***

With information so readily available and pay transparency laws expanding, employees have more information about the pay of other employees. For some employees, such as U.S. Army Civilians, the pay scales are transparent, and wages are often included in reviews (Shuster, 2023). Generational shifts and the willingness of the younger generation to discuss salaries increases pay transparency and can lead to pay compression (Tansey, 2022). The National Labor Relations Act of 1935 gives employees the right to discuss working conditions, which includes compensation (Insperity Staff, n.d.). Hence, employers can anticipate that employees can and will speak to others about pay.

### ***Differences in Employee Terms***

Pay compression can also be caused by a difference in employee types or with different employment terms. For example, if there is a salaried employee who is not entitled to overtime, an hourly employee could make more money due to overtime pay (Shuster, 2023). Pay compression can be caused if non-exempt employees earn more than their exempt supervisor who works comparable hours. Once salaries of subordinates are more than 80 percent of a supervisor's, equity adjustment may be necessary (Cadena, 2020).

### ***Mergers or Acquisitions***

Mergers or acquisitions can lead to pay compression. For example, if a company or organization merges with or acquires another company or organization with different pay structures, it could result in pay compression for some employees (Owainati, 2023).

### ***Pay Caps***

Pay compression can be caused by an employee advancing to the top of their pay bracket with no room for advancement (Owainati, 2023). Limited salary ranges can cause pay

compression for employees at various levels (Simpson, 2023). For example, pay compression caused by pay caps might involve two employees, Alex and Jordan, both working at the GS-13 level for the Department of Defense. Alex, with over 15 years of service, is at the top of the GS-13 pay scale but cannot earn more due to pay caps, even with excellent performance reviews. Jordan, despite only having three years of service and being at the same job level as Alex, quickly reaches a similar salary because the pay scale allows newcomers to start at higher salaries within the same grade to attract talent. As a result, Alex and Jordan earn almost the same, despite the wide gap in their experience and service years.

### ***Federal Regulations***

In order to better understand the factors that contribute to pay compression specifically within the DoD Civilian Workforce, the review examines regulations impacting DoD Civilian Pay. The pay for the DoD Civilian workforce is governed by the U.S. OPM (U.S. OPM, n.d.). The U.S. OPM is responsible for Federal pay and leave administration policies and programs (U.S. OPM, 2023). The U.S. OPM leverages a system known as the Federal Wage System (FWS), “a uniform pay-setting system that covers Federal appropriated fund and non-appropriated fund blue-collar employees who are paid by the hour” (U.S. OPM, n.d., para.1).

The uniform pay system strives to align pay for jobs within a wage area and bring parity with industry pay utilizing various pay grades and locality pay. The President appoints a Federal Salary Council that develops annual recommendations with regards to Locality Pay. The final determination of locality areas is published as a part of the Federal Register. As of 2024, 58 locality areas were defined by the U.S. OPM (U.S. OPM, 2024). Locality rates under 5 U.S.C. 5304 and special rates under 5 U.S.C. 5305 for most GS employees are capped at the rate for level IV of the Executive Schedule, which is \$191,900 in 2024. (U.S. OPM, 2024)

Figure 2 shows the General Schedule Salary Table for DoD Civilians (U.S. OPM, 2024).

This provides a basis for comparison with locality pay areas.

**Figure 2**

*General Schedule Salary Table*

**Salary Table 2024-GS**  
**Incorporating the 4.7% General Schedule Increase**  
**Effective January 2024**

*Annual Rates by Grade and Step*

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
1	\$ 21,986	\$ 22,724	\$ 23,454	\$ 24,183	\$ 24,912	\$ 25,339	\$ 26,063	\$ 26,792	\$ 26,821	\$ 27,502
2	24,722	25,310	26,129	26,821	27,124	27,922	28,720	29,518	30,316	31,114
3	26,975	27,874	28,773	29,672	30,571	31,470	32,369	33,268	34,167	35,066
4	30,280	31,289	32,298	33,307	34,316	35,325	36,334	37,343	38,352	39,361
5	33,878	35,007	36,136	37,265	38,394	39,523	40,652	41,781	42,910	44,039
6	37,765	39,024	40,283	41,542	42,801	44,060	45,319	46,578	47,837	49,096
7	41,966	43,365	44,764	46,163	47,562	48,961	50,360	51,759	53,158	54,557
8	46,475	48,024	49,573	51,122	52,671	54,220	55,769	57,318	58,867	60,416
9	51,332	53,043	54,754	56,465	58,176	59,887	61,598	63,309	65,020	66,731
10	56,528	58,412	60,296	62,180	64,064	65,948	67,832	69,716	71,600	73,484
11	62,107	64,177	66,247	68,317	70,387	72,457	74,527	76,597	78,667	80,737
12	74,441	76,922	79,403	81,884	84,365	86,846	89,327	91,808	94,289	96,770
13	88,520	91,471	94,422	97,373	100,324	103,275	106,226	109,177	112,128	115,079
14	104,604	108,091	111,578	115,065	118,552	122,039	125,526	129,013	132,500	135,987
15	123,041	127,142	131,243	135,344	139,445	143,546	147,647	151,748	155,849	159,950

Figure 3 shows a pay scale for the San Francisco and Oakland locality area (U.S. OPM, 2024). In Figure 3, you can see how a locality percentage is applied throughout the pay scale.

The asterisks show that the payments are limited for Grades 14 and 15 due to the pay cap.

**Figure 3**

*Salary Table with Locality Pay*

**Salary Table 2024-SF**  
**Incorporating the 4.7% General Schedule Increase and a Locality Payment of 45.41%**  
**For the Locality Pay Area of San Jose-San Francisco-Oakland, CA**  
**Total Increase: 5.62%**  
**Effective January 2024**

*Annual Rates by Grade and Step*

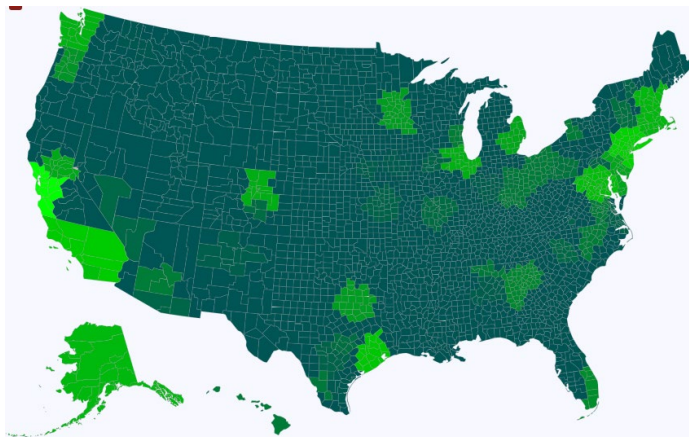
Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
1	\$ 31,970	\$ 33,043	\$ 34,104	\$ 35,165	\$ 36,225	\$ 36,845	\$ 37,898	\$ 38,958	\$ 39,000	\$ 39,991
2	35,948	36,803	37,994	39,000	39,441	40,601	41,762	42,922	44,082	45,243
3	39,224	40,532	41,839	43,146	44,453	45,761	47,068	48,375	49,682	50,989
4	44,030	45,497	46,965	48,432	49,899	51,366	52,833	54,300	55,768	57,235
5	49,262	50,904	52,545	54,187	55,829	57,470	59,112	60,754	62,395	64,037
6	54,914	56,745	58,576	60,406	62,237	64,068	65,898	67,729	69,560	71,390
7	61,023	63,057	65,091	67,126	69,160	71,194	73,228	75,263	77,297	79,331
8	67,579	69,832	72,084	74,337	76,589	78,841	81,094	83,346	85,599	87,851
9	74,642	77,130	79,618	82,106	84,594	87,082	89,570	92,058	94,546	97,034
10	82,197	84,937	87,676	90,416	93,155	95,895	98,635	101,374	104,114	106,853
11	90,310	93,320	96,330	99,340	102,350	105,360	108,370	111,380	114,390	117,400
12	108,245	111,852	115,460	119,068	122,675	126,283	129,890	133,498	137,106	140,713
13	128,717	133,008	137,299	141,590	145,881	150,172	154,463	158,754	163,045	167,336
14	152,105	157,175	162,246	167,316	172,386	177,457	182,527	187,598	191,900 *	191,900 *
15	178,914	184,877	190,840	191,900 *	191,900 *	191,900 *	191,900 *	191,900 *	191,900 *	191,900 *

\* Rate limited to the rate for level IV of the Executive Schedule (5 U.S.C. 5304 (g)(1)).

Figure 4 graphically depicts the locality map for the DoD Civilian Workforce for perspective on the distribution of the locality pay locations (FederalPay.org, 2024). The highlighted patches show areas that include a locality pay greater than the rest of the U.S. The bright green patches indicate locality areas with the highest locality pay.

**Figure 4**

*Graphical Distribution of Locality Areas*





In 2020, the Federal Managers Association addressed Federal Employee Pay Compression in annual Legislative Recommendations stating, “Congress should address salary compression and remove pay caps on federal employees” (Federal Managers Association, 2020, para 13). The briefing contended that a growing number of federal employees will be impacted each year by pay compression stemming from the salary cap (Federal Managers Association, 2020). In 2023, the Federal Managers Association further pushes the Legislative recommendation by supporting moves to eliminate the cap on FWS employees in an effort to retain critical resources and bring pay parity with the private sector (Federal Managers Association, 2023).

Delegate Eleanor Holmes Norton along with other Representatives, introduced a Bill on August 8, 2023 as the Pay Compression Relief Act (H.R. 5171, 2023), which effectively creates an exception to the federal pay cap for General Schedule employees who otherwise would receive only a portion of their annual pay raise due to the cap (H.R. 5171, 2023). This bill is cosponsored by Representatives Gerry Connolly, D-Va., Glenn Ivey, Jamie Raskin, and David Trone, all D-Md (Wagner, 2023). Norton said in a statement:

Currently, federal employees who reach the pay cap do not receive such adjustments. This bill would allow many of the longest-serving federal public servants . . . to receive the pay adjustments they would be entitled to but for the pay cap. This bill would help the federal government hire and retain the most qualified individuals. (Norton, 2023, para.1)

## **Impacts of Pay Compression**

Pay compression is thought to have a significant effect on an organization, as suggested by Tansey (2022). The literature review examines the diverse perspectives and findings on the potential impacts pay compression can have on employees.

### ***Culture and Employee Morale***

Pay compression may significantly impact culture and employee morale. When senior or more skilled employees learn of newer or less qualified employees earn similar or higher salaries, it can create a sense of unfairness at work (Tansey, 2022,). Such scenarios may lead to a decrease in motivation, which may result in reduced productivity (Insperity Staff, n.d.). Pay compression that continues over multiple years might “cause demoralization and lead to widespread dissatisfaction” (Federal Managers Association, 2020, section 13). Given that pay compression is often an organization’s largest cost, the effects of pay compression may turn wages from a motivator to a demotivator (Kochanski & Stiles, 2013).

At some point, the risks and responsibilities of advancing into senior positions within the Federal Civilian Workforce begins to outweigh the reward (FED week Staff, 2023). As an example, “If an employee is offered a promotion at a higher level, with more responsibilities, but no corresponding salary increase, will they take on the new role?” (Federal Managers Association, 2020, section 13).

The FWS pay caps are thought to impact the most senior, longest serving, and highest ranked Government employees, in accordance with Ogrysko (2020). As long as the pay cap continues to increase with the annual increases, these employees will get some of their raise, but may begin to quickly lag behind salaries in the area (Ogrysko, 2020).

In President Biden's Letter to the Speaker of the House and the President of the Senate on the Alternative Plan for Pay Adjustments for Civilian Federal Employees, he submitted his intentions to utilize his authority to set the 2024 Federal Civilian pay raise at 5.2%, consisting of 4.7% across-the-board base pay increase and a 0.5% locality pay increase. Biden states, "This alternative pay plan decision will continue to allow the Federal Government to employ a well-qualified Federal workforce on behalf of the American people, keeping pace with prior wage growth in the labor market" (Biden, 2023, para.5). The pay raise enacted by Biden was the largest raise for the Federal Civilian Workforce in 43 years (Wagner, 2023). While the topic of pay compression has been of growing interest given the recent pay raises and inflation rates, the concept of pay compression is not new. "Pay compression and pay caps have been an ongoing topic of conversation among the federal workforce since at least the passage of the Civil Service Reform Act of 1978" (Briefel, 2023, p.19). In 1980, the United States General Accounting Office, Comptroller General provided a report to Congress explaining a growing problem with Federal Executive Pay Compression. The report expounded upon the pay compression experienced by more than 10,000 top level Federal executives and the challenges presented for recruitment and retention (Comptroller General, 1980). The Federal Employees Pay Comparability Act of 1990 (FEPCA) was an effort to address the pay parity challenges for Civilians. The FEPCA provided guidelines to ensure that federal employees be paid at a level that is comparable to non-Federal counterparts based on locality (H.R.5241 Summary, 1990).

### ***Turnover and Retention Rates***

Pay compression is an issue that may play a role in recruitment and retention of the Federal Civilian Workforce. It has been suggested that wage compression might lead organizations to lose some of their most valued and long-standing employees (Tansey, 2022). Lazo (n.d., para.3)

highlights a potential consequence: “If you don’t fix pay compression, you’ll either lose people and still have to spend the higher going market rate to replace them, or you’ll lose productivity by hiring lower quality [less experienced] people.” Furthermore, pay compression may hamper recruitment efforts if there is a significant gap between a job offer and the market rate (Insperity, n.d.). Additionally, the presence of federal pay caps poses a reported challenge to the attraction and retention of top talent within the federal government.

### ***Legal Challenges***

While pay compression is not illegal or covered by law, it may expose an organization to legal challenges. The act of paying one person more than another person with similar skills but in a protected category such as race, gender, or age could lead to allegations of discrimination. Tansey (2022) notes that even the perception of discrimination can detrimentally impact an enterprise. The phenomenon of pay compression has been associated with heightened concerns around pay equity; Thomas & Peakman (2023, p.9) observe, “With pay compression on the rise, pay equity concerns increased.” Employees who are paid less than their counterparts for performing the same work due to their race, gender, age, or another protected characteristic may have a claim for equal pay or discrimination under federal and state law.

For example, if men are better negotiators in an organization, pay compression may exist causing some women to not be compensated as fairly. This could cause a challenge with the Title VII of the Civil Rights Act of 1964. As another example, “Pay compression can create situations in which employees of age 40 or older, whose compensation is protected by the Age Discrimination Act of 1967, are paid less than younger employees, despite their additional experience” (Lustenberger, 2023, section 3).

**Summary**

The phenomenon of pay compression is broadly defined and complex. Pay compression can be caused by a number of different factors such as candidate supply and demand, failure to correct for market changes, minimum wage increases, poorly structured or broad pay scales, pay transparency, differences in terms, mergers and acquisitions, and pay caps. These factors alone or compounded lead to pay compression that may have serious impacts to employees and organizations. Potential impacts identified in this study include culture and employee morale, turnover and retention rates, and legal challenges. There are also some unique nuances that specifically contribute to pay compression impacting employees in the DoD Civilian Workforce.

## **Research Methodology**

This section provides an overview of the research methodology utilized to conduct this study. This section also identifies how the data collection and analysis was performed.

### **Statement of Purpose**

The purpose of this study is to examine pay compression in the DoD Civilian Workforce, identify factors contributing to pay compression, and assess impacts of pay compression to the DoD Civilian Workforce.

### **Research Questions**

1. What is pay compression?
2. What are the factors contributing to pay compression in the DoD Civilian Workforce?
3. What are the impacts of pay compression on the DoD Civilian Workforce?

### **Research Methodology**

This research leverages a qualitative approach to exploring the subject of pay compression. The qualitative research methodology involves development of a purpose statement and research question that helps to guide the reader through the logic of the research (Creswell & Guetterman, 2019). The paper provides an introduction to the study topic, detailed literature review of the research completed, description of the research methodology, summary of the findings resulting from the literature review, conclusion, recommendations, and areas for further research.

The research was framed by each of the three research questions. For the first question, multiple definitions were cited and analyzed to develop a definition for pay compression. Secondly, numerous factors were identified through research that could contribute to pay compression. And finally, research was used to identify potential impacts of pay compression.

Research was done leveraging Google, Google Scholar, Defense Acquisition Library, and Franklin Covey. Sources consist of published articles, books, policies, and Government public release data. Following a thorough literature review, an analysis of the information was completed.

The analysis consists of reviewing literature sources and analyzing common themes and data. In order to better understand the specific impacts of pay compression on the DoD Civilian Workforce, an analysis of the pay scales was performed. The pay tables were evaluated to determine if there were trends in pay compression and determine the extent of the impacts on the DoD Civilian Workforce. Following the analyses, opportunities for further research are provided.

This research is qualitative and does not include survey results from any DoD Civilians. All research data is from publicly available sources. This paper addresses general factors and impacts of pay compression but focuses on impacts to DoD Civilians.

### **Summary**

In summary, the qualitative research methodology focused on answering the research questions to better define pay compression, understand root causes, and identify potential impacts on DoD Civilian employees. The research questions were addressed through a review of numerous databases, articles, and documents.

## **Findings**

### **Introduction**

This section provides the findings based on the literature reviewed for this study. The research questions restated below serve as a foundation for the analysis in this section. The findings will then serve as a basis for the conclusions and recommendations.

### **Statement of Purpose**

The purpose of this study is to examine pay compression in the DoD Civilian Workforce, identify factors contributing to pay compression, and assess impacts of pay compression to the DoD Civilian Workforce.

### **Research Questions**

1. What is pay compression?
2. What are the factors contributing to pay compression in the DoD Civilian Workforce?
3. What are the impacts of pay compression on the DoD Civilian Workforce?

### **Results**

#### ***What is Pay Compression?***

The literature review identified different definitions for pay compression that vary by source. The general definitions of pay compression were mostly in alignment. Each of the literature sources define pay compression as a mismatch of employee pay as it relates to other employees based on different conditions. The literature sources vary in the conditions identified. Some definitions point to job or position, while others cite skills, qualifications, or experience. Some of the definitions found in the literature review focused on seniority, tenure, or supervisory status. The definitions identified in the literature review for pay compression in the Federal workforce point to the pay cap levied on the pay scale.



As a result of the definition analyses, the following definition of pay compression was derived. Pay compression is defined as a mismatch in employee pay based on one or more conditions such as position, qualifications, seniority, or supervisory status.

***What are the factors contributing to pay compression in the DoD Civilian Workforce?***

The literature review identified many factors contributing to pay compression. The factors contributing to pay compression include candidate supply and demand, failure to correct for market changes when giving raises, minimum wage increases, poorly structured or broad pay scales, pay transparency, differences in terms, mergers or acquisitions, pay caps, and federal regulations. Each of the factors individually or a combination of factors can cause or contribute to pay compression.

The literature review found that pay compression factors can result from both internal and external events. This means that some factors are within an organization's control such as mergers or acquisitions. Other factors such as market changes in candidate supply and demand are external and difficult to control. The literature also showed that many are often by-products of another action. While an organization may be doing positive work on retention of a specific employee or recruitment of new employees, these may not account for the impacts to the overall organization. For example, if the organization must raise rates to hire in a new employee and does not increase the salaries of similar employees, the action may be setting the organization up for pay compression.

Specific to the Federal workforce, which includes the DoD Civilian workforce, many of the factors for pay compression are controlled by federal regulations such as pay scale, pay caps, annual adjustments, and rules for pay increases. One of the most cited factors for pay compression in the Federal workforce is pay caps.

***What are the impacts of pay compression on the DoD Civilian Workforce?***

The results of the literature review identified three primary impacts of pay compression. The potential impacts include culture and employee morale, turnover and retention rates, and legal challenges. Pay compression can lead to employees feeling unimportant, demotivated, and demoralized. When employees gain awareness of new employees making similar wages as them, despite not having made the same level of commitment or investment in the company, they can feel frustrated, angry, or undervalued. This situation can lead to employees choosing to leave the organization, thereby negatively affecting retention rates. Even if employees stay, the Federal pay cap will continue to limit employee salaries, which in turn impacts their retirement. Additionally, pay compression can also hamper recruitment as potential employees realize their earnings potential is capped.

In order to better understand the specific impacts of pay compression on the DoD Civilian Workforce, an analysis of the pay scales was performed. Table 1 provides a list of the locality areas defined as of 2024 and whether they have applied pay caps. (U.S. OPM, 2024).

**Table 1**

*Locality Areas Defined as of 2024*

**Localities with Applied Pay Cap**

Albany-Schenectady, NY-MA  
 Atlanta--Athens-Clarke County--Sandy Springs, GA-AL  
 Austin-Round Rock, TX  
 Boston-Worcester-Providence, MA-RI-NH-ME  
 Buffalo-Cheektowaga, NY  
 Chicago-Naperville, IL-IN-WI  
 Cincinnati-Wilmington-Maysville, OH-KY-IN  
 Cleveland-Akron-Canton, OH  
 Columbus-Marion-Zanesville, OH  
 Dallas-Fort Worth, TX-OK  
 Dayton-Springfield-Sidney, OH  
 Denver-Aurora, CO  
 Detroit-Warren-Ann Arbor, MI  
 Hartford-West Hartford, CT-MA  
 Houston-The Woodlands, TX  
 Huntsville-Decatur-Albertville, AL  
 Laredo, TX  
 Los Angeles-Long Beach, CA  
 Miami-Fort Lauderdale-Port St. Lucie, FL  
 Milwaukee-Racine-Waukesha, WI  
 Minneapolis-St. Paul, MN-WI  
 New York-Newark, NY-NJ-CT-PA  
 Philadelphia-Reading-Camden, PA-NJ-DE-MD  
 Phoenix-Mesa-Scottsdale, AZ  
 Pittsburgh-New Castle-Weirton, PA-OH-WV  
 Portland-Vancouver-Salem, OR-WA  
 Raleigh-Durham-Chapel Hill, NC  
 Richmond, VA  
 Sacramento-Roseville, CA-NV  
 San Diego-Carlsbad, CA  
 San Jose-San Francisco-Oakland, CA  
 Seattle-Tacoma, WA  
 Washington-Baltimore-Arlington, DC-MD-VA-WV-PA

**Localities with no Applied Pay Cap**

Albuquerque-Santa Fe-Las Vegas, NM  
 Birmingham-Hoover-Talladega, AL  
 Burlington-South Burlington, VT  
 Charlotte-Concord, NC-SC  
 Colorado Springs, CO  
 Corpus Christi-Kingsville-Alice, TX  
 Davenport-Moline, IA-IL  
 Des Moines-Ames-West Des Moines, IA  
 Fresno-Madera-Hanford, CA  
 Harrisburg-Lebanon, PA  
 Indianapolis-Carmel-Muncie, IN  
 Kansas City-Overland Park-Kansas City, MO-KS  
 Las Vegas-Henderson, NV-AZ  
 Omaha-Council Bluffs-Fremont, NE-IA  
 Palm Bay-Melbourne-Titusville, FL  
 Reno-Fernley, NV  
 Rochester-Batavia-Seneca Falls, NY  
 San Antonio-New Braunfels-Pearsall, TX  
 Spokane-Spokane Valley-Coeur d'Alene, WA-ID  
 St. Louis-St. Charles-Farmington, MO-IL  
 Tucson-Nogales, AZ  
 Virginia Beach-Norfolk, VA-NC  
 Rest of the United States

Figure 5 depicts the percentage of locality areas impacted by the pay cap. The majority of locality areas are impacted by the pay cap with a ratio of 35 impacted to 23 not impacted. This equates to 60% of the locality areas impacted by the pay cap.

**Figure 5**

*Impact of Pay Cap on Locality Areas*

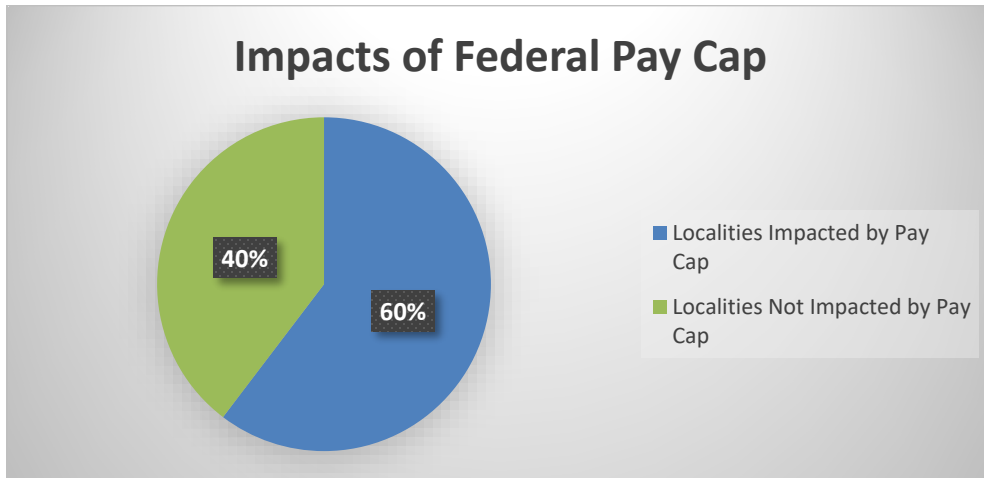
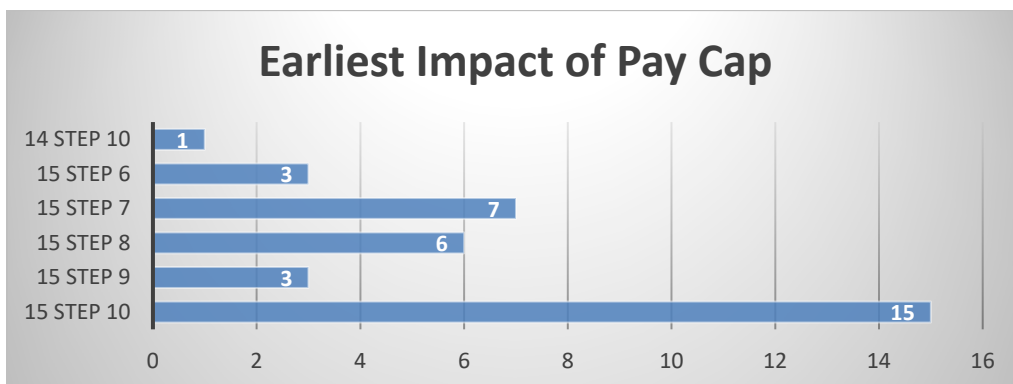


Figure 6 depicts the breakdown of the impacted locality regions, highlighting where employees felt the earliest impacts of the pay cap as of 2024. Among the 35 affected regions, the San Jose/San Francisco/Oakland, CA, area stands out, with employees experiencing pay cap limitations as early as Grade 14, Step 10.

**Figure 6**

*Earliest Impact of Pay Cap*



The challenge of pay compression as a result of the pay cap is worsening. Figure 7 illustrates that the number of localities affected by the pay cap has grown over time. In the span of the last 11 years, 15 more localities have been recognized as impacted areas, indicating a broadening scope of the challenge. This figure visually represents the incremental addition of affected localities over this period.

**Figure 7**

*Number of Localities Impacted over Time*

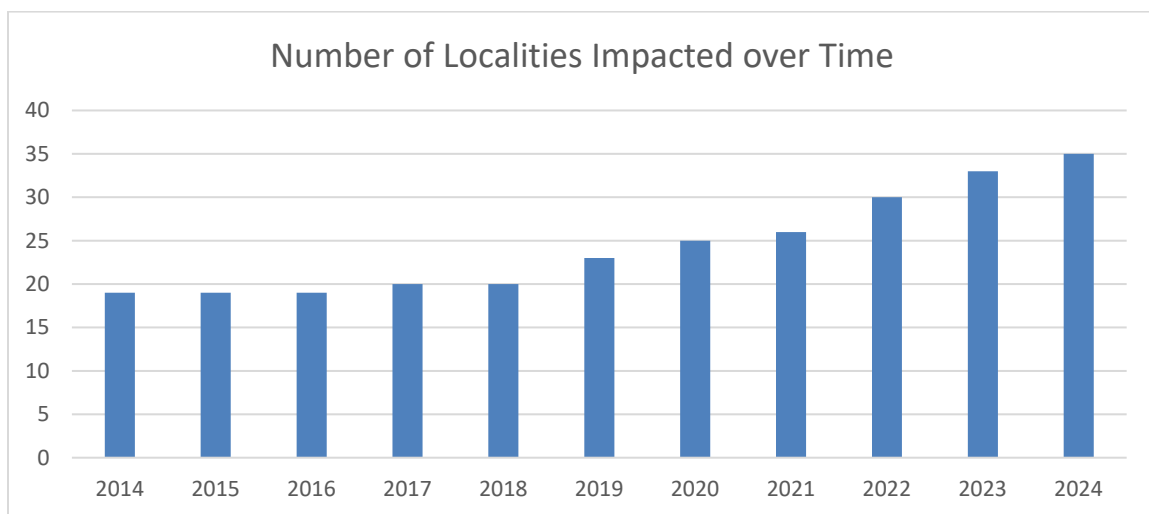
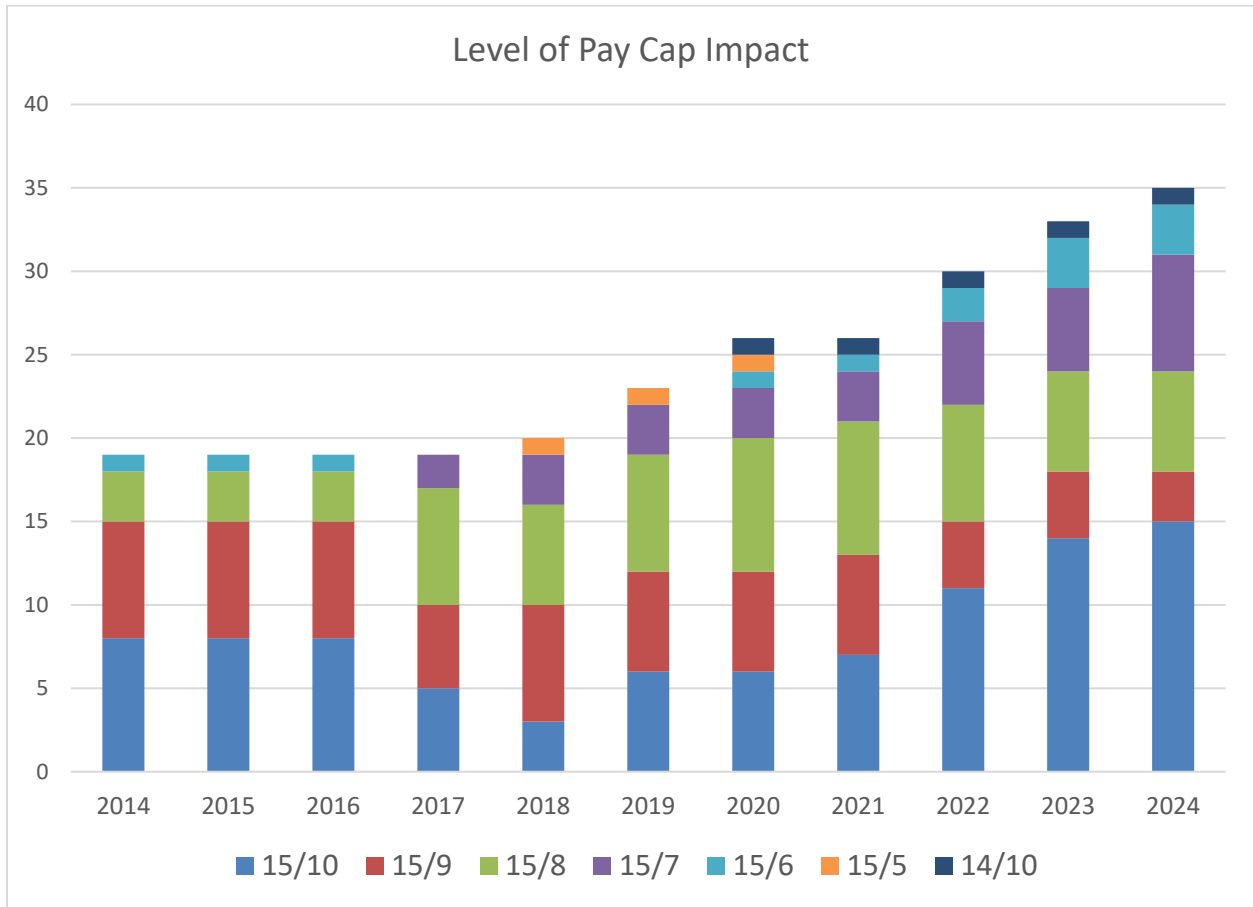


Figure 8 illustrates the escalating levels of impact over time due to the pay cap, highlighting the expansion in the number of localities affected. This figure also reveals that the adverse effects are reaching earlier grades within the impacted localities. Over the past 11 years, 20 out of the 35 localities affected by the pay cap encountered these limitations at an earlier grade. With the pay cap remaining constant while general salary increases are applied, the issue is projected to grow annually. This is because locality rates continue to rise without any adjustment to the pay caps to account for locality pay, leading more localities to hit the pay limit.

**Figure 8**

*Level of Pay Cap Impact*



## Summary

Analysis of the information in the literature review indicates that pay compression is a challenge for the DoD Civilian workforce. Beginning with the first research question, the literature review identified different definitions for pay compression that vary by source but were mostly in alignment. Each of the literature sources define pay compression as a mismatch of employee pay as it relates to other employees based on different conditions. The definitions identified in the literature review for pay compression in the Federal workforce point to the pay cap levied on the pay scale.

With respect to the second research question, the literature review identified many factors contributing to pay compression including candidate supply and demand, failure to correct for market changes when giving raises, minimum wage increases, poorly structured or broad pay scales, pay transparency, differences in terms, mergers or acquisitions, pay caps, and federal regulations. Each of the factors individually or a combination of factors can cause or contribute to pay compression.

Finally, the results of the literature review support the third research question by identifying three major impacts of pay compression to include culture and employee morale, turnover and retention rates, and legal challenges. The analysis of the results shows that the pay cap affects a majority of the locality areas. The results show that the challenge of pay compression to the Federal workforce is increasing in breadth and severity over time. The problem will continue to grow every year as locality rates increase without the relief of pay caps inclusive of locality pay and more localities approach the pay limit.

## **Conclusions and Recommendations**

### **Introduction**

This chapter provides conclusions and recommendations based upon the research completed on pay compression. This section also identifies potential areas for future research relevant to pay compression but not included in the scope of this research paper.

### **Conclusions**

Pay compression is defined as a mismatch in employee pay based on one or more conditions such as position, qualifications, seniority, or supervisory status. Pay compression is a challenge faced by many organizations. Pay compression is not intentional and often the byproduct of other efforts, many positive efforts. However, left unchecked, pay compression can cause a number of negative impacts to employees and employers alike.

The research revealed a number of factors that contribute to pay compression including candidate supply and demand, failure to correct for market changes when giving raises, minimum wage increases, poorly structured or broad pay scales, pay transparency, differences in terms, mergers or acquisitions, pay caps, and federal regulations. Each of the factors individually or a combination of factors can cause or contribute to pay compression.

Specific to the Federal workforce, which includes the DoD Civilian workforce, many of the factors that drive pay compression are controlled by federal regulations such as pay scale, pay caps, annual adjustments, and rules for pay increases. One of the most cited factors for pay compression in the Federal workforce is pay caps. While locality pay was instituted to help bring pay parity for Government Civilians, the pay cap counters the benefit by creating pay compression within the workforce. The pay cap most heavily impacts those employees in areas where the greatest help is needed to compete with Industry for personnel. The issue with pay caps has grown



over the years as it continues to impact more locality regions and greater populations of Government Civilian employees. Since Congress would have to make a change to the law to repeal the pay caps, the problem may not go away anytime soon and may continue to grow.

Further, DoD employees impacted by the pay cap will not be able to fully realize salary raises for performance. DoD Civilians received a historically large pay increase in 2024. While this is good news for employees, those employees who have hit the pay cap will only see a portion of this raise. As a result, employees in areas with a high cost of living will see an increase in the delta between DoD civilian salaries and the local market. While many organizations will provide a bonus in lieu of a pay raise, the employee's salary still doesn't change. Not only does the employee miss out on the compounding benefits of a higher salary, but the employee loses value in retirement calculations by having a lower salary value.

The research revealed three major impacts of pay compression to include culture and employee morale, turnover and retention rates, and legal challenges. Pay compression can lead to employees feeling unimportant, demotivated, and demoralized. When employees learn of new employees making similar wages as them without the investment that they have made with a company, they can feel frustrated, angry, or undervalued. This can cause employees to leave, impacting retention rates. Even if employees stay, the Federal pay cap will continue to limit employee salaries, which in turn impacts their retirement. Pay compression can also hamper recruitment as potential employees find there is a limit to their potential earnings.

Left unchecked, pay compression can have detrimental impacts on an organization. Managers and supervisors need to be cognizant of the factors contributing to pay compression as well as the negative outcomes. By understanding pay compression, managers can work with

employees to try to mitigate and avoid problems caused by pay compression. Ultimately, managing pay compression is about taking care of people across the entire organization.

### **Recommendations**

While organizations can't always control external factors such as supply and demand, steps can be taken to help mitigate impacts caused by pay compression. The following provides recommendations for handling the challenges of pay compression.

**Recommendation #1: Exempt locality pay from pay caps** – The leading factor for pay compression within the DoD Civilian workforce was the pay caps on federal pay. By removing locality pay from the calculation of the pay for the cap and capping only the base salary, it would allow locality pay to have the full effect intended to assist with pay parity with industry for Government workers.

**Recommendation #2: Annual assessments of pay compression** – Pay is typically determined through decisions about employees individually. This individual approach does not allow organizations to evaluate the extent to which pay compression may be impacting the organization. By doing annual assessments of employee pay holistically, organizations can better understand where pay compression may exist and develop requisite policies and mitigation strategies.

**Recommendation #3: Leverage alternate means for addressing pay cap issues** – There are many ways to compensate workers identified in U.S. OPM regulations. Government organizations should explore and implement alternate ways to incentivize employees who have hit the pay cap. Options such as bonuses or cash awards, retention incentives, time off awards, and senior level pay positions can offer additional motivation and recognition, mitigating the demotivating effects of pay caps.

### **Areas for Future Research**

The following areas would be beneficial to better understand pay compression.

1. The relationship between pay equity and pay compression
2. The impact of pay compression on recruitment and retention of specific skill sets
3. Pay compression in the U.S. Government vs. Industry
4. Delta between pay caps for Government and Industry
5. Strategies to combat pay compression
6. Factors impacting recruitment and retention
7. Total compensation package impact on pay compression
8. Cost vs benefit of eliminating pay caps
9. Legal implications of pay compression.

### **Summary**

This qualitative study examined the concept of pay compression, the factors that contribute to pay compression and the impacts of pay compression on DoD Civilian employees. The study provided a comprehensive look at pay compression as it impacts both industry and DoD but offers a particular focus on the DoD Civilian Workforce. The study found that pay compression is a challenge for both industry and the DoD Civilian Workforce. The study identified that the problem in the DoD will continue to grow over time if unaddressed. Pay compression may impact the Government's ability to attract and retain the best and brightest talent, may decrease employee morale, and could provide legal challenges. As the DoD Civilian Workforce is a great asset to the DoD, it is imperative that pay compression be addressed. After all, the DoD Civilian Workforce is a critical component to the U.S. National Defense Strategy, as they enable and equip our Nation's Soldiers.

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**Appendix A – Glossary of Acronyms**

DAU .....Defense Acquisition University  
DoD.....Department of Defense  
FEPCA .....Federal Employees Pay Comparability Act  
FWS .....Federal Wage System  
GS .....General Schedule  
U.S. OPM.....United States Office of Personnel Management

### **Appendix B – Author Biography**

Ms. Hyatt holds 25+ years of experience in Leadership, Program Management, Systems Engineering, and Production Engineering. Most recently, she served as the Aviation Assistant Program Executive Officer for Future Operations, which she spearheaded to leverage technologies, synchronize across the Aviation Enterprise, and ultimately enable Army soldiers with modern capabilities. In this role, she established the Combat Aviation Brigade Aviation Integration Lab, developed the initial Modular Open Systems Approach strategy, developed the initial PEO Aviation Common Operating Picture, implemented a comprehensive approach to Portfolio Management and Integration, managed the S&T integration and transition, and instituted a holistic approach to managing the Aviation Supply Chain and Industrial Base. Prior to her current appointment, Ms. Hyatt served as the Product Director for Future Vertical Lift, leading the successful launch of the next generation of vertical lift aircraft program for the Department of Defense. Ms. Hyatt served as the Deputy Product Director for Medical Evacuation within the Utility Helicopters Project Management Office, where she implemented a strategy to launch the Future Medical Evacuation equipment set. Ms. Hyatt further supported the Utility Helicopters Project Management Office as a Charter member for the Lakota Helicopter Program, which she supported from concept development through production and fielding. In her role as Lakota Production Lead, she managed the delivery of the first 156 aircraft, and stood up the production line that would produce more than 400+ aircraft, all on time, schedule, and performance. Ms. Hyatt led multiple engineers within the Engineering Directorate as the Production Engineering Aviation Branch Chief. Prior to her time in Aviation, Ms. Hyatt served as a Production and Systems Engineer supporting multiple Missile programs to include Common Missile, Lower Tier, Terminal High Altitude Area Defense, and Missile Defense Agency. Ms. Hyatt is an honors

graduate of the University of Alabama in Huntsville, where she earned a Master's degree in Systems Engineering and Engineering Management and a Bachelor's degree in Industrial and Systems Engineering.

In addition to her professional responsibilities, Ms. Hyatt is also an active member in professional and community organizations including the Army Aviation Association of America, Association of the United States Army, and Society of Women Engineers.