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Federal Employees: Pay and Pension Increases Since 1969

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Summary

Pay increases for current federal employees and *cost-of-living adjustments* (COLAs) for retired federal employees often differ because they are based on changes in different economic variables. Increases in pay for civilian federal workers are indexed to *wage and salary* increases in the private-sector, as measured by the Employment Cost Index (ECI), whereas federal retirement and disability benefits are indexed to *price increases* as measured by the Consumer Price Index (CPI). Both the ECI and the CPI are calculated by the Bureau of Labor Statistics of the U.S. Department of Labor.

Under the terms of the Federal Employees' Pay Comparability Act of 1990 (P.L. 101-509), pay for civilian federal employees is adjusted each year to keep the salaries of federal workers competitive with comparable occupations in the private sector. The annual increases in federal employee pay are based on changes in the cash compensation paid to workers in the private sector, as measured by the ECI. Under certain circumstances, the President may limit the annual increase in federal pay by executive order. Federal law also requires Social Security benefits and the pensions paid to retired federal employees to be adjusted each year. The COLAs for both Social Security and civil service pensions are based on the rate of inflation as measured by the CPI.

Congress has linked increases in federal pay to the ECI so that wages for federal employees will remain competitive with wages paid by firms in the private sector. Congress has linked COLAs for Social Security and federal retirement benefits to the rate of increase in the prices of goods and services in order to protect retirement income from losing purchasing power through the effects of inflation. In general, wage increases reflect both improvements in the productivity of labor and increases in the general level of prices in the economy. Consequently, when measured over long periods of time, wages tend to rise faster than prices. Because COLAs for retirees do not reflect increases in the productivity of people who are still in the work force, COLAs do not make retirees financially better off. COLAs merely protect retirees from becoming financially *worse-off* as prices rise over time.

Increases in retirement benefits for retired federal employees were first linked to the CPI by law in 1962. Increases in Social Security benefits have been linked by law to changes in the CPI since 1973. Before then, Congress periodically adjusted Social Security benefits through legislation. Congress chose to tie increases in these benefits to the CPI in order to make the process less subject to political influences. The overall price level as measured by the CPI is estimated to be 432% higher in 2006 than it was in 1969. As of January 2006, federal civil service retirement benefits have risen by 433% since 1969, whereas Social Security benefits have risen by 549%. Average wages among all workers in the economy have risen by 556% since 1969. Salaries for civilian federal employees have increased by 371% since 1969, and pay for Members of Congress has increased by 288%.

This report is updated annually.

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Under the terms of the Federal Employees' Pay Comparability Act of 1990 (P.L. 101-509), pay for civilian federal employees is adjusted each year to keep the salaries of federal workers competitive with comparable occupations in the private sector. The annual increases in federal employee pay are based on changes in the cash compensation paid to workers in the private sector, as measured by the Employment Cost Index (ECI). Under certain circumstances, the President may limit the annual increase in federal pay by executive order. Federal law also requires Social Security benefits and the pensions paid to retired federal employees to be adjusted each year. The cost-of-living adjustments (COLAs) both for Social Security and civil service pensions are based on the rate of inflation as measured by the Consumer Price Index (CPI). **Table 1** shows the pay increases since 1969 for federal employees and Members of Congress and COLAs made to Social Security benefits and federal civil service pensions.[1]

Two national economic indexes also are displayed in **Table 1** to provide a basis for comparison with the benefit and pay increases. These are the average annual change in the wages of all workers in the United States, as computed by the Social Security Administration, and the Consumer Price Index for Urban Wage Earners (CPI-W), a price index computed by the U.S. Bureau of Labor Statistics.

COLAs Versus Pay Increases

Pay increases for current federal workers and *cost-of-living adjustments* (COLAs) for retired or disabled federal workers often differ because they are based on changes in different economic variables. Pay increases for federal workers are based on changes in private-sector wages and salaries, whereas COLAs for retirees are based on increases the general level of prices in the national economy. The objective of federal pay policy is to keep pay in the federal government competitive with pay in the private sector. Increases in pay for federal civil service workers therefore are indexed to increases in the wages and salaries of private-sector employees. Over time, wage increases reflect increases in the nation's output of goods and services as well as price increases. Because wage increases in the private sector reflect growth in the productivity of labor, wages tend to increase faster than prices when measured over long periods of time.

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[1] The income-tested programs of Supplemental Security Income (SSI) and veterans' pensions use the cost-of-living adjustment (COLA) formula of Social Security. Each year since 1983 their benefits have been increased at the same time and by the same percentage as Social Security benefits.

Social Security benefits and federal retirement annuities are indexed to increases in the CPI, which measures changes in the price of a market basket of consumer goods and services. Congress has linked COLAs for Social Security and federal employee pensions to the rate of increase in the general level of prices in order to protect retirement income from losing purchasing power through the effects of price inflation. COLAs ensure that a retiree's income will purchase the same amount of goods and services after years of retirement that it purchased at the start of retirement. COLAs do not reflect increases in the productivity of people who are still in the work force, and thus they do not increase the real purchasing power of retirement income. COLAs do not make retirees better off financially; they merely protect them from becoming financially worse-off over time as prices rise.

How to Use the Benefit and Pay Increase Table

Table 1 shows the percentage increase in federal pay and retirement benefits for each year since 1969, and an index relative to the base year. The index shows the cumulative increase in pay or benefits, compounded annually, with a base of 100.0 in 1969. For example, Congress increased Social Security benefits by 15.0% in 1970, making benefits 115.0% of what they were in 1969. Another Social Security benefit increase of 10.0% was granted in 1971, making benefits 126.5% of what they had been in 1969. (1.15 X 1.10 = 1.265) Federal civilian retirees received a 5.6% increase in their annuities in 1970, raising those benefits to 105.6% of the 1969 level. The next increase in federal civilian retirement benefits was a 4.5% adjustment in 1971, bringing the average federal pension to 110.4% of its 1969 amount. (1.056 X 1.045 = 1.104)

The bottom row of the index column shows how much federal pay and retirement benefits have grown since 1969. For example, with the COLA that was paid in Social Security checks issued in January 2006, these benefits had increased to 649% of their 1969 level, an increase of 549%.[2] This means that a benefit initially paid in 1969 would be 6.49 times as large in 2006 if it were still being paid this year. Benefit increases can be compared across programs by looking at the index column for any given year. For example, as of 1985, federal civilian pay had increased by 134% over what it had been in 1969, and Congressional pay had increased by 77%. In comparison, average wages and salaries for all workers in the U.S. economy in 1985 were 185% greater than they had been in 1969. The column displaying the CPI shows that by 1985 the price level had increased by 190% since 1969.

Procedures for Determining Increases

Social Security and Civil Service Retirement. Social Security and civil service retirement benefits are adjusted to offset the effect of inflation in the cost of living as measured by a price index.[3] Cost-of-living adjustments enable retirees to

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[2] An index of 649 means that the number is 649% of the base, which is an increase of 549%, just as 200 is 200% of 100 and represents an increase of 100% from a base of 100.

[3] The two retirement systems for federal civil service workers use different adjustment (continued...)

maintain the purchasing power of their retirement income. Automatic adjustments to offset erosion in the value of retirement benefits caused by inflation were first applied to civil service retirement by P.L. 87-783, enacted in 1962. In 1972, P.L. 92-336, provided for automatic inflation-related increases in Social Security benefits.[4] Benefit increases in Social Security preceding 1975 were not automatic COLAs linked to inflation, but were special adjustments legislated by Congress. For example, Congress granted the 1970, 1971, and 1972 Social Security increases of 15%, 10%, and 20%, respectively, in part because of concern about the number of elderly Americans living in poverty. These increases were intended not just to offset inflation in those years, but to raise the real level of benefits. The 8.0% Social Security increase effective in June 1975 was the first automatic inflation-related COLA.

The large increases in Social Security benefits that Congress provided periodically before the program was indexed to inflation have had a substantial effect on the cumulative index for Social Security shown in **Table 1** because the table uses 1969 as the base year for the index. This may create a somewhat misleading impression if Social Security benefit increases are compared with the civil service retirement program, which was indexed to inflation in the early 1960s. For example, if 1975 were used as the base year for the index instead of 1969, the cumulative Social Security increase through January 2006 would be 256%. This is almost the same as the 243% cumulative increase in civil service retirement benefits during that period.[5]

The benefit adjustments in these programs are made by computing the average monthly CPI for the third quarter of the current calendar year (July, August, and September) and comparing it with the CPI for the third quarter of the previous year. For example, the 4.1% Social Security COLA paid in January 2006 represents the increase in the average monthly CPI for July, August, and September of 2005 over the average monthly CPI for July, August, and September of 2004. The benefit increases are first included in checks issued in the month of January and take place automatically unless legislation is enacted to change them. In FY1986, the Gramm-Rudman-Hollings Act canceled civil service retiree COLAs. In 1994, 1995, and

[3] (...continued)
systems. The Civil Service Retirement System (CSRS), which applies to workers first hired into federal service before 1984, provides a full COLA for all retirees and survivors. The Federal Employees' Retirement System (FERS) covers workers hired on or after January 1, 1984 and others who voluntarily switched from CSRS to FERS. In order to constrain retirement costs, Congress placed restrictions on COLAs to FERS retirees. FERS provides COLAs to retirees under age 62 only if they are disabled or are survivor annuitants. FERS retirees age 62 or over receive a full COLA only if the CPI increases by 2.0% or less. FERS retirees receive a 2.0% COLA if the CPI increase is between 2.0 and 3.0%. If the CPI increases by 3.0% or more, the FERS COLA is 1 percentage point less than the CPI.

[4] This law was amended in 1973 by P.L. 93-66 and P.L. 93-233 before the 1972 law went into effect.

[5] From 1969 through 1976 the adjustment for civil service retirement was 1 percentage point *more than* the rate of inflation.

1996, P.L. 103-66 (the Omnibus Budget Reconciliation Act of 1993) delayed civil service nondisability retiree COLAs until April in order to achieve budget savings.

Federal Civil Service Pay. The Federal Employees' Pay Comparability Act of 1990 (P.L. 101-509) established a two-step system for setting and adjusting federal pay. Step one is an annual increase that applies uniformly to all "white collar" federal civil service employees covered by the general schedule (GS) pay system, the foreign service pay system, and certain pay systems for employees of the Department of Veterans Affairs. The second step comprises locality-based salary adjustments that vary by geographic area.

Uniform Nationwide Pay Raises. The uniform nationwide annual adjustment to the general schedule pay scales is based on the average pay raise received by workers in the private sector from year to year. The Pay Comparability Act specifies that the nationwide pay raises for federal white-collar GS workers are to be one-half percentage point less than private sector wage increases, as measured by the Employment Cost Index (ECI).[6] The increase is computed by comparing the ECI for the third quarter of the previous calendar year to the ECI in the third quarter of the calendar year before that. Thus, there is a 15-month lag between the measurement period and the effective date of the pay raise.

Although P.L. 101-509 specifies that the annual national increase in basic GS pay rates will be equal to the percentage change in the ECI minus 0.5 percentage point, the law gives the President authority to limit pay raises through executive order in the event of serious economic conditions or a national emergency affecting the general welfare.[7] Congress voted to suspend the nationwide pay raise for civil service employees in 1994. In 1995 and in 1996, President Clinton exercised his authority to limit civil service pay raises to less than the ECI formula.

Based on the 2.6% increase in the ECI from the third quarter of 2003 to the third quarter of 2004, the base pay increase for federal employees in January 2006 as determined under the Pay Comparability Act was 2.1%. An average 3.1% pay adjustment in January 2006 was included in the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act for FY2006 (H.R. 3058), as agreed to by the House of Representatives on November 18 and by the Senate on November 21. This 3.1% pay adjustment consisted of a 2.1% increase in base pay and 1.0% to be allocated as locality pay adjustments. H.R. 3058 was signed by the President on November 30, 2005, and became P.L. 109-115. Federal civilian employees received an average pay increase of 3.1% in January 2006.

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[6] The Bureau of Labor Statistics updates the ECI quarterly to measure changes in wages and salaries in private-sector, non-farm employment.

[7] Pay raises for members of the Senior Executive Service are not prescribed by law. They are established by the President through an executive order. Thus, they may be the same as or different from other civil service pay raises.

Locality Pay. P.L. 101-509 authorized locality-based pay adjustments for civilian federal employees in specified occupations and geographic locations to reflect the salary levels of private-sector workers in similar occupations in those areas. The original objective of the civil service locality pay program was to bring federal salaries to within 5% of private sector salaries over a nine-year period (1994 through 2002). Once pay parity is achieved, locality pay adjustments are no longer to be made unless the gap subsequently widens to more than 5%. Although Congress suspended the uniform nationwide civil service pay raise for 1994, it agreed to pay locality raises to civil service workers. Since 1994, Congress has set aside P.L. 101-509 and specified in appropriations bills the amounts available for distribution each year as locality pay increases.

Federal Pay Raises for Within-grade Step Increases and Promotions. The data in the column labeled "federal civil service pay" in **Table 1** reflect post-1969 uniform nationwide pay raises and locality pay increases applicable to the government's overall pay scales for workers in GS positions, from GS-1, step 1, through the highest grade of GS-15, step 10. As noted above, the government increases the federal GS pay scale periodically (usually once a year) to be competitive with wages and salaries paid by other employers. The pay increases in **Table 1** do not portray the total pay increases that any individual or group of individuals might have received. As federal employees move through their careers, they receive pay raises when they are granted a within-grade step increase or when they receive a promotion to a higher pay grade. Both step increases and promotions to higher grades are *merit increases* that are based on an individual's performance in his or her job. If a worker were to receive all within-grade step increases at the first point of eligibility without being promoted to a higher pay grade, it would take 18 years to move from step 1 of a pay grade to step 10. The pay increases between steps range from 2.5% to 3.3%. Thus, although **Table 1** indicates that GS *pay scales* have increased by 226% since 1975, the pay in 2006 of an individual who had been continuously employed in a federal GS job between 1975 and 2006 would have risen by more than 226% due to the combined effects of increases in the overall pay scales, within-grade step increases, and promotions to higher grades. Some workers receive step increases but few promotions; others receive steady, periodic promotions; and still others receive rapid promotions and spend many years at high pay grades. Thus, it is not possible to characterize in general terms how the actual pay of long-term federal workers increases over time. Consequently, **Table 1** should not be construed as characterizing the salary history of a typical federal employee.

Pay for Members of Congress. The procedures for raising the pay of civilian federal employees were applied to Members of Congress and other high-level federal officials by P.L. 94-82, enacted on August 9, 1975. In the Government Ethics Reform Act of 1989 (P.L. 101-194), Congress approved different pay increases for the House and the Senate for 1990 and 1991. Subsequent legislation passed by Congress once again made Senators' pay equal to that of Representatives, effective in August 1991. P.L. 101-194 also established a new procedure for setting Members' pay. Pay increases for Members and top level federal officials are now based on two pay-setting systems, one annual and one quadrennial. Beginning in 1991, Members' annual pay raises were based on changes in the ECI reduced by 0.5 percentage point and capped at 5.0%. In addition, approximately every four years a special commission is to review Members' pay in comparison with that of private sector executives and recommend adjustments that they deem appropriate.

The annual pay increase for Members of Congress is computed by comparing the ECI for the fourth quarter of the previous calendar year with the ECI in the fourth quarter of the year before that. Thus, there is a 12-month lag between the measuring period and implementation of the pay raise. For example, the 1.9% pay raise Members received in January 2006 reflects growth in the ECI for October through December 2004 compared with the ECI for October through December 2003, minus 0.5 percentage point. On several occasions, Congress has voted to cancel the pay raises it was authorized to receive under P.L. 101-194. Congress refused the pay raises that it otherwise would have received in 1994, 1995, 1996, 1997, and 1999.[8]

Average Annual Wages and Salaries. The column labeled "average annual wages/salaries" displays the average annual increases in wages and salaries earned by all workers in the United States as reported by the Social Security Administration Board of Trustees. Like the data on civil service pay, this column does not reflect the pay raises an individual worker might receive from year to year because as workers gain skills and experience they usually receive both pay raises and promotions. The data in **Table 1** reflect average wage growth for the entire workforce, which is influenced by the retirement of older, higher-paid workers and the entrance of younger, lower-paid workers. It also reflects shifts in the structure of wages caused by declining employment in certain sectors of the economy and increasing employment in other sectors. Because of the combined effects of pay raises and promotions, the typical worker with a permanent attachment to the labor force would have experienced wage growth greater than that shown in the "average wage" column.

Price Increases. The final column of **Table 1** shows the annual percentage change in consumer prices as measured by the Consumer Price Index for Urban Wage Earners (CPI-W). The CPI represents the average change nationwide in a typical "market basket" of goods and services purchased by consumers. The CPI is constructed from several component indexes. The goods and services that consumers purchase are classified into 207 strata of items, and the urban areas in the United States are divided into 44 areas, each with its own index. Thus, there are 9,108 (207 times 44) basic CPI components into which expenditures are classified. The items included in the index change as new products or brands are introduced, and old products are modified, improved, or dropped.

Using the price level of 1969 as the base for the index, the CPI had risen to 517.0 by 2005, meaning that consumer prices had risen by 417% over a 36-year period. This represents an average annual increase in consumer prices of 4.1% over the period from 1969 to 2005. Over the same period, wages and salaries rose at an average annual rate of 5.2%, or 0.9% faster than prices. The 2005 index for Social Security benefits was higher than the price index (623 compared to 517), but this largely reflects the ad hoc increases granted by Congress in the early 1970s. Between

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[8] For more information, see CRS Report RL30014, *Salaries of Members of Congress: Current Procedures and Recent Adjustments*, by Paul Dwyer.

1975 and 2005, the Social Security index rose by 242% and the CPI-W rose by 253%.[9] Federal civilian retirement benefits grew at nearly the same rate as consumer prices from 1969 to 2005, with the only differences accounted for by the the lag-time between price measurement and the implementation date of the COLAs for these benefits. Increases in pay for civilian federal employees grew more slowly than consumer prices over the period shown in **Table 1**, standing at an index value of 457 in 2005, compared to a CPI of 517.

[9] Social Security and civil service retirement are indexed to the Consumer Price Index for Urban Wage Earners (CPI-W).

Table 1. Increases in Social Security Benefits, Federal Civilian Pensions, Federal Pay, Congressional Pay, National Average Wages, and Consumer Prices, 1969 to 2006

Year	Social Security		Civilian (CSRS) Retirement[a]		Federal Civil Service Pay		Congressional Pay[b]		Average Annual Wages/Salaries[c]		Consumer Prices (CPI-W)	
	Change	Index	Change	Index	Change	Index	Change	Index	Change	Index	Change	Index
1969		100.0		100.0		100.0		100.0		100.0		100.0
1970	15.0%	115.0	5.6%	105.6	6.0%	106.0			5.0%	105.0	5.7%	105.7
1971	10.0%	126.5	4.5%	110.4	6.0%	112.4			5.0%	110.2	4.4%	110.3
1972	20.0%	151.8	4.8%	115.6	10.9%	124.6			9.8%	121.0	3.4%	114.1
1973			6.1%	122.7	4.8%	130.6			6.3%	128.6	6.2%	121.1
1974	11.0%	168.5	12.2%	137.6	5.5%	137.7			5.9%	136.3	11.0%	134.4
1975	8.0%	182.0	12.8%	155.2	5.0%	144.6	4.9%	104.9	7.5%	146.4	9.1%	146.6
1976	6.4%	193.6	5.4%	163.6	4.8%	151.6			6.9%	156.5	5.7%	155.0
1977	5.9%	205.0	9.3%	178.8	7.0%	162.2	28.9%	135.2	6.0%	165.9	6.5%	165.0
1978	6.5%	218.4	7.4%	192.0	5.5%	171.1			7.9%	179.1	7.7%	177.8
1979	9.9%	240.0	11.1%	213.3	7.0%	183.1	5.5%	142.7	8.7%	194.8	11.4%	198.1
1980	14.3%	274.3	14.2%	243.5	9.1%	199.7			9.0%	212.3	13.4%	224.7
1981	11.2%	305.0	4.4%	254.2	4.8%	209.4			10.1%	233.7	10.3%	247.7
1982	7.4%	327.6	8.7%	276.3	4.0%	217.7	15.1%	164.2	5.5%	246.6	6.0%	262.6
1983			3.9%	287.1					4.9%	258.6	3.0%	270.5
1984	3.5%	339.1			4.0%	226.5	4.0%	170.8	5.9%	273.8	3.5%	279.9
1985	3.5%	350.9	3.5%	297.2	3.5%	234.4	3.4%	176.6	4.3%	285.4	3.5%	289.7
1986	3.1%	361.8							3.0%	293.9	1.6%	294.3
1987	1.3%	366.5	1.3%	301.0	3.0%	241.4	19.2%	210.5	6.4%	312.6	3.6%	304.9
1988	4.2%	381.9	4.2%	313.7	2.0%	246.2			4.9%	328.0	4.0%	317.1
1989	4.0%	397.2	4.0%	326.2	4.1%	256.3			4.0%	341.0	4.8%	332.2
1990	4.7%	415.9	4.7%	341.6	3.6%	265.6	7.9%	227.1	4.6%	356.8	5.2%	349.6
1991	5.4%	438.3	5.4%	360.0	4.1%	276.5	29.5%	294.1	3.7%	370.1	4.1%	364.0
1992	3.7%	454.5	3.7%	373.3	4.2%	288.1	3.5%	304.4	5.2%	389.1	2.9%	374.5
1993	3.0%	468.2	3.0%	384.5	3.7%	298.7	3.2%	314.1	0.9%	392.5	2.8%	385.1
1994	2.6%	480.3	2.6%	394.5	4.0%	310.6			2.7%	403.0	2.5%	394.6
1995	2.8%	493.8	2.8%	405.6	2.6%	318.7			4.0%	419.2	2.9%	406.0
1996	2.6%	506.6	2.6%	416.1	2.4%	326.3			4.9%	439.7	2.9%	417.6
1997	2.9%	521.3	2.9%	428.2	3.0%	336.1			5.8%	465.3	2.3%	427.1
1998	2.1%	532.2	2.1%	437.2	2.9%	345.9	2.3%	321.4	5.2%	489.7	1.3%	432.8
1999	1.3%	539.1	1.3%	442.9	3.6%	358.3			5.6%	517.0	2.2%	442.3
2000	2.4%	552.0	2.4%	453.5	4.8%	375.5	3.4%	332.3	5.5%	545.6	3.5%	457.7
2001	3.5%	571.4	3.5%	469.4	3.7%	389.4	2.7%	341.3	2.4%	558.6	2.7%	470.2
2002	2.6%	586.2	2.6%	481.6	4.6%	407.3	3.4%	352.9	1.0%	564.2	1.4%	476.7
2003	1.4%	594.4	1.4%	488.3	4.1%	424.0	3.1%	363.8	2.4%	577.7	2.2%	487.2
2004	2.1%	606.9	2.1%	498.6	4.1%	441.4	2.2%	371.8	4.7%	604.9	2.6%	499.9
2005	2.7%	623.3	2.7%	512.1	3.5%	456.8	2.5%	381.1	4.1%	629.7	3.5%	517.3
2006	4.1%	648.8	4.1%	533.1	3.1%	471.0	1.9%	388.4	4.2%	656.1	2.8%	531.8

Source: Congressional Research Service.

Notes: Changes are shown for the calendar year in which the increase appeared in the checks issued. For years in which payments were increased more than once, the compounded effects are shown.

a. The COLAs in this column are those paid to CSRS annuitants. The COLAs paid under FERS (which are lower than CSRS COLAs in any year that inflation exceeds 2.0%), are not shown. See CRS report 94-834 for a table showing FERS COLAs each year since 1988.

b. The changes in each year are those for members of the House of Representatives. In 1969, Representatives and Senators were each paid $42,500. In 2006, Representatives and Senators are each paid $165,200.

c. Computed by the Social Security Administration, based on wage data reported by employers to the Internal Revenue Service. Average wages for 2005 and 2006 are estimates of the Office of the Actuary of the Social Security Administration. The CPI for 2006 is the January 2006 CBO estimate.