


BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: January 18, 2011
To: Board of Governors
From: Janet Yellen 
Subject: 2011 Reserve Bank Salary Administration Budgets and Officer Salary Structure

The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendations that the Board (1) approve incremental Reserve Bank salary administration budgets and associated incremental benefits and variable pay budgets for 2011 totaling \$28.0 million,¹ (2) retain the Reserve Banks' 2011 officer salary structure at the 2010 levels, and (3) provide an explicit exception to its policy governing president compensation to clarify that Reserve Bank presidents will receive no salary increases in 2011. These actions are consistent with those taken for the Board and represent a reduction of approximately \$21 million from the budgets staff had planned to recommend that the Board approve prior to the President's pay freeze proposal. The committee is forwarding the attached staff memorandum to the Board for its consideration.

Attachment

¹ On December 20, 2010 the Board approved Reserve Bank budgets totaling \$3,324.4 million exclusive of salary administration expenses for merit and equity programs and related benefit and variable pay expenses.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

Date: January 18, 2011

To: Board of Governors

From: Kelsi Wilken, Joanne Lawton, Becky Royer, Lauren Guerin, Dorothy LaChapelle, and Don Hammond

Subject: 2011 Reserve Bank Salary Administration Budgets and Officer Salary Structure

ACTION REQUESTED

Staff recommends that the Board approve an increase of \$28.0 million in Reserve Bank salary administration budgets for 2011, which reflects a 2.0 percent program for merit and equity adjustments for eligible employees (but not officers or senior professionals). Staff believes that this program complies with the spirit of the civilian federal government salary freeze, as enacted by Congress and interpreted in subsequent Office of Personnel Management (OPM) guidance, which allows for increases under performance-based compensation systems such as those used by the Reserve Banks. The Reserve Bank budgets would continue to provide no funding for increases in officer and senior professional base salaries, other than funding for promotions, which remains at the same levels anticipated prior to the pay freeze.

Staff also recommends that the Board freeze the 2011 Reserve Bank officer salary structure at the 2010 level. This approach is consistent with the recent OPM guidance freezing federal government salary structures at 2010 levels. In addition, staff recommends that the Board approve an explicit exception to its policy governing Reserve Bank president compensation to clarify that presidents will receive no salary increases in 2011.

DISCUSSION

2011 Reserve Bank Salary Administration Budgets. The 2011 Reserve Bank budgets approved by the Board on December 20, 2010, include no funding for merit or equity increases to salaries for officers or employees. In light of the federal government salary freeze, the Reserve Banks deferred all 2011 merit and equity increases to officer and employee salaries. Although the 2011 budgets do not include funding for merit or equity increases to base pay, they do provide funding for promotions, at the funding levels anticipated prior to the pay freeze, because the President's proposal did not affect funding for promotions.

Prior to the pay freeze, Board staff was prepared to recommend Board approval of an annualized weighted-average increase of 2.8 percent to Reserve Bank employee salary budgets to fund proposed 2011 employee merit (2.5 percent) and equity programs (0.3 percent) and increases of the same proportions for Reserve Bank officers. The Congressional pay freeze does not permit increases to officer salaries, except for promotions. OPM's December 30, 2010, guidance on the pay freeze states that

**2011 Budget
Employee Salary Administration Adjustment
by District**
(dollars in thousands)

Reserve Bank	2011 Merit/Equity Expense	Change to Benefit Expense	Change to Variable Pay	Total Change to 2011 Budget
Boston	1,339	221	65	1,626
New York	5,136	830	370	6,336
Philadelphia	1,091	177	53	1,321
Cleveland	1,204	260	63	1,527
Richmond	2,045	266	97	2,409
Atlanta	1,705	276	82	2,063
Chicago	1,394	193	77	1,664
St. Louis	1,156	135	54	1,345
Minneapolis	1,256	169	52	1,477
Kansas City	1,473	278	74	1,824
Dallas	1,200	189	58	1,447
San Francisco	2,515	353	139	3,008
FRIT	1,406	369	86	1,860
OEB	73	7	3	84
Total	22,994	3,723	1,273	27,990

performance-based pay systems for staff are not covered by the freeze. Unlike the federal government General Schedule increase, changes in Reserve Bank salary structures do not provide automatic increases to employee or officer base salaries. Increases in Reserve Bank base salaries are primarily related to performance-based merit increases and promotions.

In developing its recommendation, staff considered Reserve Bank compensation programs, OPM guidance, and the level of funding initially planned for 2011 employee merit and equity programs. To ensure that any funding recommendation was consistent with the spirit of

the pay freeze legislation, while recognizing the differences in methodologies, staff recommends that the Board approve incremental Reserve Bank 2011 budgets to fund performance-based 2.0 percent employee merit and equity programs. This incremental budget reflects a reduction of 0.8 percent from the merit and equity budgets that staff had planned to recommend the Board approve before the President proposed the Federal pay freeze. Reserve Bank budgets would increase by approximately \$23 million for base salaries, \$3.7 million for related benefits expense, and \$1.2 million for related variable pay.² Staff recommends that the Board approve no merit and equity budget for Reserve Bank officers.

Reserve Bank Salary Structures. Unlike the federal government, Reserve Bank salary structure adjustments do not automatically increase employee or officer base salaries; such adjustments reflect changes to the salary ranges within which employees and officers are compensated. Reserve Banks adjust employee salary ranges to reflect changes in the cost of labor.

Prior to the federal pay freeze announcement, Vice Chair Yellen requested input from the Reserve Banks on a proposed 2011 Reserve Bank officer salary structure. The proposed structure reflected a weighted-average adjustment of 3.27 percent, although changes in the methodology used in developing the proposed 2011 structure resulted in changes to the individual salary tiers that varied significantly.³ In light of recent Congressional action prohibiting increases in the federal government salary structure and salary increases for senior executives, we recommend that the Board take similar action with respect to the Reserve Bank officer salary structure and freeze the 2011 structure at the 2010 levels.⁴

Reserve Bank President Salaries. Board policy prescribes a mechanical approach in which each president's salary increases annually by the amount of the structure increase and

² Reserve Banks reduced variable pay amounts when they resubmitted their budgets to eliminate merit and equity funding following the President's proposal to implement a federal government salary freeze. Variable pay has been adjusted to reflect the 2 percent increase in salary expense for employees.

³ The officer salary structure tiers reflect the relative costs of labor in Federal Reserve head office cities. The initially proposed weighted-average change in the 2011 Reserve Bank officer salary structure reflected no change for Tier I (New York and San Francisco), an increase of 9.3 percent for a proposed new tier for Boston, an increase of 1.2 percent for the Banks in Tier II (Philadelphia, Chicago, Minneapolis, and Dallas), and an increase of 7.3 percent for Banks in Tier III (Cleveland, Richmond, Atlanta, St. Louis, and Kansas City).

⁴ The BAC chair has delegated authority from the Board to approve Reserve Bank employee salary structures. The Reserve Banks were notified on December 21, 2010, that all 2011 employee salary structures will remain at 2010 levels.

by 10 compa points in his/her respective salary range on every third-year anniversary of initial appointment to that position (through year 9). [FRAM 2-012.3] Based on that policy, Presidents Bullard and Fisher would be eligible for increases during 2011.

To comply with the spirit of the federal government salary freeze under which senior executives in the federal government will receive no salary increases in 2011 (with a limited exception for promotions), we recommend that the Board approve an explicit exception to its Reserve Bank president compensation policy so that tenure-based increases will not be implemented in 2011.

Salary Administration Guidelines

We recommend that the Board adopt the following guidelines for Reserve Banks with respect to salary administration:

- A Reserve Bank may not increase the salary of any officer or senior professional, except in the case of a promotion.
- A Reserve Bank may not circumvent the intent of the pay freeze by taking other measures, such as promotions in name only or widespread retention payments, to compensate for the foregone merit increase.
- A Reserve Bank must not exceed its approved funding for merit/equity increases.
- A Reserve Bank must fund promotions within its promotion budget or otherwise self-fund within its approved funding for 2011 salary administration expenses.
- A Reserve Bank that generally makes its merit increases effective on January 1 may compensate employees for the delayed implementation of the 2011 merit increases through the use of lump-sum payments; such payments must be funded from the approved merit/equity budget.