



# Locality Pay

February 7, 2014





## EXECUTIVE SUMMARY

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The ongoing debate about the comparability of postal employee wages to their counterparts in the private sector has rarely included discussion of one key element of the U.S. Postal Service’s wage structure. Private sector companies commonly pay employees based on the local cost-of-living and labor market conditions. As a result, it is well understood that someone working in Manhattan, New York will earn more than someone with an identical job in Manhattan, Kansas. The federal government recognizes this notion through well-established locality pay systems for both its white-collar and blue-collar workers. In fact, the federal government was already recognizing the importance and necessity of offering wages based on local conditions at least as early as the Civil War.

The Postal Service, however, does not pay employees based on local labor market conditions. Despite vast regional differences in labor markets and costs of living, the Postal Service pays the same wage for the same job regardless of location. As a result, postal employees can be among the highest-paid workers in some areas of the country and among the lowest-paid workers in other locations.

Paying higher wages than necessary in some locations would drive up the Postal Service’s costs. Paying below market wages in other locations may make it difficult to attract and retain a qualified, motivated work force, which may affect service quality. It is likely this may happen most often in large urban locations and other areas with strong

#### Highlights

**Unlike most national employers, the Postal Service does not adjust wages to reflect local pay rates or cost-of-living differences.**

**The rest of the federal government offers “locality pay” — adjusting pay based on local or regional labor markets.**

**The Postal Service spends over \$30 billion per year on salaries, so how those salaries are distributed across regions is an important issue.**

**The Postal Service should consider locality pay as a means of instituting a more fair system that could save expenses in some areas and enhance the quality and stability of its workforce in others.**

**Implementing locality pay would be challenging, but not impossible, and the benefits could be significant. Careful planning and focused attention will be needed.**

economic growth. As an improving economy reduces the unemployment rate, the importance of this issue may increase nationwide. Additionally, the work demanded from the Postal Service is likely to be more complex in the future. It is essential going forward that the Postal Service continue to be able to attract a skilled work force in high-cost areas like major cities.

Given the Postal Service's current financial situation, it is unlikely that it could afford to implement locality pay in a way that would incur additional costs. Nevertheless, bringing its pay systems more closely in line with the best practices of the federal government and the private sector through a locality pay system could substantially improve the long-term efficiency and value of the Postal Service's workforce, benefiting all of its stakeholders.

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# Locality Pay

## Introduction

The price of labor is a critical issue for the Postal Service and its stakeholders. For a variety of reasons, labor costs comprise an overwhelming majority of the Postal Service's total budget — almost 80 percent.<sup>1</sup> The table below summarizes the labor costs for the major Postal Service employee categories.

**Table 1: Labor Costs for Major Postal Service Employee Categories**

Employee Category Name	Salary (\$)	Salary and Benefits (\$)
<b>Clerks</b>	8.2 billion	10.7 billion
<b>Mailhandlers</b>	2.6 billion	3.5 billion
<b>City Carriers</b>	12.0 billion	15.8 billion
<b>Rural Carriers</b>	4.7 billion	6.1 billion
<b>Postmasters and Supervisors</b>	4.4 billion	5.7 billion
<b>Total</b>	31.9 billion	41.8 billion

Source: National Payroll Hours Summary Report, September 21, 2012.

Any organization with such a large share of its costs directly tied to labor should ensure that it has the most efficient and effective wage system possible. We take no position on how the overall pay of postal employees compares to the private sector. However, today the Postal Service has a wage system with at least one highly unusual characteristic. Unlike other federal agencies and the vast majority of private sector companies, the Postal Service pays the same wage for the same job regardless of location. This means, for example, that a postal worker in New York City earns the same amount of money as his or her counterpart in Jefferson City, MO, where housing costs are 83 percent lower, grocery costs are 33 percent lower, utility costs are 25 percent lower, and transportation costs are 27 percent lower.<sup>2</sup>

Both the federal government and employers in the private sector pay wages based on local market conditions. They pay higher wages in areas where the cost-of-living and local salary markets are high and they pay lower wages in areas where the cost-of-living and local salary markets are low.

**Unlike private sector employers, the Postal Service does not pay wages that reflect local pay rates or cost-of-living.**

<sup>1</sup> The most important of these reasons is that daily delivery of mail to every address in the country is an inherently labor intensive activity.

<sup>2</sup> CNN Money, "Cost of Living, How Far will my Salary Go in Another City," <http://money.cnn.com/calculator/pf/cost-of-living/>. Viewed on January 9, 2014.

The Postal Accountability and Enhancement Act of 2006 (PAEA) maintained the Postal Reorganization Act's requirement that postal employees receive compensation comparable to the private sector.<sup>3</sup> Since the Postal Service pays uniform wages across the country and the private sector pays wages that vary by individual location, no set of uniform wages could be directly comparable to the private sector.

## How the Current Practice Came to Be

As much of America struggled with the turbulent years of the 1960s, the Post Office Department was contending with upheavals of its own. In addition to heated disputes over stagnating postal employee wages, many older plants were incapable of handling a recent spike in mail volume. On top of this, working conditions had deteriorated and congressional control over postal rates, wages, and operations limited the Post Office Department's ability to adapt or reform. In 1967, the Postmaster General warned Congress that the Post Office Department was in a "race with catastrophe."<sup>4</sup>

Frustration over stagnant postal employee wages was threatening to bring the situation to an early, potentially disastrous, conclusion. Between 1967 and 1969, Congress provided no real pay increases for postal workers, even though it had raised its own pay by over 40 percent.

Meanwhile, the Consumer Price Index increased by nearly 10 percent.<sup>5</sup> Because postal workers everywhere were paid the same wages, employees located in and around major cities had an especially difficult time, given the high cost-of-living in those areas. By 1970, full-time postal workers in New York City trying to support their families had to rely on public assistance, and postal workers across the nation were eligible for food stamps.<sup>6</sup> Congress responded in February 1970 by proposing a 5.4 percent increase in all postal wages, but said it would not enact the increase for several weeks.

**Low wages were among the Post Office Department's many problems in the late 1960s.**

Enraged by Congress's delay, on March 17, 1970, postal carriers of Branch 36 in New York City immediately voted for a wildcat strike — a strike action taken without the authorization of union leaders. Over the next few days, members of other local branches in the city voted to join.<sup>7</sup> On March 23, President Nixon declared a national emergency and ordered over 18,500 military personnel into 17 New York City Post

<sup>3</sup> "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy." Postal Reorganization Act, 39 U.S.C. 1003.

<sup>4</sup> "Fall in For Mail Call," *Life*, volume 68, number 12 (April 3, 1970), p.27.

<sup>5</sup> The Strike that Stunned the Country," *Time*, March 30, 1970; and "Consumer Price Index, All Urban Consumers, U.S. City Average, Base Period 1982-1984=100, Percent Change in Annual Average From 1967 to 1969," *Bureau of Labor Statistics*, <http://www.bls.gov/cpi/tables.htm>.

<sup>6</sup> *Ibid*, please see also "Fall in for Mail Call," *Life*, p. 28 and "Vincent Sombrotto, Who Led Postal Strike, Dies at 89," *New York Times*, January 16, 2013.

<sup>7</sup> "1970 Postal Strike," *New York Letter Carriers Branch 36*, <http://www.nylcbr36.org/history.htm>.



Offices to handle the mail.<sup>8</sup> In a televised address to the nation that afternoon, Nixon expressed sympathy for the postal workers' situation: "From the time I came to Congress 23 years ago, I have recognized that the hundreds of thousands of fine Americans in the mail service, the Post Office Department, are underpaid and they have other legitimate grievances."<sup>9</sup> However, Nixon said that calling in the military was a necessary move to restore essential mail services.<sup>10</sup> He also told the nation that his administration had been working with the Postmaster General for a year on a solution to the problem.

The strike quickly spread across the country. By March 24, approximately 200,000 postal workers in 13 states, from Massachusetts to California, either called in sick or walked off their jobs. The strike lasted only a little more than a week, but negotiations between Nixon Administration officials and union leaders lasted roughly a month, eventually resulting in a two-part agreement.<sup>11</sup> The first part was an immediate

**The parties who instituted the 14 percent postal pay increase in 1970 overlooked variations in local labor markets, perhaps missing an opportunity to institute some form of locality pay.**

6 percent pay raise for all postal workers regardless of location or participation in the strike.<sup>12</sup> The second part involved the passage of the Postal Reorganization Act of 1970, which provided another 8 percent pay raise for all postal workers, regardless of location. The act also abolished the Post Office Department, chartering in its place the United States Postal Service as a self-supporting, independent establishment in the executive branch.<sup>13</sup>

Despite the strikes appearing to show that the workers in greatest need of pay increases were located in major cities, the negotiated solution gave equal raises to all postal workers, regardless of location. Some form of locality pay could have addressed the problems in high-cost urban areas while providing smaller increases to those in low-cost areas. As the Postal Service now faces a new financial crisis, its stakeholders have an opportunity to reconsider this solution and possibly avert a future labor cost and employment crisis.

## Potential Effects of Uniform Nationwide Pay

Because wage systems that account for local labor conditions are so common, it can be difficult at first to recognize the potential problems associated with a system that does not. At the most basic level, paying wages that are too low in high-cost areas may make

<sup>8</sup> "Nixon Intervenes in Postal Strike," *YouTube* video, March 23, 1970, <http://www.youtube.com/watch?v=PMydV2w0uU4>; and "Department of the Army Historical Summary: FY 1970," p. 15, <http://www.history.army.mil/books/DAHSUM/1970/chII.htm>. See also <http://www.gao.gov/products/476703#mt=e-report> and <http://www.lawandfreedom.com/site/executive/execorders/Nixon.pdf>.

<sup>9</sup> "Nixon Intervenes in Postal Strike," *YouTube* video, March 23, 1970, <http://www.youtube.com/watch?v=PMydV2w0uU4>.

<sup>10</sup> Smithsonian National Postal Museum, "The 1970 Postal Strike," *Pushing the Envelope*, March 17, 2010, <http://postalmuseumblog.si.edu/2010/03/the-1970-postal-strike.html>.

<sup>11</sup> *Ibid.*

<sup>12</sup> Retroactive to late December 1969.

<sup>13</sup> The U.S. Postal Service entered into its first collective bargaining agreement with its employee unions in January 1971.



it difficult to attract and retain the quality work force necessary to best serve customers. This also can discourage the movement of knowledgeable, experienced people from low-cost areas to high-growth, high-cost areas because maintaining the same salary would result in a significant decline in standard of living. Alternately, paying more than is required to attract a quality work force in lower-cost areas is an inefficient use of resources. Table 2 below compares the annual mean wages of selected occupations in two different areas: Manhattan, New York and Manhattan, Kansas.

**Table 2: Comparison of Postal and Non-Postal Wages**

**EQUAL PAY FOR EQUAL WORK?**

The Postal Service's uniform wage system can leave some postal employees overpaid relative to other workers in their regions, while leaving others underpaid. Pay scales in Manhattan, New York, for example, and Manhattan, Kansas differ dramatically — but not for Postal Service workers who earn similar salaries in both locations.

Job Category	Manhattan, New York	Manhattan, Kansas
Postal Carrier	\$54,820*	\$51,100
Secondary School Teachers	\$77,400	\$45,720
Gas Pump Operators†	\$55,100	\$36,120
Paralegals/Legal Assistants	\$56,450	\$42,260
Accountants/Auditors	\$91,240	\$52,640
Delivery Service Drivers	\$39,640	\$30,840

Source: *Bureau of Labor Statistics*, "May 2012 Occupation Profiles," [http://www.bls.gov/oes/current/oes\\_stru.htm](http://www.bls.gov/oes/current/oes_stru.htm).

\* Employees in New York City and other high-cost urban areas sometimes accrue more hours of overtime. This, rather than base wages, accounts for the slightly higher postal pay in New York.

† SOC 53-7071 Gas Compressor and Gas Pumping Station Operators. Wage information only available at state level for this position.

The United States Postal Service Office of Inspector General (OIG) met with the Postal Service's chief human resources officer and his staff on April 30, 2013 to solicit the Postal Service's views on locality pay and to ask for related information on labor quality and employee recruitment. The Postal Service told the OIG that it has had little problem filling positions, especially in this time of elevated unemployment. However, the recent mail backups in the northwest North Dakota town of Williston have already been linked to the loss of experienced employees and understaffing. The area's competitive oilfield wages, low unemployment, and high cost-of-living appear to be to blame as the town's Post Office struggled to fill its open positions before the 2013 holiday rush.<sup>14</sup> As the economic recovery results in a reduced unemployment rate, this type of crisis could be repeated elsewhere. Skilled postal employees in other high-cost locations could leave the Postal Service to seek jobs that offer higher pay. While it is likely that strong employee benefits may have suppressed turnover among postal employees to date, proposals to reduce these benefits could eliminate this advantage.

Representatives from the National Association of Postal Supervisors (NAPS) have noted another troubling consequence of the Postal Service's national wage system: experienced and effective postal supervisors often resist pressure to relocate to high-cost areas. In fact, NAPS said many valuable supervisors and employees seek relocation to low-cost areas.<sup>15</sup> On an individual level, this weakens incentives for career advancement. On an organizational level, this undermines the effectiveness and productivity of the workforce in high-cost areas and forces facilities there to hire unproven and inexperienced applicants more often. Additionally, the high cost-of-living in these areas is often associated with strong economic performance. As strong economic performance in a region leads to increased mail volume from that region, the postal facilities in these regions are vital to the Postal Service.<sup>16</sup> Uniform national pay may be harming retention and advancement of quality workers in high-cost areas more than postal management has allowed.

### ***History of Impact on Federal Workforce***

As mentioned earlier, the federal government noted the issues with a uniform pay system at least as early as the Civil War. However, there have been periods in which the federal government paid some of its employees at uniform national rates. In the late 1980s, the federal government maintained uniform national pay for its white-collar workforce, directly leading to problems with the recruitment, hiring, and retention of qualified employees. These problems were especially dire in a few major metropolitan areas where recruiting qualified white-collar workers had become virtually impossible. According to one study, "In the high pay areas like New York and Los Angeles the number of vacancies in some offices threatened to disrupt agency operations... [and]

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<sup>14</sup> "Mail backed up in North Dakota oil boom town," *Associated Press*, November 26, 2013, <http://www.businessweek.com/ap/2013-11-26/mail-backed-up-in-north-dakota-oil-boom-town>.

<sup>15</sup> NAPS, in discussion with the authors, June 5, 2013.

<sup>16</sup> "Mail Goes Where the Money Is: A Study of Rural Mail Delivery in the United States," Marshall Kolin and Edward J. Smith, 1999.

officials in these areas referred to the local situation as a crisis.”<sup>17</sup> This crisis was later addressed with the development of the GS system.

## Private Sector Pay Systems

Private sector employers typically pay wages that reflect regional differences in cost-of-living and prevailing market wages. Accordingly, private-sector employees with the same skills and experience and with the same jobs in different parts of the country generally earn different pay, more in areas with higher cost-of-living or prevailing wages, and less in areas where these are less.

**Some national private sector employers have successfully worked with their unions to include locality pay in labor contracts.**

While paying wages consistent with local labor markets is common practice, for national companies with large unions, this can be more complicated. For this reason, some private-sector companies with national presence have negotiated uniform wage systems with their employees, including in the automotive and aerospace manufacturing industries. However, such industries can choose to locate their facilities in areas with low labor

costs. They do not have the Postal Service’s fully nationwide presence and can be less sensitive to regional variations in labor costs.

In discussions with the OIG, the Postal Service highlighted the problems of developing a locality pay agreement with its unions.<sup>18</sup> However, this is doable, and it is being done in the private sector. There are numerous examples of major companies with national workforces bargaining with their unions to include some forms of locality pay. AT&T, Kroger, United Parcel Service (UPS), and the Pipeline Contractors Association have all negotiated agreements that provide for different levels of pay in different locations, as discussed below.

AT&T bargains collectively with the Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers (IBEW). AT&T conducts negotiations with CWA at the CWA district level; consequently, different geographic groups of AT&T unionized employees work under different contracts. Thus, the bargaining structure for AT&T and the CWA not only allows for wage differences between the different CWA districts, but also explicitly incorporates wage variations within a district.

Kroger, a nationwide grocery chain, bargains collectively with a number of local unions affiliated with several national unions. Currently, Kroger and its unions have approximately 300 collective bargaining agreements in place. During 2013, Kroger has negotiated with unions in Indianapolis, Houston, Seattle, Dallas, and Cincinnati. By

<sup>17</sup> Howard Risher and Charles Fay, “Federal Pay Reform: A Response to an Emerging Crisis,” *Public Personnel Management*, volume 20, number 3 (Fall 1991), p. 387.

<sup>18</sup> (Chief Human Resources Officer and Executive Vice President, United States Postal Service), in discussion with the authors, April 30, 2013.

negotiating at the local level, the collective bargaining agreements can reflect the labor market conditions of those localities.

UPS negotiates nationally with the International Brotherhood of Teamsters. Their current national agreement contains a national wage schedule for employees, but the national contract specifies that the supplementary agreements with Teamster locals in different parts of the United States can override the nationally bargained contract, including the wage structure. In the contract of 2007, UPS negotiated supplemental contracts with a number of the Teamster locals. The supplemental contract with the Northern California locals, for example, contains a schedule of job descriptions and corresponding rates of pay different from national contracts. The locality pay adjustments in these schedules are small, but nonetheless acknowledge the regional differences in the UPS labor pool.

The national collective bargaining agreement between the Pipeline Contractors Association (PCA), a trade group formed to handle labor relations in the petroleum and pipeline construction industries, and four of the industry's unions is particularly notable. The negotiated contracts have established wage scales that differ not only by state, but also by zones within many states. This demonstrates that a national agreement on localized wage areas is possible.

To summarize, there are two basic approaches to national bargaining over locality pay. In the first and significantly more complicated approach, national employers negotiate directly with individual locals or districts of national unions, making it possible to obtain labor agreements that reflect local labor market conditions. In the second, more simple approach, national employers and unions come to a single agreement to assign different wage rates for different areas of the country based on well-established and commonly used wage indices.

## Federal Pay Systems

### ***Blue-Collar***

The federal government factors in locality pay when determining the salaries for both its blue-collar and white-collar workers. Congress enacted the first comprehensive nationwide approach to determining locality pay for federal blue-collar workers in 1972 with the Federal Wage System (FWS).

**The federal government's own research indicates that federal pay levels should be comparable with the private sector, and this requires locality pay.**

The goal of the FWS is to ensure that the pay of federal blue-collar workers is comparable to private sector pay in each local wage area.<sup>19</sup> It does this through surveys and statistical studies of local prevailing wages. There are 132 different wage areas in

<sup>19</sup> Department of Defense, Defense Civilian Personnel Advisory Service, "History of Wage," <http://www.cpms.osd.mil/Subpage/Wage/HistoryOfWage/>.

the United States under the FWS, allowing for a wide spectrum of pay for similar jobs in different wages areas.

Tables 3 and 4 below show a comparison of the hourly wages for warehouse workers and electricians with six years of experience in different locations.<sup>20</sup> Because three of these locations are usually considered high-cost (San Francisco, New York City, and Boston) and three are usually considered low-cost (Oklahoma City, Montana, and southern Missouri), these tables help us see how much prevailing private sector pay influences the wages workers earn for doing the same job. A worker in San Francisco, for example, will earn much higher wages than a worker with the same job would earn in southern Missouri.

**Table 3: 2013 FWS Hourly Wage Rates for Warehouse Workers**

FWS Wage Area	FWS Hourly Wage Rate	% of Southern Missouri FWS Hourly Wage Rate
<b>San Francisco</b>	\$24.45	143%
<b>New York City</b>	\$23.02	135%
<b>Boston</b>	\$20.76	121%
<b>Oklahoma City</b>	\$20.08	117%
<b>Montana</b>	\$19.81	116%
<b>Southern Missouri</b>	\$17.09	100%

Source: 2013 Federal Wage System Salary Schedules.

**Table 4: 2013 FWS Hourly Wage Rates for Electricians**

FWS Wage Area	FWS Hourly Wage Rate	% of Southern Missouri FWS Hourly Wage Rate
<b>San Francisco</b>	\$33.46	141%
<b>Boston</b>	\$29.71	125%
<b>Montana</b>	\$28.53	120%
<b>New York City</b>	\$26.79	113%
<b>Oklahoma City</b>	\$26.22	110%
<b>Southern Missouri</b>	\$23.79	100%

Source: 2013 Federal Wage System Salary Schedules.

### ***White-Collar***

During the federal government's period of difficulty with white-collar employee recruitment and retention in the 1980s, the General Accounting Office (GAO) examined the federal government's employee pay systems. In 1989, GAO confirmed its findings

<sup>20</sup>Office of Personnel Management, "Fact Sheet: Federal Wage System," <http://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/federal-wage-system/facts-about-the-federal-wage-system/>.

before the House Government Operations Committee, specifically citing a relationship between cost-of-living and employee retention. Its research indicated that federal employees in high-cost areas quit their jobs at rates over twice as high as employees in low-cost areas.<sup>21</sup>

In the same year, the Office of Personnel Management (OPM) undertook a major project exploring the feasibility of converting the General Schedule (GS) scale into a “market-sensitive” pay system.<sup>22</sup> The project included a review of previous federal studies of making such a conversion. Those studies shared two findings:

- A uniform national salary schedule results in overpaying employees in some locations and underpaying them in others.
- Federal pay levels should be comparable with prevailing levels in the private sector.<sup>23</sup>

With the passage of the Federal Employees Pay Comparability Act in 1990, the revised GS scale established local salary schedules incorporating locality pay. The salary tables are intended to be comparable to those of non-federal employees in the same locality with similar experience and jobs. Locality pay formally took effect for GS employees in 1994 and remains a standard part of the federal white-collar pay system to this day.<sup>24</sup>

Currently the GS includes locality pay for 34 areas around the country, 33 of which are specific geographic areas of varying size — some defined as metropolitan areas, others extending beyond metropolitan areas, and still others covering entire states.<sup>25</sup> The GS designated the 34<sup>th</sup> locality as the “Rest of the United States” which acts as a base. The processes for determining GS scale base pay and locality adjustments are highly technical and outside the scope of this paper. However, like FWS, it factors in surveys of non-federal pay in each wage area. Please see Appendix A for a summary of the non-federal pay index for fiscal year (FY) 2012. This forms the basis for the current GS locality pay system for white-collar federal workers.<sup>26</sup>

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<sup>21</sup> U.S. General Accounting Office, *Locality Pay for Federal Employees*, July 26, 1989, GAO/T-GGD-89-27. Please note that the agency is now known as the U.S. Government Accountability Office. The House Government Operations Committee is now known as the House Committee on Oversight and Government Reform.

<sup>22</sup> U.S. Office of Personnel Management and the Wyatt Company, *Study of Federal Employee Locality Pay*, July 1989, p. 2.

<sup>23</sup> *Ibid*, pp. 3-9.

<sup>24</sup> Office of Personnel Management, “Federal Employees Comparability Act of 1990,” <http://archive.opm.gov/feddata/html/paystructure/2004/fezca1990.asp>.

<sup>25</sup> In its most recent report, the President’s Pay Agent proposed the identification of 12 additional locations for locality-based pay adjustments starting in January 2014. Table 4 in Appendix A includes both the 34 current and 12 proposed local pay areas from the May 7, 2013 report.

<sup>26</sup> Note that the recommended GS locality pay adjustments have not been made in some years, thus salaries currently in effect for white-collar federal employees do not fully include the non-federal wage index shown in Appendix A. As such, federal white-collar employees in high-cost areas are currently paid relatively less than the regional indices would indicate.



## Benefits of a Locality Pay System

Implementing a system of locality pay could have numerous benefits for the Postal Service, its stakeholders, and the entire country:

- Locality pay would allow the Postal Service to more fairly treat workers in high-cost areas. Right now, postal workers in high-cost areas are underpaid relative to postal workers in low-cost areas for doing the same work.
- Offering pay comparable to the private sector in urban areas and other high-cost areas will strengthen the Postal Service's ability to recruit and retain a skilled workforce. As discussed previously, employee retention and the subsequent mail back-ups are already problems in Williston, North Dakota, an area with high local wages, high cost-of-living, and a low unemployment rate. As an improving economy reduces the unemployment rate nationally, locality pay may become increasingly necessary to maintain an effective workforce in all areas of the country. To the extent that benefits become more similar to the private sector over time, this will only become more important.
- Offering pay comparable to the private sector in low-cost areas could reduce the Postal Service's wage expenses in those areas over time and as employees retire. As prevailing wages are significantly lower in these areas, the Postal Service does not need to pay higher wages than necessary to recruit quality employees in those localities.

## Implementation

It is clear that locality pay could have significant benefits for the Postal Service and its stakeholders. Despite this, in discussions with the OIG, the Postal Service has made the reasonable statement that making such changes in practice could be difficult. Implementation would likely require overcoming a number of complications and obstacles. That said, other national employers have made similar changes. The Postal Service can learn from numerous past examples in the private and public sectors, including the federal government's own implementation of locality pay.

Stakeholders must recognize that the Postal Service negotiates pay with its unions and engages in discussions on pay with its management associations. Therefore, any attempt to institute locality pay must involve these groups. Please see Appendix B for a summary of how each major employee group at the Postal Service is divided into the high-cost local pay areas and the Rest of US as defined in Appendix A.

The Postal Service could review the process and lessons learned from the introduction of locality pay for GS (white-collar) and FWS (blue-collar) employees. The Postal Service could also consider consulting with the President's Pay Agent, the office responsible for overseeing locality pay issues for federal white-collar employees.



Postal management has valid concerns about how difficult the implementation of locality pay could be. However, postal management should not let these potential challenges stand in the way. As was the case in 1970, the immediate need for postal reform presents a special opportunity to include a system of locality pay within a broad package of changes.

## Conclusion

Currently, the Postal Service is in the midst of a financial crisis just as the Post Office Department was in crisis for different reasons in the late 1960s. Major reasons for that earlier crisis were the large growth in mail volume and uncompetitive wages in large metropolitan areas. Today's financial crisis grew from the economic slowdown, shifts to electronic alternatives, and the attendant large drop in mail volume. Now, as was the case 40 years ago, there is an opportunity to act. However, unlike 40 years ago, the Postal Service has the chance to prevent a further wage and employee crisis before it happens. If large numbers of postal employees begin to flee the Postal Service in high-cost areas beyond the oilfield boomtowns of North Dakota, the Postal Service will be forced to implement a solution from a crisis position, just as it had to do in 1970.

Given the Postal Service's current financial situation, it is unlikely that it could afford to implement locality pay in a way that would incur additional costs. Providing wages more consistent with local labor markets would not necessarily increase or decrease overall labor costs. The cost of labor is the largest portion of the Postal Service's budget, and this is unlikely to change anytime soon because of the inherently labor intensive nature of much of the work. As such, it is critical that the Postal Service's wage system serve its employees and ratepayers as efficiently as possible.

It is essential that the Postal Service supply the highest quality of customer service at the right price. It must continue to hire qualified, efficient workers who will provide excellent service at wages comparable to the wages in their respective fields. Locality pay would bring the Postal Service's pay system more closely in line with the best practices of the private sector and the rest of the federal government. This would make the Postal Service a more competitive employer, maximize its efficiency, and prepare it to meet the needs of the future.

## Appendix A Non-Federal Pay Index, 2012

This table compares the level of pay in non-federal jobs in local pay areas. For example, in 2012, a person in San Jose earned 44 percent more than a person with the same position in the Rest of US. This index is used to help create the locality pay adjustments for white-collar federal employees under the General Schedule.

**Table 5: Non-Federal Pay Index 2012**

Local Pay Area	Non-Federal Pay Index	Local Pay Area	Non-Federal Pay Index
San Jose	144	Phoenix	111
Washington D.C.	135	Buffalo	111
New York City	131	Colorado Springs	111
San Diego	131	Miami	110
Los Angeles	130	St. Louis	110
Alaska	125	Harrisburg	110
Houston	125	Hawaii	109
Seattle	123	Pittsburgh	109
Sacramento	123	Austin	109
Denver	123	Tucson	109
Boston	122	Raleigh	109
Philadelphia	122	Dayton	109
Hartford	121	Milwaukee	108
Laredo	119	Richmond	108
Detroit	118	Palm Bay	107
Chicago	118	Columbus	107
Las Vegas	116	Charlotte	107
Dallas	116	Cincinnati	106
Minneapolis	115	Cleveland	106
Huntsville	114	Davenport	106
Portland	114	Albuquerque	105
Atlanta	113	Indianapolis	102
Albany	112	Rest of US	100

Source: Annual Report of The President's Pay Agent 2012, May 7, 2013, p. 20, Table 2.

## Appendix B Distribution of Postal Service Employees by Major Group and Work Region

This table compares the number of Postal Service employees in the High-Cost Local Pay Areas to the number in the Rest of US by major employee group.<sup>27</sup>

**Table 6: Postal Service Employee Counts by Major Group and Work Region**

Postal Service Employee Group	High-Cost Local Pay Areas	Percent of total	Rest of US	Percent of total
<b>Clerks</b>	81,206	57%	62,467	43%
<b>City Carriers</b>	117,783	64%	66,795	36%
<b>Mailhandlers</b>	28,470	72%	11,216	28%
<b>Rural Carriers</b>	32,546	31%	72,284	69%
<b>Non-Bargaining</b>	21,025	48%	22,606	52%

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013 (and Tables 9-13).

<sup>27</sup> Rest of US is defined as all areas of the country not specifically included in one of the 45 high-cost local pay areas described in Appendix A.

The table below shows the geographic distribution of Postal Service Clerks across each local pay area.

**Table 7: Distribution of Clerks across Local Pay Areas in February 2013**

Local Pay Area	Count	% of Total
Atlanta	2,557	1.8%
Boston	4,563	3.2%
Buffalo	545	0.4%
Chicago	5,308	3.7%
Cincinnati	1,079	0.8%
Cleveland	1,364	0.9%
Columbus	1,049	0.7%
Dallas	3,077	2.1%
Dayton	370	0.3%
Denver	1,763	1.2%
Detroit	3,102	2.2%
Hartford	1,348	0.9%
Houston	1,916	1.3%
Huntsville	183	0.1%
Indianapolis	1,192	0.8%
Los Angeles	7,609	5.3%
Miami	2,411	1.7%
Milwaukee	1,115	0.8%
Minneapolis	2,158	1.5%
New York	13,741	9.6%
Philadelphia	3,849	2.7%
Phoenix	1,579	1.1%
Pittsburgh	1,495	1.0%
Portland	1,219	0.8%
Raleigh	1,085	0.8%
Richmond	731	0.5%
Sacramento	1,145	0.8%
San Diego	1,189	0.8%
San Jose	4,077	2.8%
Seattle	2,158	1.5%
Washington	5,044	3.5%
Alaska	455	0.3%
Hawaii	730	0.5%
Rest of US	62,467	43.5%
<b>Total</b>	<b>143,673</b>	<b>100.0%</b>

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013.

The table below shows the geographic distribution of Postal Service City Carriers across each local pay area.

**Table 8: Distribution of City Carriers across Local Pay Areas in February 2013**

Local Pay Area	Count	% of Total
Atlanta	2,331	1.3%
Boston	6,929	3.8%
Buffalo	978	0.5%
Chicago	8,041	4.4%
Cincinnati	1,410	0.8%
Cleveland	2,626	1.4%
Columbus	1,081	0.6%
Dallas	3,198	1.7%
Dayton	856	0.5%
Denver	2,431	1.3%
Detroit	4,711	2.6%
Hartford	1,732	0.9%
Houston	3,446	1.9%
Huntsville	210	0.1%
Indianapolis	1,213	0.7%
Los Angeles	13,285	7.2%
Miami	4,697	2.5%
Milwaukee	1,404	0.8%
Minneapolis	2,367	1.3%
New York	20,659	11.2%
Philadelphia	5,626	3.0%
Phoenix	2,219	1.2%
Pittsburgh	1,857	1.0%
Portland	1,526	0.8%
Raleigh	1,010	0.5%
Richmond	514	0.3%
Sacramento	1,378	0.7%
San Diego	2,348	1.3%
San Jose	7,399	4.0%
Seattle	2,843	1.5%
Washington	6,250	3.4%
Alaska	370	0.2%
Hawaii	838	0.5%
Rest of US	66,795	36.2%
<b>Total</b>	<b>184,578</b>	<b>100.0%</b>

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013.

The table below shows the geographic distribution of Postal Service Mailhandlers across each local pay area.

**Table 9: Distribution of Mailhandlers across Local Pay Areas in February 2013**

Local Pay Area	Count	% of Total
Atlanta	983	2.5%
Boston	1,431	3.6%
Buffalo	172	0.4%
Chicago	2,091	5.3%
Cincinnati	559	1.4%
Cleveland	391	1.0%
Columbus	285	0.7%
Dallas	1,220	3.1%
Dayton	81	0.2%
Denver	774	2.0%
Detroit	690	1.7%
Hartford	979	2.5%
Houston	542	1.4%
Huntsville	35	0.1%
Indianapolis	404	1.0%
Los Angeles	2,396	6.0%
Miami	661	1.7%
Milwaukee	397	1.0%
Minneapolis	525	1.3%
New York	5,465	13.8%
Philadelphia	1,541	3.9%
Phoenix	441	1.1%
Pittsburgh	787	2.0%
Portland	313	0.8%
Raleigh	224	0.6%
Richmond	337	0.8%
Sacramento	378	1.0%
San Diego	355	0.9%
San Jose	1,549	3.9%
Seattle	651	1.6%
Washington	1,616	4.1%
Alaska	57	0.1%
Hawaii	140	0.4%
Rest of US	11,216	28.3%
<b>Total</b>	<b>39,686</b>	<b>100.0%</b>

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013.

The table below shows the geographic distribution of Postal Service Rural Carriers across each local pay area.

**Table 10: Distribution of Rural Carriers across Local Pay Areas in February 2013**

Local Pay Area	Count	% of Total
Atlanta	2,567	2.4%
Boston	2,018	1.9%
Buffalo	264	0.3%
Chicago	1,622	1.5%
Cincinnati	632	0.6%
Cleveland	427	0.4%
Columbus	723	0.7%
Dallas	2,374	2.3%
Dayton	229	0.2%
Denver	698	0.7%
Detroit	1,311	1.3%
Hartford	771	0.7%
Houston	1,405	1.3%
Huntsville	349	0.3%
Indianapolis	833	0.8%
Los Angeles	978	0.9%
Miami	431	0.4%
Milwaukee	415	0.4%
Minneapolis	1,312	1.3%
New York	2,126	2.0%
Philadelphia	1,444	1.4%
Phoenix	1,031	1.0%
Pittsburgh	776	0.7%
Portland	618	0.6%
Raleigh	1,103	1.1%
Richmond	598	0.6%
Sacramento	740	0.7%
San Diego	266	0.3%
San Jose	614	0.6%
Seattle	975	0.9%
Washington	2,750	2.6%
Alaska	20	0.0%
Hawaii	126	0.1%
Rest of US	72,284	69.0%
<b>Total</b>	<b>104,830</b>	<b>100.0%</b>

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013.



The table below shows the geographic distribution of selected Postal Service Non-Bargaining Employees across each local pay area.<sup>28</sup>

**Table 11: Distribution of Selected Non-Bargaining Employees across Local Pay Areas in February 2013**

Local Pay Area	Count	% of Total
Atlanta	647	1.5%
Boston	1,264	2.9%
Buffalo	222	0.5%
Chicago	1,223	2.8%
Cincinnati	378	0.9%
Cleveland	421	1.0%
Columbus	244	0.6%
Dallas	833	1.9%
Dayton	117	0.3%
Denver	479	1.1%
Detroit	663	1.5%
Hartford	479	1.1%
Houston	527	1.2%
Huntsville	55	0.1%
Indianapolis	339	0.8%
Los Angeles	1,651	3.8%
Miami	603	1.4%
Milwaukee	299	0.7%
Minneapolis	561	1.3%
New York	3,458	7.9%
Philadelphia	1,082	2.5%
Phoenix	398	0.9%
Pittsburgh	498	1.1%
Portland	309	0.7%
Raleigh	218	0.5%
Richmond	237	0.5%
Sacramento	325	0.7%
San Diego	307	0.7%
San Jose	1,024	2.3%
Seattle	515	1.2%
Washington	1,277	2.9%
Alaska	195	0.4%
Hawaii	177	0.4%
Rest of US	22,606	51.8%
<b>Total</b>	<b>43,631</b>	<b>100.0%</b>

Source: USPS On-Roll and Paid Employee Statistics, February 22, 2013.

<sup>28</sup> Postmasters, OICs, Managers, Supervisors, and PATs.

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