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TESTIMONY OF

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ON

THE FDIC REGIONAL PAY DIFFERENTIAL PROGRAM

BEFORE THE

House SUBCOMMITTEE ON EMPLOYMENT AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

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Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be here today to present an overview of the Federal Deposit Insurance Corporation's regional pay differential program.

Background

The FDIC is a nonappropriated, wholly owned government corporation subject to Congressional oversight and audits by the United States General Accounting Office. We have regional offices in eight major cities in the United States and smaller offices in other locations. Although FDIC employment practices are within the framework of government-wide civil service regulations, the authority for determining employee compensation is vested in the FDIC's Board of Directors.

In 1985 the FDIC Board of Directors authorized -- and the Corporation implemented -- a regional cost differential program. The Board of Directors deemed such a program necessary and appropriate because of the increasing difficulty in attracting experienced bank examiners and field liquidators to duty stations in high-cost geographic locations. The Board believed that a locality pay differential would help encourage experienced personnel to either remain in or relocate to high-cost locations, and that the program would provide a more equitable salary structure for all FDIC employees. Regional pay differentials also would allow us to be more competitive when hiring new employees in such geographic areas.

Determining and Implementing the Differentials

The FDIC contracts with an outside consulting firm to determine the appropriate differentials based on the profile of an average FDIC professional employee working in the examination or liquidation area. The profile indicates the employee's salary, number of family members and type of housing. The consulting firm considers the significant differences among the FDIC's various duty stations throughout the United States in terms of housing, taxation, transportation, goods and services, and personal savings. After the consultant researches and analyzes these living cost components, a comparison is made to the firm's "Standard City, USA," which is an arithmetic mean of the living costs in over one hundred representative communities in the United States.

All FDIC locations whose costs are one percentage point or more above those of the "Standard City" are assigned a pay differential. Each differential is expressed as a percentage of an employee's gross regular salary exclusive of overtime, night differential, and holiday pay. The differential amount is then included in each employee's biweekly paycheck net of local, city, state, federal and FICA or medicare taxes. The differential component of an employee's pay is not used to compute civil service retirement withholding amounts or the three highest salary years for computing retirement benefits.

Yearly updates are done to ensure that the differentials reflect changes in living costs that may occur. The Board of Directors reviews annually the cost-of-living data on each FDIC geographic locality and votes to adjust the existing pay differentials accordingly.

The annual costs associated with the FDIC's regional pay differential program currently represent less than four percent of the FDIC's total outlay for salary and benefits. Approximately forty percent of our employees receive a pay differential.

Benefits of the Program

Although we still are studying other means to achieve appropriate compensation parity with the private sector for FDIC employees, the regional pay differential program has been successful. Utilizing the program during the past five years, has helped the FDIC:

- Attract experienced bank examiners and field liquidators to relocate to duty stations in high-cost locations;

- Become more competitive in the private sector; and
- Retain both clerical and professional employees in high-cost geographic locations.

We have had very few problems with administering the program, mainly because the consulting firm answers all questions which arise relative to the firm's data. Our primary responsibility is to provide the consulting firm with an "average employee profile" and an accurate listing of the duty station locations.

Conclusion

Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to relate our experience with the FDIC regional pay differential program. We hope this testimony will help others in developing and implementing such a program. At the proper time, we will be pleased to respond to any questions you may have.