
Reinventing Human Resource Management

HRM02: Reform the General Schedule Classification and Basic Pay System

Background

Approximately 1.6 million federal civilian employees--about 75 percent of the nonpostal civilian workforce--are covered by the General Schedule (GS) classification and basic pay system. (The remaining 25 percent are covered under a variety of special pay systems, the largest of which is the Federal Wage System, which covers over 300,000 blue-collar employees in trades and crafts occupations.) The GS system was established in 1949 and was intended to provide a standard framework for establishing the pay hierarchy for federal employees in white-collar occupations.

The central core of the GS classification system is codified in law. The law establishes 15 grades and describes the level of work at each grade. As stated in the law, the purpose of the classification system is to ensure that equal pay be provided for substantially equal work (by ensuring equal grade for equal work) and that work be classified based on its difficulty, responsibility, and qualification requirements. The law provides the Office of Personnel Management (OPM) with a central role in establishing classification standards and reviewing agency classification actions (through periodic audits and hearings of employee appeals). OPM has final authority in classification matters.

OPM has established over 450 separate job categories called series. For example, there are 34 different series in the field of biological sciences alone, including such series as Plant Pathology, Plant Physiology, Plant Protection and Quarantine, Soil Science, and Irrigation System Operation. For many of these 450 series, OPM has published classification standards that agencies must apply in assigning grades to jobs. The series-specific classification standards describe the nature of work and set forth criteria or rules for determining the appropriate grade level. Series standards tend to be fairly detailed and can require considerable time and classification expertise to apply. Many of the standards have not been revised for many years and are viewed as out-of-date.(1)

The GS basic pay structure is directly based upon the grades in the classification system. There are 15 overlapping pay ranges that correspond with the 15 grades. Until passage of the Federal Employees Pay Comparability Act of 1990 (FEPCA), the GS basic pay structure consisted of a single nationwide pay schedule (although higher special salary rates could be paid in response to significant recruitment and retention problems). (2) However, FEPCA now provides for locality-based comparability payments based on average pay disparities between federal and non-federal workers.(3) The same locality pay percentage will apply to all employees in a given local pay area, thus maintaining on a local basis the pay relationships among all jobs in the GS hierarchy of grades, consistent with the equal pay principle.

By law, basic pay rates within any GS grade are set at one of 10 fixed step rates. Employees performing at an acceptable level of competence progress through the rate range in accordance with statutory waiting periods (one to three years depending on the step). In addition, employees may receive additional step increases--called Quality Step Increases (QSIs)--based on outstanding performance, subject to a limit of one QSI per year. While a special merit pay progression scheme applies to managerial employees covered by the Performance Management and Recognition System (PMRS), that system expires on October 31, 1993.

In recent years, several federal agencies have been conducting, with some success, special demonstration projects that tested broadbanding classification systems within the GS framework. A broadbanding system involves both the consolidation of job categories (job banding) and the merging of grades or pay ranges (grade

banding). Tailored within-band pay progression schemes were also developed for each project. The oldest and most well-known broadbanding demonstration project is a Department of the Navy project covering two research laboratories in Southern California (commonly referred to as the China Lake project).

Need for Change

A strong case can be made that the current federal classification and basic pay system is in need of significant reform. The problems with the current system are summarized below:

Lack of Mission Focus. The GS classification system was premised on the idea that internal equity would help the government more effectively and efficiently accomplish its various missions by ensuring that employees are compensated based on the difficulty and responsibility of their work, by addressing employee concerns about pay fairness, by reducing interagency competition for employees based on pay, and by simplifying the pay setting process. Over time, the ideal of internal equity has emerged as the supreme goal of the system, instead of being viewed as a means to attaining the larger goals associated with effective government. Consistent with the focus on internal equity, system administrators have sought to achieve greater precision, even though the additional precision did not result in--and perhaps even worked against--more effective government. A new and better balance is needed--a balance that can be achieved by a less precision-oriented classification system that provides for greater agency flexibility and is more supportive of agency missions without undermining the long-term governmentwide interests that originally prompted establishment of the system.

As a recent National Academy of Public Administration (NAPA) report notes, "The degree of precision with which jobs are classified under this [the General Schedule classification] system is neither warranted by the methodology nor necessary to support pay equity or to organize work efficiently."(4)

Low Credibility. According to a recent survey of federal employees conducted by OPM, only 31 percent of employees agree that their pay is fair considering what other people in their organization are paid.(5) Thus, despite all the attempts to build precision into the system through central control and rules, the fairness of the system appears to be questioned by the vast majority of the people whose opinion is perhaps most important. Ironically, it appears that the more precision that is sought in job evaluation, the more likely that the measurements of equity will be incomplete (because equity factors that could be considered under a less precise approach have been eliminated) and open to criticism (due to the specificity of the measurements as well as the high expectations created by the precise approach). Furthermore, a precise system that cannot be easily enforced invites rule bending and breaking, which further undermines system credibility. In meetings with federal managers and personnel specialists, National Performance Review (NPR) staff were repeatedly told how agency managers are able to beat the system to get the results they want. There is a strong argument that the classification system would be viewed as more fair by employees if it were less precise but more honest about its reliance on human judgment.

According to James E. Colvard, former Deputy Director of OPM, "The current classification system allows the manager to be precisely wrong. What the manager needs is the opportunity to be roughly right."(6)

Complexity. The GS classification system is difficult to understand and to use. This prevents managers--who actually best know the work being classified and its value to the organization--from assuming the primary role in classifying jobs. Instead, the system is largely run by OPM and agency personnel specialists with classification expertise (2,000 of whom are classified in a special Position Classification job series). The system's complexity promotes excessive paperwork and slow, cumbersome administrative procedures. It also makes it difficult to maintain currency. Over 7 percent of the standards are more than 20 years old.(7)

As the NAPA report notes, "In an era of growing pressures for efficiency, productivity, flexibility, customer satisfaction, and goal-directed results, the [General Schedule] classification system is mired in expensive, time-consuming, rule-driven complexity."(8)

Fragmented Accountability. Accountability for classification is fragmented among OPM, agency personnel offices, and agency program managers. Not only does this fragmentation produce tension and conflict among the

parties, but it also prevents any one party from assuming responsibility for the consequences of classification decisions. Since many federal managers do not operate under a fixed payroll budget or a total operating cost budget, they do not necessarily feel an obligation to consider the long-term cost consequences of classification actions. On the other hand, OPM and agency personnelists do not have to face the consequences that classification actions have on program missions. There is a clear need to consolidate accountability for mission and classification in one place. This suggests giving classification authority to line managers while ensuring that they are accountable for managing budget dollars prudently and paying employees fairly, in accordance with governmentwide standards.

The Federal Section of the International Personnel Management Association states that "the role of the personnel professional must be redefined to emphasize the desired shift to a consultative relationship with managers, rather than the heretofore traditional role of classification decision-maker."(9)

Inflexibility. One-size-fits-all rigidity characterizes the GS classification and pay system. Agency managers point out that agencies have diverse missions, challenges, organizational structures, values, and cultures, and that they must respond to ever-changing external conditions. The classification system must not be so immutable that it cannot respond to new ways of designing work, the changing value of jobs, or changes in the work itself. While some flexibilities have been incorporated within the pay system (e.g., special salary rates and entry pay above the minimum rate) to compensate for the classification system's rigidity, the restrictions that accompany many of these pay flexibilities severely limit their usefulness. Even if the classification system is made more flexible, additional pay flexibilities are needed to allow agencies to respond to localized labor market fluctuations and to use pay progression schemes that better fit the culture and goals of the organization.

As the Merit Systems Protection Board noted, "These [General Schedule] grade level criteria have come to be viewed as 'cast in stone' . . . [r]esulting in virtually fixed and therefore unresponsive standards. . . . Since the classification standards aren't readily adapted to changes which may occur in how society values certain kinds of work, the classification system can rarely, if ever, be a proactive tool of personnel management policy."(10)

Hierarchical Orientation. As currently administered, the GS classification system seems to facilitate or reinforce hierarchical structures. Part of the reason may lie in the reliance on specialized, narrow jobs, which tends to lead to the creation of organizational stovepipes structured by function instead of by mission. Perhaps more important is the fact that the classification system more readily provides higher grades for supervisory work than for expert-level nonsupervisory work. NPR staff heard from many different sources that supervisory positions are frequently created as a means of providing employees with higher grades. All of this suggests that a more flexible classification system designed to encourage more broadly defined jobs and to more readily permit dual career ladders could facilitate the streamlining or delayering of federal organizations.

Billions of dollars in precious tax revenues are squandered annually to support a federal management structure that is excessively bloated and that is unavailable to perform "front line production work." These needless layers upon layers of management are not benign. They significantly delay work product getting out timely and they micromanage to justify their existence thereby ultimately creating customer (public) dissatisfaction. The related pay and classification problems have contributed to this "pyramiding" of supervisors upon supervisors to justify grade levels.(11)

The interrelated problems described above point to the need for a new mission-driven classification and basic pay system--a system that achieves a better balance between flexibility and accountability, that is simpler to understand and administer, and that can be used proactively as a tool to help reshape the federal government. To achieve change in the classification and pay area without producing chaos, it is essential to develop a flexible system that allows agencies to take incremental steps based on their needs and levels of readiness to assume greater responsibilities.

Actions

1. Remove all grade-level classification criteria from the law while retaining the 15-grade structure. (3)

The director of OPM should submit proposed legislation to Congress by fall 1994 that would repeal the classification criteria for the 15 grades in the General Schedule system now codified in law.(12)

The statutory classification criteria have remained essentially unchanged since 1949.(13) The government should have the flexibility to make changes in the classification criteria in response to changes in the work world without going through the legislative process. Initially, OPM should administratively adopt the existing criteria and then make changes as warranted.

In addition to providing needed flexibility, removing the classification criteria from the law would also help reinforce the idea that, like private sector employees, federal employees do not have a statutory entitlement to a precise grade or pay level.

2. Provide agencies with flexibility to establish broadbanding systems built upon the General Schedule framework. (3)

The director of OPM should submit proposed legislation to Congress by fall 1994 that would (1) authorize OPM to approve the banding of GS grades (and associated pay ranges), subject to the condition that the content definition of any band be linked to the GS grade-level definitions, and (2) reduce the restrictions on the demonstration project authority so that it can be a more proactive management tool. The proposed legislation should also include provisions making clear that matters relating to the setting of base pay rates are not conditions of employment subject to collective bargaining. Within one year of enactment of this legislation, OPM should publish detailed information on the initial set of options available to agencies under these new authorities.

OPM should work with agencies to develop standard banding patterns that incorporate job banding, grade banding, and within-band pay progression schemes. Some of these standard patterns may permit the incorporation of blue-collar jobs now under the Federal Wage System. Agencies can choose among the menu of standard patterns without need for OPM approval. In addition, agencies will be able to request OPM approval of minor variations in the standard patterns. OPM approval of these minor variations would not be time-limited.

Unique broadbanding systems that do not fit under one of the standard patterns should be approved under a revised demonstration project authority. The demonstration project authority should be revised by eliminating (1) the limit on the number of employees covered by any project, (2) the limit on the number of active demonstration projects permitted, (3) the requirement that Congress be notified regarding the tentatively approved project plan 180 days in advance of the beginning of the project, and (4) the requirement that OPM promulgate regulations.(14) OPM regulations on demonstration projects will be repealed and replaced with written guidance.(15) OPM will require only the minimum amount of data needed to evaluate the project, and overly burdensome quantitative research methodologies will not be imposed. Demonstration projects will be approved by OPM for a five- year test period, after which a successful project will be converted to a permanent alternative system. For broadbanding demonstration projects, OPM will publish special project approval criteria so that any agency meeting the criteria will be assured of approval.(16)

Based on tests in the federal government (e.g., the Navy's China Lake demonstration project) and on the experience of private sector companies with broadbanding systems, broadbanding does not appear to be a panacea. It carries its own set of challenges and may not be a good fit for every organization or every occupational group. Broadbanding can meet resistance in organizations in which hierarchical rank is important. It can also lead to increased salary costs if the organization does not have (1) managers who are skilled at managing employee pay, (2) an effective performance management system, or (3) appropriate budget controls. However, broadbanding does offer many potential benefits, including simplified classification procedures, empowered managers, more broadly skilled employees, greater lateral job mobility, more flexibility in establishing dual career ladders, and the opportunity to redesign work and create flatter organizations.(17) The recommended approach allows agencies that are ready to move toward broadbanding under a structured approach that manages the associated risks. It would also allow OPM to assume the role of facilitator and promoter of innovation.

3. Modify the standard 15-grade classification system that applies to those employees not covered by a broadbanding system. (3)

The director of OPM should submit proposed legislation to Congress by fall 1994 that amends the classification law to give employing agencies authority to make final classification decisions and to eliminate OPM's review and compliance authority, effective one year after enactment. During the one-year interim period, agencies should give appropriate training to line managers who will be given classification responsibilities and develop appropriate decision support systems (e.g., human resource planning and costing models). OPM should immediately begin the process of simplifying the standard classification system by reducing the number of job categories used for classification purposes and by developing abbreviated standards that focus solely on full-performance (i.e., journey) levels of work. In addition, as recommended earlier in HRM01, OPM should issue regulations by spring 1994 deleting the requirements that employees serve some minimum amount of time at a lower grade level to qualify for a higher grade (i.e., time-in-grade requirements).(18)

OPM should be responsible for developing and maintaining the classification tools to be used by agencies participating in the modified standard 15-grade classification system. OPM should publish the primary classification standard setting forth the basic evaluation criteria that will guide all classification decisions. In the first stage of the simplification effort, it should also publish 30 to 50 job-specific classification standards that cover only the most populous jobs and selected benchmarks. Eventually, all paper standards will be eliminated and replaced by a manager-friendly automated classification program. Since OPM standards will focus solely on full-performance levels of work, agencies will be free to assign grades to entry and developmental levels under their own authority and standards, consistent with job qualification requirements.(19)

Agencies should classify full-performance level jobs using the OPM standards, subject to a requirement that final classification decisions be made at a level of management that operates under a fixed budget that includes all pay-related costs. OPM will not have authority to overrule an agency classification action. Each department or agency should be required to provide for internal reviews of a position's classification when requested by an employee. A classification decision would be appealable to a body outside the agency, such as the Merit Systems Protection Board, only on the limited grounds that the decision constituted a prohibited personnel practice; the agency's judgments as to the value of different types of work would not be subject to review.(20)

A governmentwide job titling system should be retained to support a governmentwide human resources database and external salary surveys; however, job categories should be consolidated to the maximum extent appropriate. It is expected that the number of job series (currently over 450) would be reduced by one-half or more.

The modified standard classification system is expected to greatly simplify the job classification process and provide agencies and their line managers with greater flexibility along with accountability for proper administration. The link between classification and budget will be strengthened. With the elimination of its review and compliance authority, OPM would no longer have the role of classification police. The elimination of the time-in-grade requirements will allow managers to promote qualified employees without delay; in addition, since the minimum time-in-grade requirements seem to be viewed by many employees as length-of-service requirements triggering automatic promotion, their elimination may help reinforce the principle that promotions are based on qualifications and abilities, not longevity.

4. Provide agencies under the standard 15-grade system with additional flexibilities in setting base pay rates. (3)

The director of OPM should submit proposed legislation to Congress by fall 1994 that will modify the GS within-grade pay progression scheme. In addition, OPM should submit proposed legislation to Congress by fall 1994 that will provide employing agencies with certain additional flexibilities in setting base pay rates, effective one year after enactment (to correspond with the effective date of the classification system modifications). This latter piece of legislation will include provisions making clear that agency decisions to use or stop using any of the new pay flexibilities are not subject to collective bargaining.

The 15-grade pay structure and a standard within-grade pay progression scheme similar to the current scheme will be retained. However, the rigid 10-step framework for progression within each pay grade will be abandoned.

Within-grade increases will be equal in dollar value to the current step increases and the waiting periods will remain essentially the same.(21) The main differences will be that Quality Step Increases or QSI's (perhaps renamed as Exceptional Performance Increases) can be less than a full within-grade increment and that an employee's initial rate in grade (upon hire or promotion) will not be required to equal a fixed step rate. This modified standard within-grade progression scheme will also apply to GS-13 to -15 managerial employees who are now covered by PMRS, which expires on October 31, 1993.

Agencies should also be able to establish special, alternative within-grade pay progression schemes through a revised demonstration project authority. For example, agencies may wish to experiment with schemes that base within-grade pay progression on the acquisition of specific skills and competencies or that move toward greater use of variable pay (i.e., one-time bonuses and awards) instead of base pay adjustments.

Agencies should be given discretionary authority to approve a base pay differential of 10 percent (of the GS base rate) for mission-critical positions with a grade no higher than GS-14 that, in the agency's judgment, are significantly undervalued under the standard classification criteria, based on the value assigned by the agency to those mission-critical positions relative to the value (i.e., grades) of other positions in the agency.

Agencies should be given discretionary authority to set entry pay up to 10 percent higher than the minimum rate of the entry grade if, in the agency's judgment, it is necessary to meet its recruitment goals. (The authority to set entry pay at any rate in the entry grade based on superior qualifications will also continue.)

Agencies should be given discretionary authority to establish, for grades GS-14 and below, local special rate schedules up to 10 percent higher than regular rates (including any locality pay adjustment) for occupations in which recruitment and retention efforts are significantly handicapped due to inadequate pay levels. These special rates can be phased out, at agency discretion; however, the phase-out must be conducted in a way that prevents any employee from suffering an absolute reduction in pay. Thus, agencies should be required to time the phase-out of a special rate to coincide with the effective date of general pay increases. (OPM's authority to approve higher special salary rates upon agency request will also continue. However, the rules for administering OPM-approved special rates should be modified expressly to allow agencies to phase out special rates at their discretion, consistent with the rules for agency-approved special rates.)(22)

The intent of the recommended changes is to provide agencies with greater flexibility. While the modifications to the standard within-grade pay progression scheme are not dramatic, they will eliminate unnecessary rigidity and allow agencies to make finer distinctions with respect to certain pay decisions. Also, those agencies that wish to adopt a special pay progression scheme can do so through the liberalized demonstration project authority, which will allow for permanent adoption of a successful project as an alternative system. The new flexibilities to increase base pay (subject to overall budget constraints) will permit agencies to respond quickly to special situations and reduce the temptation to manipulate the classification system. Given the visibility of the proposed pay flexibilities, agencies would have strong internal and external incentives to use them prudently. OPM evaluation and reporting on agency pay practices would reinforce accountability. The new rules for phasing out special salary rates would make clear that special rates are paid at agency discretion and are not a matter of statutory entitlement.

5. Establish reporting requirements that apply to both the modified standard system and any broadbanding system. (3)

In conjunction with the law changes proposed above, the director of OPM should submit proposed legislation to Congress by fall 1994 that would expressly authorize OPM to collect compensation data from agencies and require advance public notice of significant classification and pay actions. OPM will develop specific reporting requirements, including the following:

--- Agencies will be required to issue a 60-day advance public notice regarding their intention to upgrade or downgrade any group of positions with 100 or more incumbents, or to authorize special salary rates or a mission-critical differential.

--- Agencies will be required to provide OPM with data on compensation practices. To the maximum extent possible, the data will be collected through OPM's Central Personnel Data File system, which will be enhanced as necessary. OPM will issue an annual public report providing selected compensation data (e.g., number and percentage employees in full performance level grades or bands by job category and agency, average and median salaries by job category and agency, total payroll costs by job category and agency, etc.), with historical data also provided for comparison purposes.

The overall fiscal impact of the proposed changes to the classification system (i.e., broadbanding and decentralization) can be monitored and controlled within agency budget constraints. Agency decisions could produce additional costs in some areas while providing offsetting savings in other areas. As the classification system is simplified and automated and as line managers assume responsibility for classifying positions, the amount of staff years devoted to classification by personnelists (and associated administrative costs) should be significantly reduced in the long term.

No cost estimate can be assigned to the special pay flexibilities being proposed since they are discretionary. It is presumed that agencies will have to absorb within their budgets any increased costs associated with use of these discretionary authorities. It should be noted that elimination of the fixed steps in the GS pay system would prevent \$80 million in conversion costs (not anticipated in the President's budget) that would otherwise result from slotting PMRS- covered managers back into a fixed-step schedule.

Cross References to Other NPR Accompanying Reports

Improving Financial Management, FM04: Increase the Use of Technology to Streamline Financial Services.

Endnotes

1. National Academy of Public Administration (NAPA), *Modernizing Federal Classification: An Opportunity for Excellence* (Washington, D.C., July 1991), pp. 20-21.
2. Title 5, United States Code, sec. 5305.
3. Title 5, United States Code, sec. 5304.
4. NAPA, *Leading People in Change: Empowerment, Commitment, Accountability* (Washington, D.C., April 1993), p. 38.
5. U.S. Office of Personnel Management, *Survey of Federal Employees* (Washington, D.C., May 1992), p. 60.
6. NAPA, *Modernizing Federal Classification*, back cover.
7. U.S. Merit Systems Protection Board (MSPB), *OPM's Classification and Qualification Systems: A Renewed Emphasis, A Changing Perspective* (Washington, D.C., November 1989), p. 12.
8. NAPA, *Leading People in Change*, p. 38.
9. International Personnel Management Association, Federal Section, "Critical Personnel Management Issues: Position Classification," February 1991, p. 6.
10. MSPB, p. 10-11.
11. Letter from John N. Sturdivant, National President of the American Federation of Government Employees, to Roy Tucker, member of the National Performance Review staff, May 14, 1993, p. 6.
12. Title 5, United States Code, sec. 5104.

13. Minor changes to the GS-5 and GS-7 definitions were made in the Federal Employees Salary Increase Act of 1958.
14. Title 5, United States Code, sec. 4703.
15. Title 5, Code of Federal Regulations, Part 470.
16. In the case of occupational fields that do not fit well in the standard GS classification and pay framework, special governmentwide occupational systems can be approved by the President's Pay Agent (i.e., the director of OPM, the director of OMB, and the Secretary of Labor) under current law. See 5 U.S.C. 5392.
17. Braddick, Carol A., Michael B. Jones, and Paul M. Shafer, "A Look at Broadbanding in Practice," Journal of Compensation and Benefits (July-August 1992), pp. 28-32; and U.S. Office of Personnel Management, Broadbanding in the Federal Government: Management Report (Washington, D.C., February 1993), pp. 14-22.
18. See also "HRM01, Create a Flexible and Responsive Hiring System," action 5.
19. Ibid.
20. Title 5, United States Code, sec. 2302.
21. See "HRM05, Strengthen Systems to Support Management in Dealing with Poor Performers," regarding proposed change that would bar a period of inadequate performance from being counted toward the waiting period for a within-grade increase.
22. Under current law, employees' special rates can be reduced or terminated; however, such employees are covered by statutory pay retention rules that may provide entitlement to partial annual increases. At the same time, the law can be read to limit agencies' discretion to not apply general increases in pay and, thus, to effect a phase-out of special rates without absolute reductions in basic pay entitlement. Under the proposal, the law would be amended to make it clear that employees are not entitled to have a special salary rate automatically adjusted when there is a general increase in General Schedule rates.



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