

STATEMENT OF

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Before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE, AND THE
DISTRICT OF COLUMBIA
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

NON-FOREIGN COLA: FINDING AN EQUITABLE SOLUTION

May 29, 2008

Mr. Chairman and Members of the Subcommittee:

My name is Brad Bunn, and I am the Program Executive Officer for the National Security Personnel System, or NSPS, in the Department of Defense (DoD). Thank you for the opportunity to appear before you to discuss the proposals to extend locality pay in lieu of cost-of-living adjustments (COLA) to employees working in Hawaii, Alaska, Guam, Puerto Rico, U.S. Virgin Islands, and other U.S. territories and possessions, in particular, DoD civilian employees, including those covered by NSPS.

Let me, at the start, thank you for your ongoing support of the 700,000 DoD civilian employees who work every day, worldwide, in support of our national defense, including the thousands of civilians employed by DoD here in Hawaii. We appreciate your leadership on the many civilian human capital issues facing the Department, including the issue before us today.

I am here today representing the Department's National Security Personnel System, a key driver in the Department's transformation. DoD civilians play a unique role in our government, as they are responsible for supporting the military around the world, in all manner of occupations, in a variety of work settings and operational environments. The flexibilities built into NSPS provide the DoD with a modern and agile human resources system that is more responsive to the national security environment, while preserving employee protections and the fundamental principles of the merit system. To date, we have successfully implemented NSPS to over 180,000 employees

across DoD, who are now working under a more modern, mission-focused, results-oriented personnel system.

NSPS enables DoD to compensate and reward employees based on their performance and contribution to our mission. While the National Defense Authorization Act for Fiscal Year 2008 brought significant changes to the underlying NSPS statute, the core features of NSPS that we have implemented, including compensation flexibilities and pay for performance, remain intact.

One of the features of NSPS that is critical to the Department is the ability to move towards a more market-based approach to compensation. We have implemented a simplified, streamlined classification structure, using a pay banding system that collapses the fifteen General Schedule (GS) grades to three or four pay bands. This allows the Department to be more competitive in the labor market, and gives our employees the ability to progress through broader pay bands based on their performance and contribution. With respect to locality pay, NSPS includes an element of pay called a “local market supplement,” which is essentially identical to locality pay under the GS system. NSPS mirrors the GS locality pay areas and percentages for these local market supplements. Under NSPS, however, an employee must be performing above the “unacceptable” level in order to be eligible for any increases to local market supplements. This aligns with the underlying principles of NSPS, as required in the law, that pay be linked to performance. NSPS employees with performance ratings above “unacceptable” receive local market supplement adjustments equal to the GS locality pay increases.

Regarding COLA in non-foreign areas, NSPS does not affect the payment or amount of non-foreign COLA. The NSPS statutory authorities do not extend to COLA, so employees under NSPS in these areas are receiving COLA, similar to our GS employees.

As one of the largest Federal employers in these non-foreign COLA locations, the Department is well aware of the issues surrounding COLA and the potential extension of locality pay to these areas. DoD employs over 26,000 appropriated fund civil servants in Hawaii, Alaska, Puerto Rico, and other U.S. Territories (not including the DoD Intelligence community). Almost 18,000 of these employees are in white-collar occupations and are impacted by the non-foreign COLA issue, with over 11,000 of these civilians employed here in Hawaii. Currently, approximately 7,000 employees in these non-foreign areas are covered by NSPS, with an additional 10,000 eligible for coverage. Over the years, we have heard concerns from our employees about the COLA, in particular, the issue of equity in retirement benefits. The perception that compensation and retirement benefits for our white-collar workforce in these areas are eroding will have a detrimental effect on our ability to recruit and retain the talent needed to carry out our mission. We applaud the Committee for taking this issue on, and agree with our colleagues at the Office of Personnel Management (OPM), as well as with you, Mr. Chairman, that the time has come to extend locality pay in lieu of COLA to these non-foreign areas.

We realize that there are a number of considerations and potential approaches to implementing this concept. Last year, the Department endorsed the OPM legislative

proposal that would phase in locality pay over a seven-year period, while gradually reducing COLA payments. The Department continues to support that proposal. We understand that Senator Akaka, along with Senators Inouye, Stevens, and Murkowski, has recently introduced the “Non-foreign Area Retirement Equity Assurance Act of 2008,” which also phases in locality pay in these areas, while reducing COLA payments over time. The Department has not completed a full analysis of the introduced bill, but I am prepared to speak to a few points.

First, let me address how these proposals would affect employees under NSPS. Because NSPS local market supplements mirror the GS locality pay areas and percentages, if either of these proposals were enacted, the Department would establish and phase-in local market supplements equal to the GS locality rates established by OPM for these areas. In other words, NSPS employees would be treated like GS employees for purposes of implementing these provisions. One significant difference, however, is that under NSPS, employees with a performance rating of “unacceptable” would not be eligible for these increases to local market supplements, in accordance with the NSPS statute. The Department would not be in favor of a proposal that does not allow for this practice, as it would be contrary to the fundamental principles of NSPS, and result in inconsistent treatment of employees in NSPS.

Second, we understand that the introduced bill proposes a shorter phase-in period (three years), and sets the offset to COLA at sixty five percent of the increase to locality pay, versus the eighty-five percent proposed by OPM. As I previously stated, the

Department has not completed a full analysis of the proposal, but we would have to look carefully at the cost of implementing these provisions over a shorter timeframe to determine the impact to our organizations' budgets. While we support an implementation plan that minimizes the impact to the take-home pay of our employees as locality pay is phased in, we also believe we must accomplish this in a fiscally responsible, affordable manner. We are also cognizant of the fact that the extension of locality pay in these areas, which will count towards retirement calculations, may influence retirement behavior. The Department would favor an approach that promotes stability in the workforce, so that our mission is not adversely affected. Finally, we understand the introduced bill provides affected employees the opportunity to "opt out" of the locality pay provisions, and continue to receive COLA. In addition to our concerns over the administrative burden this provision would impose, the Department believes this would be contrary to the fundamental purpose of the proposed legislation, and would result in continued inconsistencies in compensation for employees.

Mr. Chairman, we at DoD realize that this is not an easy issue, and we are gratified to be part of the conversation as we collectively wrestle with these matters. For our part, it is critical for the Department, and our organizations located in these important geographical areas, to be able to recruit, fairly compensate, and retain a civilian workforce that continues to provide world-class support to our military in a dynamic and unpredictable national security environment.

I appreciate the opportunity to testify and welcome your questions.

