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Expenditure Review of Federal Public Sector - Volume One - The Analytical Report and Recommendation

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Expenditure Review of Federal Public Sector - Volume One - The Analytical Report and Recommendation

Expenditure Review of Federal Public Sector Compensation Policy and Comparability

Volume One The Analytical Report and Recommendation

November 2006

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Clients

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Lee Beatty contributed from February 2004 until July 2005, principally on issues of comparability, and on managing the external verification. *Monique Paquin* was project co-ordinator from the beginning in January 2004 until the autumn of the same year. *Noomen Ketata* designed numerous figures and tables through much of 2004. *Don Booth* played a variety of research and editorial roles off and on between late 2004 and early 2006.

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SECTION ONE CONTEXT FOR COMPARABILITY

1. Introduction

This Report documents the first-ever comprehensive description and analysis of compensation in the Canadian federal public sector. It offers as well a full set of recommendations on how to strengthen management of federal public sector compensation in support of a first-class public service equal to Canadians' expectations.

Compensation is an important subject that requires more systematic management. It is a substantial area of discretionary federal expenditure. As of fiscal year 2002–03, compensation cost federal taxpayers about \$25 billion, including salaries and all other forms of remuneration. This amounted to over one third of federal discretionary spending; i.e. that part of the federal budget not mandated by ongoing legislation.^[1]

Intelligent compensation design is a fundamental aspect of sound public service management. As the baby boom generation reaches retirement over the coming decade and as the importance of employees' knowledge, innovation and flexibility increases in the Canadian workplace, how people are rewarded for their services will be a critical factor in the ability of any organization to attract and retain the talent it needs to deliver on its business goals.

Origins and nature of this Report

Relatively rapid increases in the size of the federal public service and in total personnel spending in the late 1990s and early 2000s raised questions about what factors were driving the changes. The Public Accounts of Canada provide information in total on the "personnel" expenditure object reported at the departmental level and on the expense recorded by the government, once adjusted for full accrual accounting. Comparability of expenditures from year to year is affected by the timing of large payments such as pay equity settlements and comparability of expenses may also be affected by changes in accounting policies. Nevertheless, the total expenditures in this area reported in the Public Accounts, on a comparable basis year-over-year, show significant growth beginning in 1999. Starting in 1995, the first year the figures are accessible electronically, the expenditures are reported as shown in the table below.

Recent external studies about the comparability of federal compensation to that paid for similar work in the Canadian private sector and at other levels of government suggested that there was a significant and growing premium in favour of the federal public sector. Several such studies are assessed in Section 3 of this Volume. We conclude that these studies likely overstate the size of any premium, but that it appears to be true that in recent years the rate of increase in federal public service average salaries was greater than in the broader Canadian labour market.

Year	Personnel Expenditures (\$ Millions)
1995	\$19,443
1996	\$19,269
1997	\$17,933
1998	\$17,804

1999	\$18,300
2000	\$19,779
2001	\$23,902
2002	\$23,165
2003	\$25,120
2004	\$26,360

To formulate a well-informed perspective on these issues, the Treasury Board decided in early 2004 to include compensation as one of a series of expenditure reviews launched at that time.^[2]

While this particular expenditure review was conceived originally as a rapid reconnoitre of this vast and complex field, the review expanded as the work proceeded into something much more ambitious and enlightening. Undertaken in early 2004 with the other reviews, this Report was substantially completed in late 2005. Editing and translation pushed its finalization to 2006.^[3]

In effect, the Compensation and Comparability Review was mandated to take an objective and factual view of its subject. The intent was to give ministers and senior officials an accessible, integrated and coherent presentation of the field in all its complexity. The review Report could then serve as a foundation for responsible and informed debate and choices for improving the management of federal public sector compensation over the coming years.

An independent point of view

Neither the Treasury Board President nor Treasury Board Secretariat leaders or other officials have sought to shape the findings or recommendations of the Review. As such, the Report is in no way a statement of Treasury Board or Treasury Board Secretariat views on federal public sector compensation. The analysis and recommendations laid out in this Report are the responsibility of its principal author, James Lahey, who held the position of Associate Secretary of the Treasury Board Secretariat until December 2004, and of Associate Deputy Minister, Indian and Northern Affairs Canada, thereafter.

Having completed the Review from a largely independent perspective, based on his experience in the former Human Resources Management Office at TBS and earlier as Assistant Deputy Minister of Labour and later of Strategic Policy at Human Resources Development Canada, Mr. Lahey has submitted his final Report to the Secretary of the Treasury Board.

It now falls to the Treasury Board as the Cabinet Committee responsible for sound management in the federal public service, on the advice of the Secretary, to decide what action to take on the Report. The recommendations deal with a vast area, with 77 proposals, many touching on difficult or controversial topics. As a practical matter, therefore, in deciding on follow-up action the Treasury Board must carefully balance considerations of leadership, cost, feasibility, relationships, timing and manageability.

Some perspectives on the Report

No doubt most of those encountering this Report will find daunting its length of more than 600 pages in two volumes, plus appendices, and its relatively intensive use of numbers, graphs and tables. Candidly, most readers will limit themselves to digesting the Overview—itself about 60 pages, and perhaps scanning the text or dipping into subjects of special interest.

Why such a voluminous document? Essentially, our concern was to assemble a complete portrait of federal public sector compensation, with enough detail and analytical depth to serve as a reliable foundation for both understanding and action in strengthening management coherence and effectiveness in this area. Our hope is that with the preparation of this exceptionally thorough, and we believe, relatively clear overview of an important but arcane area, we can change how those involved in the federal public sector think about the compensation subject. No longer should it be acceptable to discuss or consider one component of federal compensation in isolation from the others. All aspects of compensation—and indeed, of human resources management more generally—are interconnected and inevitably influence each other.

We also intended to provide for practitioners in the federal public service compensation field an accessible compendium of the policy and factual context of their work. With this as a starting point, new participants in the field can progress rapidly to a well-informed capability to position their issues within a broader whole.

We considered ourselves as well to be blazing a trail of sorts in the whole area of expenditure review. It is a critical responsibility of the Treasury Board Secretariat to monitor and evaluate trends in public spending as a basis for recommending both areas of potential savings and fields where success demands additional investments. Accordingly, it is important to develop fully the Secretariat's capacity to undertake probing studies and to summarize wide-ranging and complex information in a thoughtful and usable form. This Report offers one model of such in-depth expenditure and policy analysis.

It is also instructive to make explicit some further principles that we have attempted to apply in conducting the review and in writing this Report. These are enumerated below.

Focus on facts

As far as possible, we have focused on presenting the available facts on both policy decisions and employer expenditures. We have endeavoured not to editorialize or offer interpretations of the facts, except where we judged some commentary to be essential in understanding a point.

The Review focuses on five federal employment domains:

1. The core public service
2. Separate employers
3. Canadian Forces
4. Royal Canadian Mounted Police
5. Other Groups, including federally appointed judges, parliamentarians, employees of Parliament, ministerial staff and students.

Another domain treated briefly is that of federal business enterprises and Crown corporations that finance compensation largely through commercial revenues. Appendix D provides a list of the organizations included in each domain.

We have relied mainly on the competent authorities in each domain for most of our data. For the core public service this was principally the Treasury Board Secretariat, and to some extent the Public Service Human Resources Management Agency and the Public Service Commission.

For the separate employers, we were able to use in many cases data from Treasury Board Secretariat databases. For some employers such as the National Research Council, and in relation to all separate employers for subjects such as staff movements or overtime, we obtained data directly from the appropriate separate employer.

For the Canadian Forces and the Royal Canadian Mounted Police domains we used the human resources and/or the financial sections of those organizations as our source, as well as their public Web sites. In the case of the RCMP, we also benefited from the assistance of the RCMP Pay Council staff.

For the other domains, we used a combination of published information, Treasury Board and Public Accounts data, and input supplied by the relevant financial managers.

Pragmatism

In pursuing the right figures on a particular point, we have been tenacious but after reasonable efforts we have accepted what information was available. In some cases the search for perfection would have become a spiral of increasing confusion, without necessarily yielding a better number.

Employer perspective

We had invited the public service unions, through the National Joint Council, to contribute their views on federal public sector compensation. Perhaps uncertain about what they might be getting into, the unions declined to participate. Although we have consulted from time to time with people well informed about union viewpoints, and have sought to take account of their comments, this Report necessarily reflects an employer outlook. During the recommended consultation period following the completion of this Report, unions and other stakeholders should have their chance to offer comments on the analysis and recommendations presented here.

Candour

Our bias in this Report has been towards candour in discussing delicate subjects. While not seeking controversy, neither have we shied away from expressing the truth as we understand it.

The limitations of available data

As we constructed this Report topic by topic, the availability, reliability and interpretation of quantitative information were a constant challenge. In each case, we have used what appeared to be the best information.

We have endeavoured to report consistently on any given indicator or topic throughout the Report. We have relied on the expertise of specialists in each area and when, as in the case of reclassifications, we found two legitimate sources reporting materially different information, we have brought the experts together to talk through the differences in their data and agree on a common approach. Finally, as far as resources permitted, we have submitted draft text for review and revisions by the best-informed data managers.

In the end, however, we must accept that the available data is less than perfect. Many numbers are estimates rather than exact figures. This is unavoidable because most of the numbers that are important to track fluctuate continuously. Staff levels or total salaries, for example, change daily, even hourly. So an annual figure must be an approximation. Normally it is some kind of snapshot at a precise time, or better, an average of several snapshots during the period in question, to reduce the effect of seasonal variations. Moreover, the complexity and unprecedented nature of much of this Report required us to improvise or look for proxies that could give us a reasonable sense of how a given number has evolved. All these factors, in addition to simple human frailty in grappling over many months with a vast enterprise such as this Report, must inevitably result in some errors.

The real issue, however, is whether any such errors are material. Is it likely that a given set of numbers is so wrong that readers will be left with a fundamentally erroneous impression of the level, nature and trends in spending on federal public sector compensation and its principal components? Having spent many months working intimately with the data, and doing as many crosschecks as possible on the same issue with different sources, we are confident that the trends and relativities documented in this Report are essentially correct. And if it should turn out that a critic can show that a particular number or set of numbers is flawed, then the ensuing corrections will be a welcome contribution to fostering transparency, thoughtful debate and methodological rigour which can only help in managing federal compensation responsibly.

Organization of the Report

The present Report covers a great deal of territory, most of which has not previously been summarized in an accessible form, nor have the pieces ever been brought together into a sustained narrative.

The Report is organized into three volumes plus an overview document.

Volume One covers the essential issues and comparative findings, and provides detailed discussions of each recommendation.

Section One of this Volume provides basic and historical information necessary to understanding the full breadth of the compensation story.

Chapter 2 presents the history of compensation comparability from the establishment of a merit-based pay system in 1918 through the recommendations of various commissions, including Beatty and Glassco, to the establishment of a framework for collective bargaining, through several periods of collective-bargaining suspensions and wage freezes, to the present day.

Chapter 3 explains the legal and institutional framework for salary determination, describing the collective bargaining process in effect with the passage of the *Public Service Labour Relations Act*, 2003 and providing an overview of the job classification structure. It also describes the process in effect for separate employers, that relevant to executives and employees excluded from collective bargaining, and the National Joint Council programs applicable to employees in all groups.

Section Two, constituting Chapter 4, identifies and discusses the components that have contributed to rising average-salary costs. This discussion provides context for the detailed examination of compensation contained in Volume Two and gives enough information that readers of this volume alone will have a sense of some of the main issues that may need to be addressed.

Section Three contains all of the comparative analysis undertaken for this review.

Chapter 5 compares federal compensation trends to economic trends in Canadian society as a whole.

Chapter 6 discusses the findings of external reports comparing federal compensation to the private sector.

Chapter 7 looks at the Public Service Pension Plan and compares it to pension benefits available in other sectors.

Chapter 8 compares other benefits available in the federal public service to those available in other jurisdictions and in the private sector.

Chapter 9 presents our conclusions on comparability, based on the analyses in Section Three.

Section Four presents our overall conclusions and recommendations.

Chapter 10 explains how transparency and accountability can help in managing the drivers behind changes in compensation costs.

Chapter 11 provides details on how federal compensation can be managed coherently.

Chapter 12 addresses specific substantive compensation issues such as the occupational group structure, classification reform, salary management, and pay for special groups including executives, heads of crown corporations, and those working in federal domains other than the core public service.

Chapter 13 contains our recommendations with respect to public service pensions and other benefits.

Chapter 14 addresses possible areas for legislative change, including collective bargaining dispute resolution and pay equity.

Chapter 15 provides a suggested step-by-step approach to implementation.

Chapter 16 contains our concluding thoughts.

Volume Two contains the detailed analyses of federal compensation in each of five domains in 2002–03.

The chapters in Volume Two also provide historical perspectives on how we arrived at current levels and types of compensation, and descriptions of all benefits, including the various pension plans. We describe both what salaries and benefits employees received, and how much they cost the taxpayer. The volume takes the story as far as fiscal year 2002–03, which was the most recent year for which we had complete information in 2004 when it was first drafted. The historical analysis focuses on the period from 1990–91 to 2002–03, with special emphasis on the period from 1997–98 to 2002–03, which followed the full implementation of staff reductions and salary controls related to Program Review.

Our purpose in tracing at some length the evolution of policy and spending in each of the components of compensation is to provide depth to our understanding of the compensation picture that had emerged in the federal public sector in the early 2000s. Just looking at how expenditures broke down into their component parts in 2002–03 would give no sense of which parts were growing and why. Any sustainable plan must take account of this experience.

Volume Two is divided into three sections.

The first is the introduction, providing contextual information for the detailed examinations that follow.

The second addresses total compensation in the core public service and separate employer domains.

Chapter 2 describes the total compensation package for the core public service domain, including separate employers. It was necessary for us to include separate employers with the core public service because of the many important changes in recent years that have made large portions of the public service alternately part of the core public service and separate employer domains.

The core public service includes those departments and agencies listed in Schedule I, Part I of the *Public Service Labour Relations Act*, for which the Treasury Board is the legal employer.

The separate employers domain includes those organizations named in Schedule I, Part II of the *Public Service Labour Relations Act*. These include the Canada Revenue Agency^[4], the Canadian Food Inspection Agency, the National Research Council, the Canadian Security Intelligence Service, the Communications Security Establishment and Parks Canada, as well as over 15 smaller entities with no more than a few hundred employees each. We focus mainly on the larger separate employers in our analysis.

Chapter 3 looks at the factors that have driven increases and decreases in employment levels and salaries over time, including such things as new program initiatives, the impact of Program Review, and changes in the composition of the workforce.

Chapter 4 explains how structural change is implemented in the core public service, including mechanisms for job reclassifications and for staffing. It also addresses the components of change in the total salary mass.

Chapter 5 describes other elements of compensation such as performance pay for certain groups of employees, overtime and other allowances and premiums.

Chapter 6 examines in detail the Public Service Pension Plan, including an historical review of contribution rates by employees and the employer.

Chapter 7 describes various insurance programs and other benefits available to public service employees and pensioners.

The third section covers the remaining four domains that employ individuals at the federal level.

Chapter 8 provides a snapshot of compensation and benefits in 2002–03 for the Canadian Forces domain, including the regular members of the Canadian Forces and active members of the Canadian Forces Reserves, and an historical perspective on total compensation in this domain.

Chapter 9 provides a current snapshot and historical perspective for the Royal Canadian Mounted Police domain, including regular RCMP officers and civilian members employed under the *RCMP Act*. Regular civil servants working for the RCMP are included in the core public service domain.

Chapter 10 is the snapshot and historical perspective for the Other Groups domain, including federally appointed judges, parliamentarians including both Members of Parliament and Senators, employees of the House of Commons, the Senate and the Library of Parliament, ministerial staff, and students engaged under special student employment programs. We limit ourselves in relation to these groups to available data.

Chapter 11 is the snapshot and historical perspective for the domain of federal business corporations. Because these corporations rely on commercial revenue in whole or in large part to finance their operations, they access federal appropriations to a very limited degree to pay for their compensation expenditures. Moreover, such enterprises are fully independent in establishing their personnel and compensation policies and these vary widely as befits the diverse businesses in which they are active.^[5] Our analysis is, therefore, necessarily brief.

It will be tempting for readers to use the information presented in Volume Two to make comparisons across the distinct domains of federal public sector employment. For example, we provide figures illustrating the distribution for most domains of the employee population into \$5,000 salary increments. Juxtaposing these distributions is interesting in that it shows quite distinct patterns in different domains. Some might tend to offer interpretations, however, suggesting that one domain is overpaid, or indeed underpaid, compared with another. We must emphasize that such commentaries are meaningless. Each domain has its own business lines and consequent labour force requirements, which are reflected in characteristic salary distributions. There is no reason to expect a particular relationship across domains.

The various appendices published in a separate volume provide supplementary information and data to enrich the analysis included in the two main volumes. In at least one case, Appendix C relating to the 1962 Report of the Royal Commission on Government Organization (the Glassco Report), we have reproduced verbatim particularly salient text from this older report.

The **Overview**, published separately, provides an executive summary of the entire Report.

2. History of Compensation Comparability and Collective Bargaining

In this chapter, we summarize how the federal government has expressed its intentions with regard to policy on comparability over the years. We note that practical considerations have frequently taken precedence over policy. As the Report of the Royal Commission on Government Organization (Glassco Commission) remarked in 1962: "While market prices set the limits of wage policy, changing political, administrative and social influences affect the determination of a particular wage rate."^[6]

With various formulations over the years, successive federal governments have sought to position compensation policy as seeking comparability to the external labour market. However, the formulations were at such a level of generality that the results obtained were quite varied. Despite this variation, there has been a persistent pattern of paying above market at lower levels of the public service, below market in the higher ranks, and in the middle higher or lower depending on the circumstances. This pattern applies to wages and even more so to total compensation.^[7]

Comparability and its application from 1913 to the early 1960s

The beginning: a merit-based pay system

Between 1913 and 1920, public service salary increases were equivalent only to about half of the national cost-of-living growth.

The First World War led to a rapid expansion of the federal public service, and to a growing recognition that to be effective the public service should be staffed on the basis of merit, not patronage. In 1918, the *Civil Service*

Act provided for appointments to be regulated by the Civil Service Commission according to the principle of merit. The Commission was also mandated to recommend revisions in rates of pay. In pursuit of this responsibility, the Commission sought the advice in 1919 of Arthur Young & Company on how to structure a system of job classification and pay setting. The following general principles^[8] guided their work.

Uniform compensation

Rates of compensation should be uniform for the same rank.

Right pay for different "classes" of work

Rates of compensation should be relatively "right" for different classes. In the case of classes of positions in different fields, this meant that they should bear the same relation to classes of positions in fields established in the "business world" among respective vocations, trades, professions and lines of work. Within the same vocation, trade or profession, this relativity was to be measured by differences in duties, responsibilities, experience, knowledge and skill.

Fairness

The pay for each class should be equitable: fair to the employee and fair to the taxpaying public.

Fairness to employees

Fairness to the employee was defined to require that the compensation should permit the maintenance of a standard of living that would make for the good of society and posterity. In the case of the lowest ranks, the compensation was to be adequate to attract into the service young men and women without "family responsibilities," but of a training and capacity that would enable them to become of future value to the service and to themselves.

Fairness to the taxpaying public

Compensation should not materially exceed that paid for similar services by enlightened employers in the general industrial and commercial world. Any excess over such a prevailing average was said to be in the nature of a special subsidy with which no group should be favoured.

In comparing the compensation paid in government and in business for similar services, the relative advantages and disadvantages of employment in the two sectors should be taken into account, including permanence and continuity of tenure, hours of work, and holidays and sick leave.

This first policy statement contains several themes that recurred throughout the ensuing decades. Most fundamental is the concept of fairness to both the employee and the taxpaying public. Quite explicit is the idea that the way to achieve that balance is to emulate the business world as the standard for appropriate compensation for the various professions, trades and lines of work. The compensation limit should be that amount paid for similar services by *enlightened employers*. Finally, the comparison is to take account of all forms of remuneration, not just salaries. The increases implemented as a result of the Arthur Young & Company report were lump sums that were much larger in percentage terms at lower income levels.

In applying the report's policy recommendations, the Government created two classes of employees. The first comprised workers appointed under the *Civil Service Act*, whose pay rates were recommended by the Civil Service Commission. By 1922, there were about 50,000 civil servants organized into some 2,200 classes for pay determination purposes. Another 13,000 employees, mostly skilled tradesmen and ships' crews, were exempted from the application of the Act. These eventually became known as "prevailing rate" employees because they were paid at the rates applicable in the geographic locality of their employment.^[9] Treasury Board set the rates for the excluded tradesmen, with the assistance of regional prevailing wage surveys by the Department of Labour.

The Beatty Commission

By the late 1920s there was evidently a consciousness of a need to improve the relative compensation of what would now be called "knowledge workers" in the public service. The Royal Commission on Technical and Professional Services, chaired by E. W. Beatty reported in 1930. It is evident from the Beatty Report that the major driver of salary change was not comparability. At the same time, Beatty observed a growing complexity in the task of public administration, as well as an "intrusion" of government into many new fields. The Beatty Commission observed that:

... so far as the scale of salaries is concerned, we find that the technical, scientific and professional workers in the junior ranks of the service are at no pronounced disadvantage as compared with other similar employees in

outside employment. Indeed, it is evident that beginners' salaries in the service are not infrequently somewhat larger than beginners' salaries elsewhere. ^[10]

The problem lay with the difficulty of advancement within the public service compared with private employment. The Commission also expressed concern that the classification classes arising from the Young system had become "unnecessarily cumbrous." By the time the Commission reported, however, the Great Depression was taking firm hold and the Commission's recommendations lay fallow for over a decade and a half.

Depression and war

The next major policy event was the 1932 *Salary Deduction Act*, which reduced salaries by 10% generally. With wage cuts substantially greater in the private sector, and the gradual restoration of the 10% cut in the public service, salaries in the public service on the eve of World War Two were favourable compared to those in the private sector. Comparability appears to have been only loosely applied in determining these outcomes.

During the war, pragmatism ruled once again. Salary increases were generally restricted. To recruit needed staff and avert serious injustice, the Government used such expedients as a cost-of-living bonus, promotions in war units, war duties supplements and a loosening of the classification system.

Postwar changes

The Second World War resulted in the public service growing to 117,000 by 1946. The 1946 Royal Commission on Administrative Classifications in the Public Service, chaired by W.L. Gordon, took up in effect where Beatty had left off. The Gordon Commission lamented that with the steady growth in the responsibilities of government, there were not enough "men" of high calibre in the senior and intermediate grades. They agreed with Beatty that "overlapping of salary scales, in successive positions on the ladder of promotion [is] not consistent with the maintenance of maximum efficiency." ^[11] The Commission criticized the conflicting roles of the Civil Service Commission and the Treasury Board in regard to wage determination, and favoured giving that role entirely to the latter organization.

In his recommendations, Gordon proposed the following principles for setting remuneration in the upper ranges of the public service:

The general level of these scales for the administrative [now executive] and for the scientific, technical and professional grades should be such that at the bottom they will attract for the public service the necessary proportion of the highest quality products of the universities; in the intermediate ranges they will recognize the increasingly important duties being undertaken and meet the rising family responsibilities which have usually to be faced by men in their early and middle thirties; and at the top will enable senior officials to perform their duties free from financial worries and distractions.

As a result of the Gordon Report there were selective increases in the salaries of various deputy ministers and other senior officials. More generally, the wartime cost-of-living bonus was incorporated into the public service salary structure.

Relatively rapid postwar increases in private sector pay rates, and continuing growth in the size of the public service put great pressure on the level and structure of public service rates of pay. The tendency to resort to across-the-board increases highlighted the weakness of the existing machinery for revising pay rates. In 1948, then Prime Minister Louis St. Laurent re-stated the principles guiding the Government's compensation policy, as follows:

The Government's policy on salaries in the Public Service has long been based on two main principles. First that they should be sufficient to attract to, and retain in, the Civil Service persons of the right type and that, considering all relevant factors such as conditions of employment, salaries for each class of work should be generally in line with those paid for comparable work by good private employers.

The greater emphasis on external comparability in this relatively succinct formulation emphasized the need for better information on private sector compensation levels and practices. In 1957, inspired by the 1955 British Royal Commission on the Civil Service, the Government established the Pay Research Bureau. Its mission was "to provide objective information on compensation and working conditions in government, business and industry, and to assemble and analyze factual evidence of trends in outside employment." This represented an important innovation in at least two respects: first, it reflected a commitment to empirical evidence in salary determination; second, its governance provided for active involvement by staff associations in shaping the Bureau's priorities.

In 1958, Prime Minister Diefenbaker made the following statement on public service compensation policy:

First, the salaries must be enough to do the job, that is, to attract enough of the right kind of men and women into the Service and keep them in it; second, they must be fair as between civil servants and people outside the Service, the taxpayers if you will, which means that the salaries we pay for any class of work should be comparable with those paid by private employers for similar classes of work, taking into account the other terms of employment that are necessary to make a fair comparison.

It is interesting to note the changes from "enlightened employers" (Arthur Young & Company, 1919), to "good employers" (Louis St. Laurent, 1948) to simply "private employers" (John Diefenbaker, 1957). We can only speculate whether this apparent watering down over the years of the description of the proper private sector comparator employers represents a conscious retrenchment of view.

Consistent with this policy statement, the new *Civil Service Act* (1961) included in subsection 10(2) the first legislative expression of compensation policy:

The Commission in making recommendations on remuneration shall consider the requirements of the civil service, and shall also take into account the rates of pay and other terms and conditions of employment prevailing in Canada for similar work outside the public service, the relationship of the duties of the various classes within the civil service and any other considerations that the Commission considers to be in the public interest.

By the early 1960s, therefore, comparability in public service compensation with the external labour market had become more prominent in policy statements but not notably central to the actual determination of salaries and benefits.

The Glassco Commission

Today, more than 40 years after its publication, the section on "Personnel Management" in the Report of the Royal Commission on Government Organization (Glassco Commission) [\[12\]](#) captures many of the issues that still challenge the public service. In the specific areas of public service compensation and its comparability to the general economy, Glassco offers a solid examination of policy and practice.

Based on work by the new Pay Research Bureau, the Glassco Commission provided an assessment of how public service salaries and benefits related to comparable jobs in the private sector. Among the Commission's general observations on comparability are these points:

Wage and salary rates for the lower grade positions in the civil service are in general equal to, or better than, those for comparable jobs in private industry. Some disparities appear in salary rates for jobs above those levels, most markedly in senior administrative and professional posts, where the government is at a marked monetary disadvantage in competition with private industry.

Lacking flexibility to adjust to local pay levels, the civil service has in many cases pay rates that are above community rates in some centres, below community rates in others.

Benefit plans for the public service are, in general, more favourable to government employees than those found in most private industries.... Some large employers offer a benefit package almost as good as that offered in the public service, and a few provide some benefits that are more attractive.... The biggest attraction of the public service plans is the provision for pensions.... Employee benefit plans are so complicated that many public servants, as well as potential recruits, fail to recognize their value. [\[13\]](#)

With this broad understanding of the relative place of public service compensation in the Canadian economy of the day, the Commission turned a critical eye to the policy pronouncements made to that time. In its view:

There is still no comprehensive statement of compensation principles for the public service. Past statements have been so generalized as to be of little practical value as policy guideposts.... Only in recent years has there been much attention to market forces in government pay determination. [\[14\]](#)

The Commission's own prescription was the following:

Pay policy should, first, facilitate the staffing of the service with competent personnel by attracting suitable recruits and retaining effective employees; second, compensate employees in the public service fairly; and third, achieve these two aims at a cost which is as reasonable as possible to the taxpayer. [\[15\]](#)

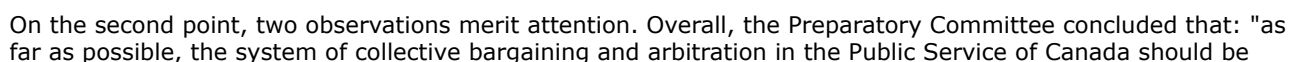
It might be thought that this formulation is no less generalized than the statements of compensation principles that the Commission itself criticized. In fact, the Commission proceeded to deconstruct key terms such as "market" or "going" rate. It emphasized the need to specify, for example, that wage surveys should not be limited to the "best employers" but should cover "a representative sample of those employers with whom the public service is in competition for recruits." [\[16\]](#)

The Glassco Commission Report in general marked a watershed between a traditional public service rooted in prescription and process, and a newer public service characterized by a larger role for managerial delegation and accountability for decisions tailored to local conditions. In the area of compensation and comparability, the Commission offered the most complete assessment of the relative position of the public service to that time and perhaps since. Its commentary on compensation principles and their interpretation was trenchant and suggestive of how to improve their clarity and application.

Public service compensation policy and comparability in the early years of collective bargaining

In 1965, the Preparatory Committee on Collective Bargaining in the Public Service, chaired by A.D.P. Heeney, reported. ^[19] To prepare the ground formally for collective bargaining, two basic issues needed to be addressed. First, how would the public service workforce be structured for collective bargaining? Second, what machinery and rules would be put in place to regulate the new system?

Figure 1001
A new structure for the public service with the introduction of collective bargaining



rooted in the principles and practices governing employer-employee relations in the Canadian community at large." The Committee was clear that the Government should accept the limitation on "the historic right of the Crown to determine unilaterally the terms and conditions of employment of those in its service" inherent in accepting a regime of collective bargaining and arbitration. Nevertheless, the Commission proposed that the "third-party dispute resolution" mechanism be a permanent Arbitration Tribunal, headed by a permanent Chairman. The members were envisaged as being "men and women of considerable stature in the community at large," who would "rarely if ever bring to their semi-judicial role a narrowly partisan point of view."

The Preparatory Committee also commented on the balancing act—between external comparability and internal equity—that is essential to sound salary determination:

The demands of the labour market and of internal relativity cannot be easily reconciled in the design of a classification system. Ability to respond to market pressures calls for a flexible structure consisting of many parts, each of which may move independently. The demands of internal relativity, on the other hand, call for a rigid and unified structure in which each job can be placed and remain in a fixed relationship to all others. Optimum results can probably be achieved only by striking a reasonable balance between the two extremes.

The market, in the view of the Commission, is most pertinent in periods of economic change and development such as that which had prevailed in Canada since the Second World War. A system too inflexible to adjust will be poorly equipped to recruit and retain "quality" personnel, particularly in the "high-skill" occupations.

The Committee made a particular point of stating its view that "the system should be designed in such a way as to provide strong incentives to superior performance," including extending such practices beyond the "Senior Officer class."

The Committee expressed its conviction that in many parts of the public service, a strike would be indefensible and a lockout unthinkable. Although it decided against prohibiting strikes, they clearly expected that arbitration would be the normal means for resolving disputes.

Influenced by the experience of the 1965 postal workers' strike, and no doubt by its position as a minority in Parliament, the Pearson Government decided "to accommodate the views of those who were opposed to arbitration in principle" by providing a conciliation-strike option in the legislation.

The Public Service Staff Relations Act

A legislative framework for collective bargaining in the federal public service was enacted for implementation beginning in 1967. The *Public Service Staff Relations Act* (PSSRA) set the rules for union certification, dispute resolution, and the resolution of grievances. The Act incorporated the gist of the Commission recommendations. The *Financial Administration Act* conferred on the Treasury Board the responsibility of the employer for most of the public service, including negotiations of the terms and conditions of employment for unionized workers, and the authority to establish a classification system along the lines proposed by the Preparatory Commission.

The PSSRA did not contain a direct statement of the federal government's compensation philosophy. However, the matters that the Arbitration Tribunal must consider in determining an arbitral award (section 68) expressed indirectly the relevant policy goals. In view of the expectation that arbitration would be the normal means of dispute resolution, these considerations took on additional importance:

In the conduct of proceedings before it and in rendering an arbitral award in respect of the matter in dispute, the Arbitration Board shall consider:

- a. the needs of the Public Service for qualified employees;
- b. the conditions of employment in similar occupations outside the Public Service, including such geographic, industrial or other variations as the Arbitration Tribunal may consider relevant;
- c. the need to maintain appropriate relationships in the conditions of employment as between different grade levels within an occupation and as between occupations in the Public Service;
- d. the need to establish terms and conditions of employment that are fair and reasonable in relation to the qualifications required, the work performed, the responsibility assumed, and the nature of the services rendered; and,
- e. any other factor that to it appears to be relevant to the matter in dispute.

First steps

As collective bargaining was applied in the early years from 1967 to 1975, both parties were learning how to operate within the new system. Arbitration was the preferred choice for most disputes. In the first fiscal year of operation (1967–68), 26 of 30 disputes went the arbitration route, although the number of employees covered by the conciliation processes was larger than those whose bargaining agents opted for arbitration.

During these eight years, it is unclear to what extent comparability with external salary levels motivated arbitrators in fashioning arbitral awards, or negotiators in arriving at settlements through the conciliation route. According to a monograph by Finkelman and Goldenberg: "No decision of the Tribunal or of the Board has discussed the relative weight to be given to each of the factors [that arbitration boards should consider] listed in section 68 of the PSSRA."

The inflation-control and post-control eras

In 1975, the *Anti-Inflation Act* imposed limits on salary increases across the Canadian economy, including the federal public service, lasting until 1978. During this period, federal public service arbitration was brought clearly under the broader regime of salary determination in Canada, in effect imposing a form of comparability in setting salary levels.^[20]

Post-inflation-control measures—*Agenda for Cooperation*

In May 1977, leading up to the end of the period of anti-inflation controls, the government published *Agenda for Cooperation: A Discussion Paper on Decontrol and Post-Control Issues*. The context was a strong view that inflation represented a serious threat to economic well-being and could not be permitted to rage out of control. In this regard, the Discussion Paper stresses that:

Governments have important responsibilities as employers. They must set wage policies in a manner that is fair both to their own employees and to all employees in the country. *Governments should not be seen to be responsible for inflationary pressures*, yet they must be fair to their own employees, and in particular to employees at the lower end of the income scale.^[21]

In Chapter 8 of the Discussion Paper, which was entirely devoted to public sector compensation, the Government characterized the context as follows:

Even where similar jobs exist in both [the public and private] sectors and a policy of comparability has been adopted, its achievement is rarely straightforward or complete... As a result, public sector compensation policies tend to be influenced both by comparability and other principles, including the maintenance of relativities within the public sector, ability to pay, and broad social policy objectives.

The legitimate demand for continuity in the provision of public services, coupled with the absence of a "bottom line" or market test of appropriate compensation, often make it difficult for governments to resist settlements that might be unwarranted.

Looking to the post-control period, the Paper reiterates the longstanding principles of fairness to both employee and taxpayer, and reasonable comparability to the private sector, as well as protection for the rights of public employees to responsible collective bargaining. Then the Paper breaks important new ground by emphasizing "total compensation" (i.e. the combined value of all salary and benefits provided to employees) as the basis for comparability with the external labour market, as follows:

The approach the Government intends to pursue in compensating federal public servants is one of average comparability of total compensation with a representative sample of private sector employers. It will do so in a manner that ensures that federal public service compensation will continue to follow compensation in the private sector.

This does not mean that the federal government is abrogating its responsibility to set an example in certain situations. In fact the Government will continue to set the pace when social policy concerns indicate that it is appropriate. One can envisage a need for government leadership in areas such as working conditions, employer-employee relations, or non-wage benefits. It does mean, however, that compensation provisions resulting from initiatives in these areas will be explicitly recognized as part of the total compensation of federal public servants.^[22]

The Discussion Paper acknowledged there was a need to develop the analytical means to determine total compensation and comparability. There was also speculation on how difficult it could be to phase in resulting adjustments, up or down, to implement comparability. Finally, the paper recognized that there would be a concern about the degree to which collective bargaining would remain meaningful in the context of the rigour implied by a total compensation policy. In answer, the paper asserted that "collective bargaining will continue to play a dominant and meaningful role in settling the terms and conditions of employment, in establishing the appropriate mix of total compensation, and in finding solutions to ... problems."

Post-control attempts to implement total compensation comparability

To implement this direction, the Government undertook three tasks:

- first, developing the concepts and methodology for applying a total compensation comparability approach from the employer's perspective;
- second, introducing legislation requiring arbitrators to apply this philosophy; and
- third, arranging for the Pay Research Bureau to collect and report the data needed to underpin the analysis.

Although progress on defining the concept of total compensation was substantial, the other two tasks were partially unsuccessful, rendering the new approach largely unimplementable in practice.

There were five basic concepts underpinning total compensation comparability:

1. The federal government, as an employer, would not be a pace-setter, i.e. would not lead the private sector on the total value of all elements of compensation for comparable work.
2. Security of tenure would be included in the evaluation; regional rates would be adopted "as appropriate."
3. Compensation for very low paid jobs would be set somewhat above comparability "as an instrument of social policy."
4. Any catch-up would be phased in over a period of two to three years.
5. Consideration would be given to "maintaining appropriate relativities within and between groups," and to "the relative contribution and performance of individual employees."[\[23\]](#)

From an analytical point of view, it was urgent to decide exactly what to include in aggregate comparisons. After canvassing well over 100 potential elements, including such intriguing items as the canoe allowance and the horse allowance, Treasury Board officials concluded that 12 components plus salary amounted to at least 95% of total compensation for both the public service and for Canadian employers generally. The 12 non-salary components were:

Conditions of work, extra pay and time off

- overtime and other premium pay
- severance pay
- hours of work
- vacation leave
- sick leave
- holidays
- rest periods

Benefits

- disability insurance
- pension
- Supplementary Death Benefit (life insurance)
- employer's share of provincial health premiums
- employer's share of supplementary health benefits

Explicitly excluded from consideration were items such as the cost of training and career development, which were seen as a management investment in improved performance and productivity; reimbursement of travel and other expenses incurred to perform the employee's duties; legislated social program benefits such as unemployment insurance and worker's compensation; and the cost of administering compensation elements.

Considerable attention was devoted to calculating the value of security of tenure, which was seen as a significant benefit of public service employment. Consultant advice yielded a definition comprising two parts: probability of loss of employment, and expected monetary losses from lay off. It was then proposed that the value of job security could be translated into a hypothetical premium that could be paid to insure against monetary losses likely to occur if the job ceases. This premium could then be included in the calculation of total compensation.

The Government introduced Bill C-28[\[24\]](#) in March 1978, which proposed amendments to the PSSRA to complement this theoretical work. The Bill defined compensation broadly as follows:

In relation to hours worked, compensation means the aggregate of pay and the monetary equivalent of those allowances, benefits and other compensation-related terms and conditions of employment.

Included also were new sub-sections in section 68 of the *Public Service Staff Relations Act*, requiring arbitrators to base awards "on a comparison of the aggregate of compensation for similar or analogous work." A hierarchy of comparison was also mandated, first with private profit-oriented organizations, then with other entities outside the public service, or as a last resort with the public service. Arbitrators would have been required to give written justification for their awards. The Pay Research Bureau was also to be given a statutory mandate to support the process. In the face of union opposition, Bill C-28 did not proceed past First Reading.

The plan to use the Pay Research Bureau as the organization to generate the quantitative data needed to calculate total compensation comparability met with determined union opposition. As a result of the union position, the Public Service Staff Relations Board (PSSRB) and the Pay Research Bureau (which was part of the PSSRB) were reportedly unwilling even to entertain total compensation as a concept, or to share new data that the employer would have needed to undertake its own calculations.

Overall, then, the Treasury Board found itself in a difficult position in trying to implement total compensation comparability as the basic approach to negotiating salaries and benefits in the post-control era of the late 1970s and early 1980s. Treasury Board officials expressed scepticism that it would be feasible, given "practical considerations and the realities of collective bargaining and the dispute resolution process," to alter significantly current settlements to either raise or lower salaries for particular groups because of total compensation comparability findings:

This has been borne out over ten years of experience with collective bargaining and dispute resolution in the Public Service. There have never been settlements or arbitral awards that have not provided increases to rates of pay regardless of the comparability situation. With very rare exceptions, most increases have been the "going rate." Employer proposals to award increases in lump sum form, to avoid increases in rates believed to be excessive, have never been accepted either by unions or arbitration boards. [\[25\]](#)

With the failure of the Government either to enlist the unions' cooperation in implementing the total compensation comparability approach, or to give itself the legislative tools to apply it directly, the state of affairs in the real world of salary determination described in the above quotation was to persist.

It must be noted, however, that even though total compensation comparability floundered in practice, Pay Research Bureau data on salary comparisons for specific occupations based on job-matching did play a prominent role during collective bargaining negotiations.

Fiscal restraint and the evolution of comparability

During the 10 to 15 years following the Anti-Inflation Board in the late 1970s, the struggle to restrain inflation continued, and the conviction emerged that government spending needed to shrink. In 1981, as in the earliest years of collective bargaining, 75 bargaining units chose arbitration, versus 47 using conciliation, but the groups choosing the conciliation option represented a larger number of public servants.

The 1982 *Public Service Compensation Restraint Act* limited raises in the federal public service to 6% and 5% respectively for the following two years.

Between 1991 and 1996, the *Public Service Compensation Act* and successive *Budget Implementation Acts* froze salaries for five of six years, and imposed a 3% raise in the other year. These legislative interventions were not driven principally by a concern to ensure comparability with private sector compensation but by broader macroeconomic goals.

Throughout this period, the Treasury Board continued to deepen its understanding of total compensation comparability and to refine its analytical techniques for applying the concept. In September 1992, Wyatt Consultants reported to the Treasury Board Secretariat on how to develop further the methodology for total compensation comparisons. Recommendations included the use of actuarial valuation for all compensation elements, comparing compensation over an employee's working career, refining further the model for calculating the value of job security (distinguishing, for example, between universal and differential risk aversion measurement), improving the degree to which the private sector comparators' populations reflected that of the public service, and extending the analysis to regional rates of pay. [\[26\]](#)

Attempting to apply total compensation comparability in the real world

During the 1980s and early 1990s, the Treasury Board Secretariat insisted on applying total compensation comparability concepts within the sphere of salary determination that it controlled. For example, over several years, a complex system of benchmarking military occupations to analogous public service groups was built. In practice, the results of this analysis have been applied inconsistently in setting the levels of salary increases over the years, leaving a sense of frustration and misunderstanding between the Canadian Forces and the Treasury Board Secretariat over the utility of calculating total compensation comparisons.

Senior executives and RCMP uniformed members represent two generally successful applications of the total compensation comparison approach. After a false start in the 1980s, total compensation comparisons with eight other large police forces across Canada began in 1993 and have since played an indispensable role in the determination of pay increases for the regular members of the Royal Canadian Mounted Police. Currently, Hay Associates provides total compensation comparisons for Executive, Deputy Minister and other Governor-in-Council positions. This research has provided the analytical foundation for compensation recommendations for

these groups by the Advisory Committee on Senior Level Retention and Compensation, chaired in turn by Lawrence Strong and Carol Stephenson.

Not applying total compensation comparability in the collective bargaining context

Still, however, the impact of the total compensation comparability policy on the actual results of collective bargaining or arbitration boards was contextual at best. A 1987 *Discussion Paper on Compensation Comparability* observed as follows:

While the policy intended that the monetary disparity... between Public Service and external element values be utilized as the basis and justification for raising mandates for collective bargaining purposes, in actual practice, this is not the case. With the exception of salary comparability, total compensation values are shown internally but seldom used, if ever, in the raising of mandates, at the negotiating table, or in third party proceedings.

Many of the total compensation elements are not the subject of collective bargaining, since they are determined through legislation, at the National Joint Council or some other vehicle or forum.

There are certain problems inherent in the "valuation method" which was selected to achieve the stated compensation policy. The main disadvantages cited are its conceptual and methodological complexity and the possibility of attributing artificial values to compensation elements. Such sophisticated methodology, the number of assumptions made as well as the artificial values are not conducive to or supportive of the practicalities of collective bargaining.^[27]

The apparent cognitive dissonance between the ever more sophisticated refinements of methodology and the simultaneous recognition of its limited utility in actual compensation determination begs the question of why work on the total compensation comparability approach persisted. In essence, it appears that the policy expressed what the Government *wanted* its policy to be, and officials accordingly continued trying to develop and apply it. But this intention was not complemented by changes to the formal mechanisms for setting compensation levels or by a determination to make the idea stick. For instance, the 1992 Wyatt Consultants study was doubly ironic, in that not only was it elaborating ideas no one could figure out how to apply, but by then the public service was into the second year of what turned out to be six years of wage controls, five of them freezes.

Pay equity and internal relativity

A second example of policy dissonance emerged during the period from the late 1970s through the 1990s in the concept of pay equity. The 1978 *Canadian Human Rights Act* (CHRA) required employers in the federal labour jurisdiction (including the public service itself) to ensure "equal pay for work of equal value." This introduced a policy disconnect between, on one hand, the Government's overall commitment to compensation based on comparability with a representative sample of private sector employers, and on the other hand, the priority, inherent in the principle of "equal pay for work of equal value," in favour of internal relativity between positions.

To a large degree, policy thinking on comparability and pay equity appears to have evolved along distinct tracks. The various documents on comparability devoted relatively little space to the requirements of the CHRA. The Treasury Board Staff Relations Branch *Compensation Briefing Notes* of March 1984, for example, utilized no more than 2 of 55 pages for the latter issue. The dichotomy between the two outlooks was acknowledged as follows:

The principle of market determination for Public Service compensation may be affected substantially by ... the *Canadian Human Rights Act*. It stipulates that, regardless of compensation relativities in the market place, jobs performed by men and women that are judged to be equivalent in value on the basis of specified job evaluation factors must be paid equivalent compensation.^[28]

A more extensive Treasury Board Secretariat paper on *Compensation Determination for Represented Employees: Future Directions* dated December 1992 observed along similar lines:

In general terms ... internal relativities are the prime and only consideration in compensation determination under the CHRA. This is in marked contrast to the PSSRA, where the concept of internal relativity is only one among several factors to be considered in compensation determination.^[29]

While, in practice, the government has dealt with pay equity complaints separately from collective bargaining, on some occasions, the two concepts came together. In 1998, a special pay adjustment (SPA) was included in collective agreements covering various female-dominated groups involved in the Public Service Alliance of Canada pay equity complaint. Although the Treasury Board Secretariat avoided describing the SPA payments as linked to pay equity, they were in fact included in the eventual settlement. In general, the two concepts of external comparability and internal equal pay for work of equal value have co-existed, rather than being reconciled.

Reduced capacity

During the early and mid-1990s the policy under Program Review was to shrink the public service and to hold the line on salaries and benefits as part of the Government's commitment to eliminating the federal deficit and regain control of the nation's finances. The Treasury Board Secretariat reduced sharply its capacity in the area of salary determination and collective bargaining.

The Government decided to abolish the Pay Research Bureau (PRB) as part of a broader program in the 1992 Budget to eliminate agencies. Over its 35-year history, the Bureau built up considerable expertise and gained credibility in many circles. However, the management side apparently considered that PRB samples were not sufficiently representative of Canadian employers, as they focused only on large, unionized establishments only.

Just as creating the PRB in 1957 was a step forward in strengthening the empirical base for determining comparability, the closing of the PRB ended the possibility of collecting detailed data on which to assess comparability. Perhaps the fact that the Government was acting at about that time to freeze wages made the PRB irrelevant in any case, at least in the short run.

Comparability as collective bargaining resumed

When collective bargaining resumed in 1997,^[30] both the unions and the Treasury Board began with what amounted to pattern bargaining. If nothing else, this reflected the reduced negotiating capacity on both sides after years without collective bargaining. Later on, settlements became more differentiated between groups but external comparability was only one factor in shaping agreements.

Terminable allowances

The main example of comparability influencing salary outcomes was the introduction in 1997 of recruitment and retention allowances (which have generally been known as terminable allowances) for the Computer Systems (CS) classification group. Over the following few years such allowances were extended to at least a dozen other groups. The decision to establish them was based on data relating to compensation paid by competing employers in circumstances where there was evidence of difficulty for the federal government to recruit or retain sufficient staff in particular high-demand occupations.

The use of the terminable allowance approach to comparability was driven by two considerations. The first was to reduce the risk of increasing pay equity pressures by staying within the exceptions to equal pay for work of equal value provided for in the *Equal Wages Guidelines, 1986*, specifically 16 (h): "the existence of an internal labour shortage in a particular job classification." The second was to avoid making such additional salary increases permanent, since the labour market pressures giving rise to recruitment and retention problems could turn out to be transitory.

Joint studies

Another manifestation of external comparability were the various joint studies commissioned by the Treasury Board, the relevant bargaining agent, and often the main employing line department, to examine what other Canadian employers were paying for such groups as the Correctional Services (CX), Foreign Service (FS), Aircraft Operations (AO) and Operational Services (SV) classification groups. From the employer point of view such studies often tended to lack objectivity and balance, with the result that they were normally not accepted as a basis for negotiation.

Research capacity

At a broader level, joint employer-union work began in 2002 on rebuilding a capacity like that provided by the Pay Research Bureau between 1957 and 1992. Developmental work and pilot studies for selected jobs have been undertaken by Statistics Canada under the direction of the National Joint Council's Joint Compensation Advisory Committee. The *Public Service Modernization Act*, passed by Parliament in November 2003, provides for the establishment of a permanent compensation research capacity as a wing of the new Public Service Labour Relations Board.

Pay equity

1999 saw the conclusion of the longstanding pay equity complaint by the Public Service Alliance of Canada in regard to various female-dominated clerical, secretarial, and educational groups. While resolving an important dispute on the application of the *Canadian Human Rights Act*, the settlement undoubtedly moved federal compensation further away from overall comparability to the broader Canadian labour market.

Regional rates of pay

Another trend away from comparability has been what amounts to the systematic phasing out of regional rates of pay in the federal public service. This process began well before Program Review. In 1985 and 1986, after pressure on Members of Parliament led by the Public Service Alliance of Canada, the number of pay zones affecting the General Services (GS) and General Labour (GL) classification groups was reduced. Collective agreements in 1997 and 2001 reduced the number of zones for the GS/GL employees from 10 to 7 to 3. By now the zones are so large as to bear no meaningful relation to local labour markets.

Universal Classification System

On the other hand, in 2002 the Treasury Board decided not to pursue further the so-called "Universal Classification System" solution to reforming the classification standards for the core public service. A principal reason for this decision was a concern to avoid creating too rigid a framework for evaluating public service jobs, which would have made it virtually impossible to adjust to changes in external compensation that affected only some occupations.

Compensation framework

The Treasury Board has not formally adopted a compensation policy following the resumption of collective bargaining in 1997. On two occasions, in mid-1999 and again in mid-2003, draft policies were under active internal consideration. However, changes in key personnel, and the shifting labour relations climate have so far precluded finalizing such a policy. In both cases, the drafts were recognizably similar to the policies enunciated in earlier times, emphasizing the need to balance in particular external comparability and internal equity.

The 2003 draft policy framework highlights four overarching principles. Public Service compensation shall:

- be competitive with that provided for similar work in relevant labour markets;
- reflect the relative value to the employer of the work performed;
- reward performance, where appropriate and practicable, based on individual or group contributions to business results; and
- be affordable within the context of the Government's commitments to provide services to Canadians, its fiscal circumstances and the state of the Canadian economy.

The draft further notes that the federal government is responsible for general public policy as well as being Canada's largest employer. Accordingly, compensation goals will be conditioned by public policy considerations, including: economic policy objectives such as controlling inflation, relevant laws such as the *Canadian Human Rights Act*, social policy objectives such as the extension of parental leave under the *Employment Insurance Act*, and public expectations and pressures.

Appendix B^[31] provides the 2003 draft policy as it was circulated for comment.

The Canada Customs and Revenue Agency (CCRA) Board of Management did adopt such a policy in early 2001. The policy includes these points:

Compensating our employees at a fair and reasonable level makes the CCRA an attractive employer.... To ensure a better working environment, and to sustain our high standards of service, the CCRA will respond to labour market realities.

The CCRA's Board of Management and Management Team are committed to a compensation policy that recognises and addresses the realities of competitive labour market forces. If studies demonstrate that a significant gap exists between the CCRA's compensation and competitive labour market's compensation, and it can be demonstrated that this gap affects our ability to attract and retain employees, the CCRA is committed to addressing the gap.

Overall during the period following Program Review, federal public service compensation continued to be shaped by an amalgam of forces. While comparability was certainly an important consideration, it could not be said to have been the dominant factor in shaping salaries and benefits.

The post-Program Review experience broadly aligns with what has occurred since the merit principle was adopted in the public service in 1918. Comparability with the external labour market has always figured prominently in statements by the Government of the day about its philosophy of compensation for public servants. But through the years a series of other factors have tended to override comparability as a determinant of salaries and benefits. These have varied in importance over time, ranging from the relentless pressure to respect internal relativities, to pragmatic considerations such as finding a saleable deal, to the statutory requirement for equal pay for work of equal value, to the desire to set an example as an enlightened employer, to the imperative to control inflation or reduce government spending.

3. The Legal and Institutional Framework for Salary Determination

The legislative framework for collective bargaining in the federal public service is set out in the *Public Service Labour Relations Act* (PSLRA). Its predecessor statute was first enacted in 1967. [32] The Act recognizes the right of most federal public servants to organize in bargaining units, and to choose bargaining agents to negotiate terms and conditions of employment on their behalf with the Employer, which is either the Treasury Board or a separate employer recognized by statute. [33]

The PSLRA sets out two methods for resolving differences, or interest disputes, about the terms of a collective agreement. The first is the conciliation/strike route, which permits employees to strike if various procedural conditions are met. The second is the arbitration route, whereby an arbitration panel resolves disagreements.

Across the combined core public service and separate employer domains, there were in 2003 approximately 210,000 employees (about 88%) who are represented by one of over 20 certified bargaining agents. The Public Service Alliance of Canada (PSAC) was by far the largest union, representing about 68% of unionized employees; the Professional Institute of the Public Service of Canada (PIPPSC) represented about 20%. The other unions ranged in size from over 9,000, as in the Canadian Association of Professional Employees, to as few as about a dozen, i.e. Canadian Air Traffic Controllers Association.

The PSLRA is administered by the Public Service Labour Relations Board (PSLRB), a quasi-judicial statutory tribunal. Among the Board's roles are:

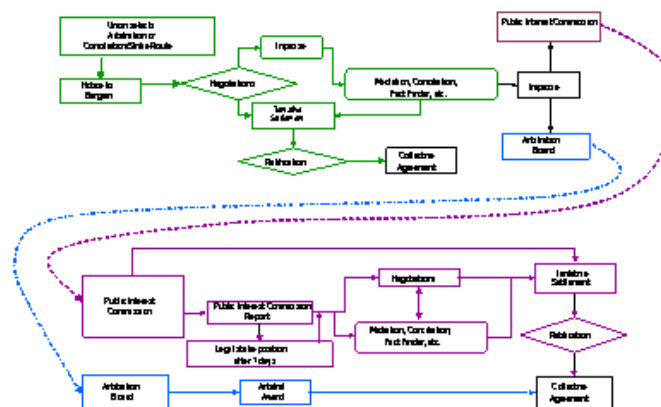
- certifying bargaining agents,
- assisting with collective bargaining through such services as mediation,
- adjudicating complaints of unfair bargaining, and
- adjudicating grievances not resolved by the parties.

Figure 1002 illustrates the process of collective bargaining.

Figure 1002

Schematic of collective bargaining processes under the *Public Service Labour Relations Act*

[Display full size graphic](#)



Negotiations begin with an exchange of proposals by the parties, followed by face-to-face discussions aimed at agreeing on terms of a settlement. Either party may ask the PSLRB to provide third party assistance, which could take the form of a conciliation officer, a mediator or a fact-finder. If an impasse persists, a Public Interest Commission (PIC) or arbitration board may be established, depending on the dispute resolution route chosen by the bargaining agent at the outset. At any stage, the parties may revert to direct negotiations, with or without the assistance of a mediator, except when the parties have actually started to present their arguments to an arbitration board.

Public Interest Commissions are non-permanent bodies consisting of one or three persons, appointed by the Minister responsible, whose role is to assist the parties to resolve disputes and make recommendations for settlement. The Chairperson of the PSLRB recommends the appointment of a Public Interest Commission either at the request of the parties or on his or her own initiative. It should be noted that members of a PIC are

selected from a list of persons jointly agreed to by the parties. The PIC will report its recommendations for settlement to the Chairperson of the PSLRB within 30 days of its appointment; the Chairperson will make the report public. If there is still no settlement by then, employees acquire the right to strike seven days after the PIC reports to the PSLRB, though the Act requires that a secret ballot strike vote be held before a strike may be called. The bargaining agent may authorize or declare a strike only within a period of 60 days following the vote, provided that it has received the majority support of voters.

The role of an arbitration board is also to hear the positions of the parties and to encourage agreement on a settlement. If the parties do not agree, the arbitration board considers the position of the parties and renders a binding arbitral award.

Experience with collective bargaining

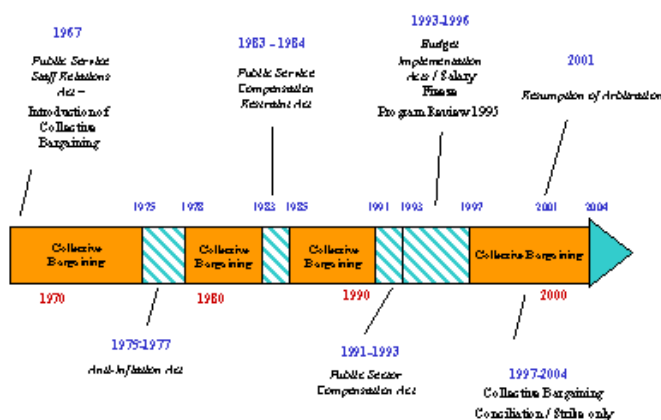
Collective bargaining in the federal public service has alternated with periods of statutory salary controls. Over the 37 years between the introduction of collective bargaining in 1967 and 2003, the process was suspended in whole or in part for at least 11 years in three distinct periods. As the timeline illustrates, the main interruptions of collective bargaining were these:

- 1975 to 1978–The *Anti-Inflation Act*
This legislation applied to the whole Canadian public sector (including provincial and local government organizations), and to private employers with at least 500 employees. Wage increases were capped at 10% in the first year, 8% in the second, and 6% in the third.
- 1983 to 1985–The *Public Service Compensation Restraint Act*
This Act automatically extended all collective agreements for two years with annual salary increases of 6% in 1983 and 5% in 1984. This applied to the entire federal public sector.
- 1991 to 1996–A series of measures essentially froze wage rates for five of six years.
- The Public Sector Compensation Act set wage increases at zero for 1991, and 3% for 1992.
- This was followed by the 1992 Budget Implementation Act (Bill C-113), which extended collective agreements for 1993 and 1994 with no wage increases.
- The 1994 *Budget Implementation Act* (Bill C-17) provided for a further two-year extension of the wage freeze, as well as a two-year moratorium on increments within pay bands, and a suspension of performance pay. In addition, the arbitration route was suspended, eventually until 2001. Crown corporations were not included.

Figure 1003

Periods of collective bargaining and salary controls from 1967 to 2003

[Display full size graphic](#)



Beyond these general interventions, the Government acted in the post-freeze period to force settlements with two specific groups. In 1999, Parliament passed a law imposing terms and conditions based on the employer's last offer^[34] for the Correctional Services (CX) group in order to avert an impending strike in federal correctional institutions. In the same legislation, the Government gave itself the authority to impose a settlement to end a lengthy period of partial rotating strikes involving the Operational Services (SV) bargaining group, which includes eight classification groups in the skilled trades and general labour area. A settlement based on the last Treasury Board offer obviated the need to proceed with this authority.

Since 1997, when collective bargaining resumed, the process has worked more or less smoothly. The general pattern of economic increases for the first two years was 2.5% and 2%. For 1999, there was a one-year settlement at 2%, with a lump sum equal to between \$625 and \$1,450 per employee, depending on the group.

[35] This arrangement was intended to prepare the ground for implementing the Universal Classification System, which in fact was eventually dropped by the Treasury Board in 2002. For the period from 2000 to 2003, the principal pattern settlement with the Public Service Alliance of Canada provided annual economic increases of 3.2%, 2.8% and 2.5%.

Salary determination for separate employers

All separate employers, with the exception of Canada Revenue Agency, must obtain their negotiation mandate from Treasury Board, and Governor-in-Council endorsement of their final collective agreements. [36]

According to the legislation establishing the Canada Customs and Revenue Agency, its own Board had authority to set bargaining mandates and approve collective agreements. Sub-section 58(2) of its legislation required: "Before entering into collective bargaining, the Agency must consult with the Treasury Board on its human resource plan, including the total increase in employee salaries or benefits." The Treasury Board also had a broad oversight capacity through the general budget approval process.

Parks Canada must obtain Treasury Board agreement to its negotiating mandate. But provided any resulting collective agreement is consistent with the mandate, Parks Canada does not need to obtain the Governor-in-Council's endorsement. As a matter of practice, the same approach is applied to the Communications Security Establishment.

Determining the elements of total compensation

For most employees in the core public service, most elements of total compensation are determined through negotiations with unions. For others, Treasury Board sets compensation using the references described below.

Negotiated collective agreements

The bulk of compensation for most employees is negotiated by representatives of the Treasury Board with the appropriate public service union. The resulting collective agreements, which typically run for about two or three years, specify pay rates and leave, and entitlement to allowances and premiums such as overtime and severance pay.

Occupational "classification" groups

The framework for determining salaries is called the occupational group structure. This structure aims to group employees doing similar work, who share what is called a "community of interest" in the context of collective bargaining. [37] As of March 1999, the structure established for the core public service domain included 25 occupational groups, each represented by one of 16 unions. In addition, there were four groups that are unrepresented.

This structure consolidated the 72 classification groups created in 1967, when collective bargaining was introduced into the federal public service. While the occupational group structure is used for collective bargaining purposes, the older classification groups are still prominent in people's minds for two main reasons:

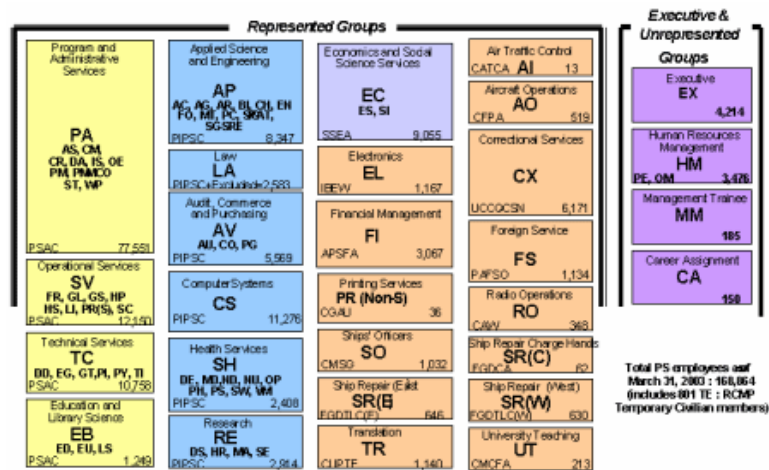
- a. nearly all active classification standards [38] relate to the old groups; and
- b. distinct pay bands still exist for most of the older groups.

Particularly for this latter reason, we use the old structure of classification groups in analyzing salary details. Such an approach greatly facilitates historical comparisons. Figure 1004 illustrates the existing occupational group structure. Appendix E gives the names and two-letter symbols of each of the current occupational groups, the classification groups that reflect the pre-1999 occupational groups and the respective bargaining agents.

Figure 1004

Occupational Group Structure for the core public service domain, March 2003

[Display full size graphic](#)



National Joint Council programs

Health, disability and dental programs are also negotiated by the Treasury Board, but generally with all or most of the unions on the same terms, under the auspices of the National Joint Council. The National Joint Council, in existence since 1944, is a parity union-management forum for discussion and negotiation of various directives of general application in the public service. Topics covered include the Foreign Service Directives, the Travel Directive and the Isolated Posts Directive. The Council also deals with grievances relating to the application of these directives or appeals regarding access to the health, disability or dental plans.

Three separate employers, the Canadian Food Inspection Agency, the National Research Council and the Office of the Auditor General, participate as well in the work of the National Joint Council.

Statutory benefits

Pensions and certain programs such as the Supplementary Death Benefit and Workers' Compensation are determined by statutes enacted by the federal or provincial governments.

Non-represented employees

The terms and conditions of employment for employees who are not represented by a union are determined directly by the Treasury Board. In the case of the Executive (EX) group, Deputy Ministers and other appointees of the Governor-in-Council, the Government generally accepts the recommendations of the Advisory Committee on Senior Level Retention and Compensation, whose work is described in more detail below.

For other groups not represented by a union such as most lawyers, personnel officers and senior members of other groups who are excluded because of their managerial responsibilities, the Treasury Board sets the pay rates and benefit entitlements. Generally these follow relevant standards among unionized employees, with the addition of eligibility for some form of performance pay and additional voluntary employee-paid life insurance.

Interdependence of salary determination for top federal officials

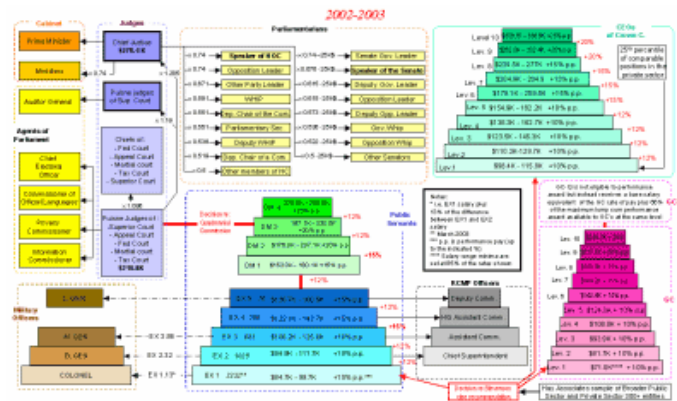
In practice in 2003, salary determination for the most senior federal officials was interconnected across the various domains.

Figure 1005 summarizes the connections as they were in 2003 among the pay rates for public service executives and Deputy Ministers, the senior officers in the Canadian Forces and the RCMP, the CEOs of Crown corporations, and other Governor-in-Council appointees, as well as judges, parliamentarians, ministers, and agents of Parliament. The figure appears busy, but this has been done to distil a lot of information into one picture.

Figure 1005

Summary of the interdependence of salaries for top Federal officials, as of 2002-03

[Display full size graphic](#)



In the lower centre, we find the salary ranges for the five Executive (EX) and the four Deputy Minister (DM) levels. The Treasury Board sets the pay for the EX 1 level, normally on the basis of a recommendation from the external Advisory Committee on Senior Level Retention and Compensation—known currently as the Stephenson committee. In 2003, along with chair Carol Stephenson, this Committee included several high level leaders from the private and not-for-profit sectors. In recommending salary levels and benefits for the executive and DM groups, the Committee relies on an annual report by Hay Associates that compares total compensation^[39] for senior officials in the federal government with remuneration paid to positions of comparable responsibility in the Canadian private and broader government sectors. The policy is to maintain equivalence at the first Executive level (EX 1), excluding long-term compensation such as stock options.

Once the EX 1 rate is set, the other EX and the DM salary ranges follow arithmetically. By policy, there is a 12% difference in the maximum salaries of two adjacent levels, except between EX 3 and EX 4, and between DM 1 and DM 2. These two transitions of 15% each correspond to the important moves into the Assistant Deputy Minister ranks, and to the rank of a full deputy head in charge of a department or agency, respectively. The salary rates for the top-level leaders in the Canadian Forces and the RCMP have a fixed relationship to EX salaries as shown in Figure 1005. The salary ranges for Governor-in-Council appointees are also anchored to the core public service by the equivalence of the GC-Q3 to the Hay private sector data.

Salary ranges for Crown corporation CEOs, in the upper right corner of Figure 1005, are set independently of the EX/DM rates, based on a Hay Associates survey limited to private sector remuneration. Again the Stephenson Committee formulates a recommendation, on which basis the Governor-in-Council sets the salary ranges.^[40] The same basic approach is employed to maintain equivalence of total compensation at the first level of CEO to the 25th percentile of private sector jobs at the same level, and to establish pay rates for higher levels as fixed multiples of the levels below.

The pay of regular "puisque" judges of provincial superior courts, as well as the Federal and Tax courts is set on the recommendation of an independent Quadrennial Commission. Generally, these commissions have supported alignment with the mid-point of the DM 3 pay range. Higher judges are paid increments from this basic judicial rate.

From this followed the pay of parliamentarians in 2003. The Prime Minister was paid the same as the Chief Justice of the Supreme Court. Members of Parliament (MPs) earned half of that amount. Ministers and the Speaker earned 74% of what the Prime Minister earned. Other positions in the House of Commons hierarchy were paid various fixed proportions of the Chief Justice/Prime Minister salary, as set out in the figure. Senators, and those with special roles such as Speaker or Whip in the Senate, earned the corresponding House of Commons amount, minus \$25,000.^[41]

Finally the salaries of agents of Parliament are also tied into this scheme. The Auditor General earns the same as a puisne judge of the Supreme Court, and the other agents such as the Chief Electoral Officer earn the same amount as regular judges of the Federal Court.

The whole structure, setting aside the pay of Crown corporation CEOs, depended, in effect, on two decisions: the EX 1 salary, as recommended by the Stephenson Committee, and the regular provincial superior/federal court judge's salary, set based on the work of the Quadrennial Commission, which itself tends to tie into the DM 3 salary.

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SECTION TWO

COMPONENTS OF INCREASES IN AVERAGE SALARIES

4. Components of Increases in Average Salaries

As will be seen in detail in Volume Two, in constant 2002–03 dollars, average salaries in all of the federal public service domains have risen since 1998–99, especially as compared with the period from 1982–83 to 1998–99. A number of components have been driving these increases. Components that have an impact on base salary, and therefore a continuing financial commitment, include changes in the composition of the workforce resulting from more complex demands on the public service, higher education levels among employees, a diminution of clerical and secretarial work, and changes in technology. Other salary-based components included salary increases above the rate of inflation, and changes to pay rates resulting from the restructuring of pay bands or other elements of compensation. Components unrelated to base salary include the introduction of new separate employers and the introduction and growth of what are called "terminable" allowances. This chapter explores all of the components driving the increases in average salary in recent years.

Overview of federal employment and compensation

Statistics Canada reports that in March 2003 the federal public sector as a whole employed 455,754 people at a total salary cost of about \$22.7 billion. This represented approximately 2.9% of employment in Canada and about 15.5% of public service employment.

Excluding federal business enterprises and other Crown corporations, as we do in most of this report, the regular federal payroll amounted to about \$17.9 billion for fiscal year 2002–03, constituting about 3.4% of total salaries and wages in Canada. The corresponding employment level was about 351,000. When one factors in additional costs associated with the various elements of total compensation, including pensions and benefits such as health, dental and life insurance, federal expenditures on compensation for the group of employees covered in this report amounted to roughly \$25 billion in 2002–03. This represents over a third of the amount paid for discretionary spending at the federal level.

In 2002–03, the average salary for employees in the core public service domain, for which the Treasury Board is the employer, was \$53,300. The cost of total compensation per employee averaged about \$73,400.

By 2002–03, the Canadian Forces had an average salary of about \$52,700, virtually identical to the average salary of \$52,800 in the combined core public service and separate employer domains.

The average salary for regular and civilian members of the RCMP was much higher than the other domains reported, standing at \$59,900 in 2002–03.

The average salaries of persons employed within the "other groups" federal domain vary greatly. Superior and Federal Court judges earned \$210,000, for example. The salary for a Member of Parliament was \$135,000, and \$110,000 for a Senator. Students employed by the federal government earned an hourly income ranging from about \$9.00 per hour for secondary-school students to \$20.05 per hour for doctoral students with experience.

Changes in employment and compensation from 1982 to 2003

In the combined core public service and separate employers, total employment was:

- nearly 245,000 in 1990–91, then
- fell to about 195,000 in 1998–99, and then
- grew to around 235,000 in 2002–03.

As discussed in detail in Volume Two, when we consider the impact of functions transferred outside the government but still financed by the federal taxpayer, we conclude that the effective total employment for these combined domains in 2002–03 was at least as high as in 1990–91.

From 1982–83 to 1998–99, the average real salary (i.e. with the effect of inflation removed) of employees in the combined core public service and separate employer domains was essentially unchanged. During this period, the average salary ranged between \$45,400 and \$48,100 as expressed in constant 2002–03 dollars. Starting in

1999–2000, however, the average salary began to rise in real terms. By 2002–03, it had reached \$52,800, a constant dollar increase of 14.1% in five years.

Following recommendations of the Advisory Committee on Executive Compensation and Retention, a new performance pay system for executives was phased in over 1998–2000. As a result, the estimated value of lump sum payments for executives in the core public service grew from \$11 million in 1997–98 to around \$40 million in 2002–03. Their average salaries grew by 13% in real terms between 1997–98 and 2002–03. When increases in lump sum performance pay during the period are included, on average, executives experienced an after-inflation average pay increase of around 18%.

For the Canadian Forces, the 2003-constant-dollar average salary grew from \$47,500 in 1997–98 to \$52,700 in 2002–03, an increase of 10.9%.

The constant dollar increase for regular and civilian members of the RCMP between 1997–98 and 2002–03 was 5.6%.

During the same 1997–2003 period, federally appointed judges saw their salaries increase an average of 21% in constant 2002–03 dollars. The equivalent real increase for parliamentarians was about 19.6%.

In many cases, wage levels in 2003 had been impacted over a number of years by factors other than economic increases, which tend to get all the publicity. Most important among these factors were negotiated changes to salary structures, known as restructuring increases, as well as changes to the composition of the public service workforce and pay equity settlements. Additional pressures on salary levels have occurred as new separate employers have been created, inviting comparisons with their counterparts in the core public service.

Summary of the growth in average salaries

Average salary is the broadest possible measure of change in individual remuneration. Table 1006 and its accompanying Figure 1008 illustrate the evolution of average salary in the core public service and the separate employer domains from 1990–91 to 2002–03.

What stands out in this data is the marked change in the evolution of the average salary after 1997–98. From 1990–91 through 1998–99, the constant dollar (2002–03 price level) value of the average salary remained in the relatively narrow range of \$46,300 to \$48,100. It might be thought that this stability was an anomaly resulting from the impact of pay freezes during this period. However, we were able to calculate average salaries on the same basis for the period from 1982–83 to 1988–89 as a way to test this view. Collective bargaining was fully operational for all but two of these years. Throughout this period, the average salary (expressed in constant 2002–03 dollars) for the core public service remained between \$45,400 and \$47,200, as shown below, in Table 1007.

Table 1006				
Evolution of average salary in current and constant 2002–03 dollars for the core public service and separate employer domains, 1990–91 to 2002–03				
			Average salaries for total population	
			Current \$	Constant \$
1990–91	242,398	9,082	37,465	47,581
1991–92	244,099	9,297	38,086	46,344
1992–93	245,116	9,742	39,745	47,589
1993–94	240,867	9,764	40,537	47,835
1994–95	233,695	9,566	40,934	48,106
1995–96	218,297	8,972	41,099	47,289
1996–97	206,221	8,471	41,079	46,458
1997–98	197,642	8,200	41,489	46,295

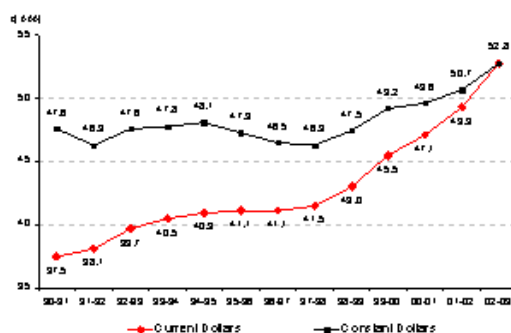
1998-99	194,776	8,368	42,963	47,495
1999-00	202,282	9,197	45,467	49,183
2000-01	213,185	10,037	47,079	49,561
2001-02	225,469	11,110	49,274	50,743
2002-03	234,393	12,384	52,836	52,836

Table 1007 Changes in average salary, core public service 1982-83 to 1988-89		
Year	Average salary, Current \$	Average salary, Constant \$ 2002-03
1982-83	\$25,113	\$45,431
1983-84	\$27,238	\$46,823
1984-85	\$28,469	\$47,078
1985-86	\$28,827	\$45,794
1986-87	\$30,925	\$47,180
1987-88	\$31,876	\$46,597
1988-89	\$32,355	\$45,417

Figure 1008

Graphical presentation of the evolution of average salaries in the core public service and separate employer domains combined – 1990-91 to 2000-03

[Display full size graphic](#)



Thus, for the 15 years prior to 1997-98, through periods of both collective bargaining and salary controls or freezes, the average federal public service salary remained essentially unchanged in terms of real income.

In the following five years, there was a pronounced upward trend, with the 2002-03 average salary reaching \$52,800. The change from 1997-98 up to 2002-03 for the combined core public service and separate employer domains was 27.3% in current dollars, which is equivalent to 14.1% in constant 2002-03 dollars.

Matching inflation was the largest single factor underlying change in current salary levels from 1997–98 to 2002–03. During these five years, the cost of living rose by about 11.6% in total. Changes in line with inflation, however, serve to maintain the purchasing power of a given level of income. What was unusual in these years, compared at a minimum with the previous decade and a half in the federal public service, was the sustained increase in real average salaries. So our analysis concentrates on trying to describe the factors underlying this real increase. Figure 1009 portrays the relative size of the key drivers of change.

The analysis summarized in Figure 1009 does not purport to be exact. Nevertheless, the approximate relative size of the components of change in average salary emerges clearly from the analysis. The adjustments that are shown in the figure relating to compounding and the timing of increases are necessary to take account of the fact that the various drivers of change interact over time.

The largest factor impacting change in real (i.e. after excluding the effect of inflation) salaries, accounting for over half of the increase, was the cumulative impact of collective bargaining outcomes. Table 1010 depicts what happened between 1997–98 and 2002–03 in the core public service. The data is reported for the year to which increases applied, not when they were negotiated or ratified. This data differs slightly from that portrayed in Figure 1009 because Figure 1009 relates to the combined core public service and separate employer domains, whereas Table 1010 reports only on the core public service.

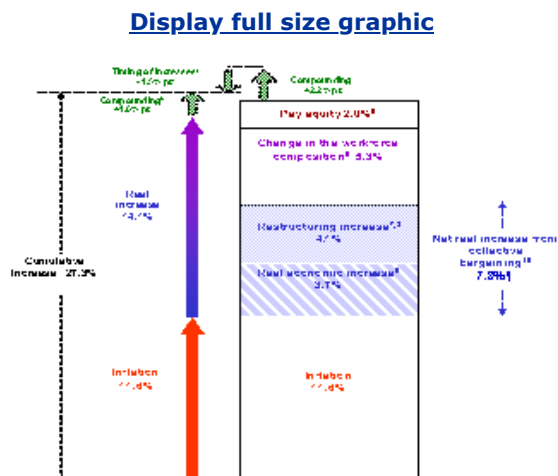
In both Table 1009 and Figure 1010, we break real increases resulting from collective bargaining into two components:

- the extent to which "economic increases" were larger than actual inflation; and
- the impact of restructuring increases described below.

Looking only at the first component, we can deduce from Table 1010 that the cumulative difference between the economic increases and inflation was about 3.3% for the core public service. For the combined core public service and the separate employer domains, Figure 1009 gives this component as 3.7%. The gap between inflation and average "economic" increases, along with the total of increases including restructuring, is portrayed graphically in Figure 1011.

Figure 1009

Components of change in average current dollar salaries for the combined core public service and separate employer domains,* 1997–98 to 2002–03



* percentage point

¹ Approximation based on available data.

² Adjustment to account for the fact that a number of negotiated increases introduced in 2002 are not fully reflected in the average salary growth for 2002–03 because they were introduced late in the year.

^{3,4} To account for the fact that overall impact of the components' growth rates (except pay equity) is multiplicative (rather than additive).

⁵ The ongoing salary impact from pay equity of \$190M, on per capita basis (divided by 2002–03 employment), represents a growth of 2.0% from the average salary in 1997–98. Since this ongoing impact has already included the impact of negotiated salary increases, this is an additive component (rather than multiplicative).

⁶ Impact of the profile change (or composition effect) in the old core public service (i.e. PSSRA 1.1 plus CCRA, CFIA and Parks Canada) from March 1998 to March 2003.

⁷ Restructures exclude Special Pay Adjustments (SPA).

⁸ In Vol. 2, reference is made to a 1.1% net real increase attributable to upward movement through the salary grid. This amount is incorporated primarily into the 5.3% associated with change in workforce composition, though there may be a slight overlap into the 4.1% related to the restructuring increase.

^{9,10} Reflects the average negotiated increase per employee while they were part of the core public service (PSSRA 1.1) only. All of the increases for 1997 were included because they were not captured by the incumbent system until after March 1998.

Table 1010							
Economic increases compared to increases in the Consumer Price Index, 1997 to 2002*,**							
	1997	1998	1999	2000	2001	2002	Growth 97-02
Average Economic Increases	2.3%	2.0%	2.0%	3.0%	2.7%	2.6%	15.7%
% Change in Consumer Price Index (CPI)	1.6%	1.0%	1.7%	2.7%	2.6%	2.2%	12.4%
Average "restructure" increases	0.4%	0.4%	1.5%	0.6%	0.9%	0.2%	4.1%
Total Negotiated Salary Increases	2.7%	2.4%	3.6%	3.6%	3.7%	2.8%	19.8%
Salary Increases above CPI (percentage points)	1.1%	1.4%	1.9%	0.9%	1.1%	0.6%	8.0%
<p>Notes: Reported collective bargaining increases reflect the average negotiated increase per employee while they were part of the core public service. Increases relating to pay equity, special pay adjustments (SPA), and terminable allowances are excluded. Growth is calculated as the cumulated percentage increase over the six years, except for the "Salary Increases above CPI" which reports the percentage point differences between two cumulative growth rates.</p> <p>* The years identified give the calendar year in which increases took effect, not when they were agreed or ratified.</p> <p>** Note that the accumulating CPI (inflation) increase given in this Table is 12.4%, whereas the change portrayed in Figure 1009 is 11.6%. The difference arises because Table 1010 reports by calendar year, whereas Figure 1009 focuses on fiscal years. Adjusting the Table and the Figure to reflect the same time period was judged too complicated in view of the way collective bargaining outcomes are recorded.</p>							

Impact of restructuring increases

We now turn to the second component of collective bargaining outcomes resulting in real increases in average salaries during the period under review. The term "restructuring increases" covers changes the parties perceive as needed to:

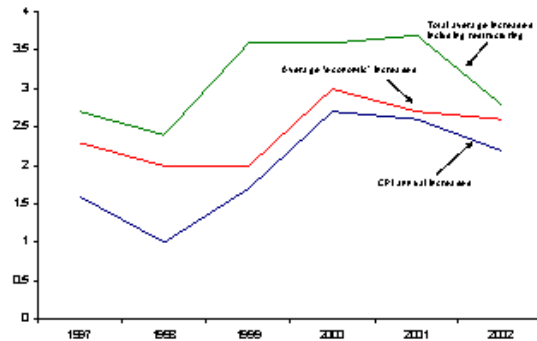
- keep up with a competitive external labour market,
- adjust internal relativities,
- mitigate pay equity concerns, or
- simply to conclude a collective agreement that can be ratified by the employees.

As set out in Figure 1011, the average value of restructuring increases, weighted by the size of the groups affected, was substantial in 1999 at 1.6% and in 2001 at 1.0%.

Figure 1011

Gap between increases in the consumer price index, "economic" wage increases and restructuring increases, 1997 to 2002

[Display full size graphic](#)



The cumulative effect of such increases on average salaries was about 4.1% from 1997–98 to 2002–03 inclusive.

Appendix F gives specific details on these restructuring increases, as well as other monetary benefits not included in economic increases.

Adding or removing increment steps

The addition or deletion of increment steps within a pay range is in effect the classic and most frequent example of restructuring. The pay range for a given level of a classification group usually has several steps or increments to which employees move year by year, until they reach the maximum for the level, or are promoted to another level. Normally an increment is worth about 3.5% to 4%.

Adding a step at the top of a pay range immediately increases only the salaries of those already at the top of the range. Because in most cases only some employees in a given group are at the maximum of the level affected, the initial per capita cost can be modest. Over time, however, every employee who reaches that level will benefit from the higher maximum.

Deleting a step at the bottom of a range usually costs little at the beginning, but in future all new employees start at a higher salary minimum. The other, not always readily apparent, impact of deleting or adding an increment is the possible misalignment between classification standards or relative values of work and compensation.

During the period since collective bargaining was restored in 1997, many contracts included some form of restructuring of pay ranges. The most common case is the addition of a step at the maximum for some or all levels of a particular group. Minimum steps were deleted for more than 10 groups. In a few instances, half steps were added. In at least three cases, all group members moved up one or two steps within their level, unless they were already at the maximum, before economic increases were applied. These cases were:

- the Computer Systems (CS) group in 1997 and 2000,
- the Correctional Services (CX) group in 2000, and
- the Radio Operations (RO) group in 2001.

The Computer Systems (CS) group, for example, experienced such pay range additions in each of the four contracts the Professional Institute signed with the Treasury Board for the period from 1997 to 2004, and general moves in salary level twice. For this group, the average salary has increased from \$49,500 in 1997 to \$63,200 in 2003. This is 27.6% in current dollars, or 12.2% in constant 2003 dollars.

The extent of restructuring increases applied to the CS group might have implied a larger premium over the average in another group, whose members are at or near the maximum pay rates for their levels. However, with a quickly growing group, relatively more employees in the CS group were likely at or near the minimum pay rate for their level. On the other hand, if growth slows as the CS group matures over the next few years, more of the potential cost increase would be realized.

Reducing regional differences

Another example of pay restructuring is what is known as "collapsing zones." This term refers to the process of reducing regional differences in the pay rates of employees. Prior to the introduction of collective bargaining in 1967, about 15% of public servants (over 24,000) were employed under the provisions of the *Prevailing Rate Employees General Regulations*, and a further 3,000 under the *Ships' Officers and Ships' Crews Regulations*. Wage rates for both groups of employees were set for numerous individual job titles for dozens of localities. It

has been a priority for the Public Service Alliance of Canada and other affected unions to eliminate such zones over time, and in virtually every round of bargaining, the number of zones has been reduced.

About 13,300 or about 8% of employees in the core public service domain were affected by some kind of regional pay arrangement in 2002–03.

The largest set of employees paid according to regional rates in 2002–03 comprised the 9,700 members of the General Labour (GL), General Services (GS), and Hospital Services (HS) classification groups. The three regional pay zones were:

Zone 1 – British Columbia, and the three northern territories

Zone 2 – Atlantic, Quebec and Ontario

Zone 3 – the three Prairie provinces

Regional differentials varied according to sub-group and level. Almost invariably, the highest hourly rates were in Zone 1, for British Columbia and the three territories. The largest difference between the highest and lowest rate—about 18%—was for the sheet-metal-working sub group; the smallest gap was between 6% and 8% for the machine, tool-making and engraving sub-group. For the most numerous subset (about 1,100 gardeners, welders and maintenance workers), the variance was about 10%.

In the period from 2000 to 2003, the contract covering the Operational Services (SV) bargaining unit provided for the number of salary zones affecting the General Labour and Trades (GL), and General Services (GS) classification groups to be reduced from ten to seven to three. As recently as 1989, there had been sixteen zones. The estimated ongoing salary cost of these recent zone consolidations was about \$3.65 million starting in 1999, and a further \$9.9 million commencing in 2000.

The second most populous (about 1,600) group of employees with regional pay variations was the Nursing (NU) classification group. This group had:

- One zone for isolated posts equal to the highest, i.e. the British Columbia rate
- Rates for the Atlantic region and each of the other provinces
- Yukon/NWT rate.

The variation between the highest pay rate and the lowest for the most populous level of the NU group (level 3) was about 9.4% at the maximum.

By 2002–03 approximately equal numbers of ship repair employees worked on the east and west coasts (about 700 on the east coast and 620 on the west), doing similar work. Pay rates in 2002–03 were about 20% higher in British Columbia.

Several other small groups had regional variants in their pay. These included:

- the Education group (about 200 people),
- the Printers (fewer than 50), and
- the Occupational and Physical Therapy group (about 50).

An 8% premium was paid for federal lawyers (about 300) employed in Toronto in 2002–03.

Pay line harmonization across classification groups

An important form of restructuring is pay line harmonization. As noted earlier, in 1999 over 70 classification groups were combined into 25 bargaining units. As a result, there has been an interest for both unions and the employer in combining the pay rates of classification groups within a bargaining group. The first example, effective in 2000, was unifying the pay ranges for the Economics, Sociology and Statistics (ES) and the Social Science Support (SI) classification groups, which together constitute the new Economics and Social Science Services (EC) bargaining unit. The cost of this harmonization was about 1% of the unit's payroll within the core public service domain at the time of implementation.

The second and larger example also came into effect in 2000. The Treasury Board and the Public Service Alliance agreed to harmonize the pay lines for the Program Administration (PM), Administrative Services (AS) and Information Services (IS) classification groups, which form a major portion of the Program Administration (PA) bargaining unit. In this case, the initial cost was about 0.9% of the unit payroll. For affected employees, however, the impact was much larger. About 26,660 employees gained salary increases averaging about 1.7%.

Other forms of restructuring

Finally, we observe certain relatively infrequent but significant forms of restructuring. For contracts covering the Foreign Service (FS) group effective in both 1999 and 2001, for example, increases were approved to the maximum salary level for the group to keep it broadly in line with the lower end of the EX 1 salary, and to the entry level salary to make the foreign service more attractive to high quality recruits. In addition, fixed pay steps were introduced that will allow FS officers to advance more rapidly to the maximum pay rate. The initial cost of these changes amounted to about 7% of the FS salary mass. As another example, effective 1997, the Financial Administration (FI) group gained a 3.45% increase to compensate for an increase in their workday to the 7.5 hours normally worked by most other public service employees.

Lump sum payments

During the period from 1997 to 2003, other monetary benefits were agreed that are not considered to be restructuring because they are not part of regular salary. Lump sums were paid to most unionized employees in 1999 to facilitate acceptance of a one-year settlement with a 2% economic increase. In a few other cases signing bonuses were negotiated.

Impact of changes in the composition of the workforce

Change in the composition of the public service workforce results from a combination of classification and staffing decisions taken mainly by middle level managers in departments and agencies. The classification decisions establish what positions may be staffed and at what level, and the staffing process determines which positions actually get filled and how. The distinction is meaningful since at any given time there will normally be more classified positions on the books than there is salary funding available to finance them.

On the classification side, there is strong reason to accept the reasonableness of the broad trend described in this section to increases in more knowledge-intensive groups, as well as the movement to proportionately more employees at higher levels within certain classification groups. Growth in the area of Computer Systems—the fastest growing group—for example, is a natural consequence of the increasing centrality of information technology and the internet in all businesses. The hiring of more lawyers logically tracks the emergence of myriad Charter issues, as well as the expansion of aboriginal and other types of litigation. Other factors such as the growing complexity of managing programs and issues across jurisdictions, a renewed commitment to government science, and the need to assemble and analyse disparate information rapidly to meet ever shorter news and issue cycles, all point in the direction of needing more highly qualified and typically more expensive talent.

At the same time, much routine work is simply disappearing. Changes in the world of work, for example, have almost entirely eliminated stenography, and most typing now falls to individual analysts and managers as they draft text on their own computers. So the shift of secretarial employees to groups with broader opportunities is not surprising. Electronic systems, moreover, have greatly reduced the demand for routine clerical work.

The structural shifts that occurred between 1991 and 2003 had the cumulative effect of increasing the average salary by something like \$5,000 in 2003 dollars in the combined core public service and separate employer domains. [42] This amounted to an increase of about 10.6% in the 2003 constant dollar average in the combined domains. For the period of public service employment growth from 1997–98 to 2002–03, the impact of these structural changes on the average salary amounted to about \$2,600, or an increase of 5.3% in 2003 constant dollars.

This change in average salary is broadly the result of two sets of changes:

- the rise of more highly paid and the decline of less highly paid groups, and
- changes in the distribution of employees among pay levels within groups.

The greatest example of the trend away from less- to more-knowledge-intensive jobs is the movement of ST and CR employees into the AS classification group. The highest proportion of employees reclassified in 2002–03 was in the Secretarial (ST) group at about 26% of the total full-time, indeterminate population of the group. This remarkable figure appears to represent part of a trend towards the virtual disappearance of the ST classification group, a displacement in large part attributable to the changing demands of the modern automated office environment. The ST group declined by 82% in 12 years.

Among employees in the ST group, the largest number of reclassifications was from ST-SCY 3 to CR 5 and AS 1. Such a move represents a salary increase at the maximum of about \$4,400 or 11.4% for CR 5, and about \$5,300 or 13.7% for AS 1. Very few reclassifications (only about 4.3% of the total) were within the ST group itself. Of 670 ST employees reclassified in 2002, all but 29 moved to another group, either CR or AS.

Other groups with more than 5% reclassification were:

- the Personnel Administration (PE),

- the Program Administration (PM),
- the General Technical (GT),
- the Purchasing and Supply (PG),
- the Administrative Services (AS),
- the Scientific Research (SE),
- Clerical and Regulatory (CR) and
- the Economics, Sociology and Statistics (ES) group.

It should be noted that the PE, ES, GT and PG groups use recruitment programs that include promotions in position based on satisfactory progress in a recruitment or developmental program. Also, some groups may experience an unusually high level of reclassification in a given year as a result of a particular decision affecting a large set of employees.

Knowledge jobs

During the period from 1990 to 2003, the structure of the federal public service workforce changed substantially. The simplest generalization is that while the knowledge and skill content of virtually all jobs increased in line with advances in technology and communications, those occupations with relatively high knowledge requirements grew rapidly, while less knowledge-intensive jobs declined. As already noted, this evolution put upward pressure on the average salary in the public service.

Three occupational categories have grown over the past 12 years:

- Administrative and Foreign Service, by 51%
- Scientific and Professional, by 22%
- Executive, by 5%

Conversely, three occupational categories have become smaller:

- Technical, by 21%
- Administrative Support, by 38%
- Operational category, by 42%

This pattern expresses unambiguously the observation that in general, growth correlated positively with knowledge intensity. The trends were fairly persistent. For example, all categories shrank during the Program Review period from 1994 to 1998. Taking the whole period from 1991 to 1998, the three declining categories lost about 53,100 members while the other three experienced a net gain of about 3,200. Subsequently, from 1998 to 2003, all but the Administrative Support and Operational categories grew with the largest growth taking place in the Administrative and Foreign Service, Scientific and Professional and Executive categories.

When we look within the occupational categories to the 70-plus classification groups, we find four groups that each experienced growth of more than 3,000 employees. These contributed about two thirds of the population increase in the combined core public service and separate employer domains, as follows:

Group	Growth, 1991 to 2003
CS) Computer Systems	9,584
(AS) Administrative Services	9,645
(PM) Program Administration	6,530
(ES) Economists/Statisticians	3,022

Looking from the perspective of absolute size, the principal classification groups affected by decline, i.e. those losing at least 2,000 members, were as follows:

Group	Losses, 1991 to 2003
(CR) Clerical and Regulatory	-16,629
(ST) Stenographic and Typing	-10,736

(GL) General Labour and Trades	-8,221
(GS) General Services	-5,905
(DA) Data Processing	-2,058

These groups lost in total over 43,500 members between 1991 and 2003.

We also looked closely at changes in the distribution of employees by level within classification groups, to determine whether higher classification levels are driving average salaries upward.

The Clerical and Regulatory (CR) classification group shows a clear trend away from the lower to the higher levels. Despite having declined by 28% as noted earlier, the CR group remains the largest, at about 43,300 in March 2003. The CR 1 level had already in effect disappeared by 1991. Level 2 shrank from 15% to 6%, and level 3 from 35% to 24%. By contrast, level 4 grew from 37% to 47%, and level 5 almost doubled from 12% to 23%.

With respect to the distribution of employees among pay levels within a group, the impact on average salary has been modest. Even for the Clerical and Regulatory (CR) group, which has seen substantial declines in the share of employees at the lower levels and corresponding increases at the higher levels, the resulting change in average salary was about \$1,600—just over 4%—between 1991 and 2003. Bearing in mind that the structure of most other large groups was stable or experienced less change than the CR group, it would be reasonable to estimate the overall impact of changes in the distribution of employees by level within groups as not greater than 1% or 2% of average salary.

Another group with a clear upward pattern in the structure was the Personnel Administration (PE) group. Level 2 fell from 19% to 12% between 1991 and 2003, and level 3 fell from 42% to 29%. The higher levels all increased in proportion: level 4 from 20% to 28%, level 5 from 11% to 16%, and level 6 from 5% to 9%.

For some other groups the picture is mixed. The Administrative Services (AS) group saw increases at the lowest levels, from 18% to 23% at AS 1 and 25% to 31% at AS 2. The next two levels fell in relative terms, and the highest levels stayed fairly constant. Although we could not carry out the detailed analysis to trace the movement of individuals, strong anecdotal evidence indicates that the growth in the first two AS levels reflects the progression of employees formerly in the CR and ST groups.

Two other patterns of interest relate to the Computer Systems (CS) and the Executive (EX) groups. The CS structure remained quite stable in the middle three levels despite being the fastest growing group, while the CS 1 level grew as a proportion from 19% to 24%. The top CS 5 level remained small at 2%, but the absolute growth from 16 to 262 over the twelve years was noteworthy. For the EX group, there was a decline at the EX 1 ^[43] level from 65% to 53%, increases at EX 2 from 18% to 25% and at EX 3 from 10% to 16%. The top two EX levels remained unchanged at 5% and 2% respectively.

While a shift from lower to higher classification levels within occupational groups puts an upward pressure on average salary, the impact is proportionately greatest when such a phenomenon occurs in a highly populated group such as the CR group, which experienced significant growth at levels 4 and 5 and declines in levels 1 to 3, even as the group's size declined 28%. As noted above, however, it remains the largest group, with a population of 43,000 in 2003.

More detailed information on changes in the composition of occupational categories and groups is provided in Chapter 3 of Volume Two, and in Appendix G.

Promotions

Promotions are defined as occurring when an employee is appointed to a position whose pay range maximum is at least 4% higher than his or her previous position. They can be awarded with or without competition. Any given departure can lead to a chain of promotions as successful candidates in turn create vacancies needing to be filled, potentially through promotions. Except for the Program Review period from 1994 to 1998, approximately 14,000 to 18,000 promotions have been awarded each year.

For all types of employees within the public service, there was a fair amount of change over the year. There were 22,711 promotions in 2002–03, including the 6,687 reclassifications identified below. Promotions, therefore, affected about 13.4% of the employee population in March 2003. Lateral movements, to positions classified at the same level as the employee, numbered 22,673, a similar proportion. Although this latter figure includes demotions, and the data systems do not distinguish these from lateral moves, anecdotal evidence

suggests that demotions are rare. Acting appointments totalled 13,144. Such cases would be of widely varying durations: 15.1% would normally not exceed six months; 36.4% fall between six and 12 months.

The total number of promotions among indeterminate staff, and the increase during the period of rapid growth, suggest that they are the largest driver reshaping the public service.

Reclassifications

Reclassifications bridge the worlds of classification and staffing. We use the term "reclassification" to describe the promotion of an employee to a higher level in the same position, based on an assessment that the work requirement has changed sufficiently to warrant the change. It is important to note that where there is a significant increase in the demands of the job, reclassification is appropriate.

In general, constituting over 36% of all promotions as they did in 2002–03, reclassifications figure prominently in the personnel management system of the core public service domain.

Between 1996–97^[44] and 2002–03, reclassifications fluctuated from a low of around 3,200 in 1996–97, to highs of about 6,300 in 1998–99 and 6,700 in 2002–03.^[45] Reclassification appears to have stabilized over the most recent five years. The proportion of indeterminate, full-time staff reclassified each year was more variable than the absolute numbers, rising quickly from 2.3% in 1996–97 to 5.5% in 1998–99, and then falling to 4.2% in 2001–02, before increasing again to 5.1% in 2002–03. From this data we conclude that reclassification has been a significant factor in changing the composition of the public service.

Advancing through increments to the job rate

Another factor that is often seen as pushing salaries up is the movement of employees from one increment to another each year within a particular pay band.

Each classification group is organized into a series of levels reflecting a hierarchy of increasing difficulty and responsibility. In 2003 the number of levels varied from two in the Foreign Service (FS) group to 14 in the General Labour and Trades classification standard. Within the pay band applying to each level there is normally a series of salary steps ranging from the minimum rate to the maximum or job rate.

An employee's normal pay depends on two decisions. First, his or her position must be classified. This involves assigning it to the appropriate group based on the nature of the work. Then the level of the position is assessed using a classification standard that evaluates various factors such as the required skill, effort, responsibility and working conditions. Second, the pay within the assessed level depends on fairly complex pay administration rules established by the Treasury Board. An employee who is not at the maximum rate for his or her level normally moves to the next salary step within the level—usually called an increment—on the anniversary of their appointment to the position.

An important exception applies to employees in the Defence Scientific Service (DS) and the Research Scientist sub-group (SE-RES) groups. In certain cases, a similar approach may be applied in the upper levels of the Historical Research (HR) group as well. For the approximately 2,450 employees in the DS and SE-RES groups, salary advancement and promotion depend on an incumbent-based approach. Judgements by a committee of senior scientists of the quality of each employee's scientific output, originality and contribution to knowledge determine how quickly the employee progresses.

Across the entire public service, this upward pressure is offset by the fall in salaries that results from a person at or near the top of a pay range leaving his or her position and being replaced by an employee who starts at the first step of the pay range. Table 1012 gives the figures for the impact of both phenomena from 1990 to 2003.^[46] To provide a complete picture of salary change within positions, other than economic increases, the table also includes the impact of reclassification, or compositional change, on salaries each year.

A review of the data in Table 1012 shows that for five of the thirteen years covered, the net effect of increments and external mobility was a small reduction in average salaries. In only three years (1998, 1999 and 2000) was there a net positive impact greater than 0.22%. It is also interesting to observe that average salary change resulting from classification change was in most years similar in size to that resulting from increments. Taking account of all these points, we estimate that the cumulative net impact of salary increments and external mobility over the whole period was an increase in average salary in the core public service domain of about 1.5%. This figure is largely included in the figure for increases relating to change in the composition of the workforce.

It is sometimes argued that recently recruited employees in certain groups advance very rapidly from level to level, thus inflating average salaries. This view has been expressed, for example, in relation to the Economics, Sociology and Statistics (ES) group. It is true that there are various recruitment and developmental programs that permit employees to enter the public service, normally at the ES 2 level (2002–03 minimum salary of

\$42,655), and to advance through a series of assignments over two to four years to the ES 4 (2002-03 minimum \$60,096) or ES 5 (\$68,291) level.

Table 1012

Impact of salary increments, classification change and external mobility on average salaries in the core public service domain, 1990 to 2003

	Impact on Average Salary*				
Year	Increments**	Classification change	External mobility	Overall net impact	Net impact of increments & external mobility
1991	0.96%	1.39%	-1.26%	1.09%	-0.30%
1992	0.95%	1.08%	-1.02%	1.01%	-0.07%
1993	0.86%	0.79%	-0.82%	0.83%	0.04%
1994	0.63%	0.60%	-0.46%	0.77%	0.18%
1995	0.18%	0.43%	-0.27%	0.33%	-0.10%
1996	0.18%	0.45%	-0.18%	0.46%	0.01%
1997	0.80%	0.82%	-0.72%	0.90%	0.08%
1998	1.09%	1.27%	-0.53%	1.83%	0.56%
1999***	1.65%	1.41%	-0.48%	2.57%	1.16%
2000***	1.26%	1.17%	-1.03%	1.39%	0.22%
2001	1.41%	1.35%	-1.42%	1.34%	-0.02%
2002	1.55%	1.45%	-1.55%	1.45%	0.00%
2003	1.24%	1.12%	-1.52%	0.85%	-0.27%
Cumulative Total (1990 to 2003)	13.5%	14.2%	-10.7%	15.8%	1.5%
Cumulative Total (1998 to 2003)	7.3%	6.7%	-5.9%	7.8%	1.1%

* Figures are annualized averages (December vs December) for full time indeterminate employees.

** Includes impact of restructuring increases applied to incumbents.

*** Figures are adjusted to remove the impact when CCRA was created as a separate employer outside the core public service domain.

Progression guidelines in effect in the Department of Finance in 2003 indicated that advancement from the ES 2 entry level to ES 5 will vary from 3.5 to 5 years, dependent on whether the employee's performance rating is superior or fully-satisfactory-plus. The guidelines are intended to ensure "that promotion rates at Finance will generally be as fast, or faster, than at other comparable organizations." Over the two years, 2001-02 and 2002-03, the Department of Finance recruited 78 economists under this plan.

The Appointments Information and Analysis Directorate of the Public Service Commission provided some informal insight into the evolution of the ES group.^[47] The ES group was the third fastest growing group between 1990 and 2003, increasing in number by 115%. Two points are worth noting:

- The average number of new indeterminate employees hired more than doubled between the early to mid 1990s and the early 2000s, when over 900 were hired in each of 2001–02 and 2002–03.
- The cumulative years of service needed to reach the current working level of ES 5 declined over the period.
 - For those hired in 1992, it took between seven and eight years for ES 1s and ES 2s to reach that level.
 - For the 1995 cohort of new hires the average time declined to between five and six years.
 - For the 1998 cohort, it took only four to five years.

Although each organization no doubt has its own reasons for classification and hiring decisions, such a distinct evolution likely reflects more general trends. One hypothesis was that the ES group was attractive for recruiting recent graduates with strong analytical skills at a time when there was a renewed demand for policy analysis capacity. Although the reported acceleration of progress to senior ES levels among new recruits could be expected to push average salaries upwards, we were unable to quantify the impact. We would expect it to be small overall.

Impact of arbitration outcomes

Because the arbitration route was suspended as an option within the collective bargaining process from 1991 to 2003, it is instructive to look at earlier experiences with arbitration to determine its potential impact on average salaries. A Treasury Board analysis completed more than a decade ago compared the average annual compounded salary increases registered by the arbitration and the conciliation/strike routes between 1974 and 1991 in the core public service domain. Although the average outcomes from the two routes differed from year to year, in at least three years by more than 1%, the compounded results for the full 18 years were very close: an overall increase of about 218% (versus compounded inflation of about 217%) for the conciliation/strike option, and a corresponding arbitration total increase of about 206%. Arbitration may have been more favourable for some groups with relatively little bargaining leverage than the conciliation/strike route would have yielded. However, this assessment suggests that the two routes yielded essentially the same results for the whole system across nearly two decades.

While the arbitration route was suspended from 1991 to 2001, since its reinstatement, only three arbitral awards had been rendered in the core public service domain by 2003, although several other cases were in process. Of these, the decision regarding the Aircraft Operations (AO) group in 2003 was relatively costly. The standard economic increase was augmented by both adding and dropping steps, and by an increase in the terminable allowance.^[48] The terminable allowance is discussed in detail later in this chapter.

From the employer's perspective the arbitral award in the 2003 case of the Applied Science and Engineering (AP) bargaining unit was also generous, providing for pay line harmonization, both the addition and deletion of steps, and a terminable allowance increase. This latter point set the precedent of indexing the AP group's terminable allowance. The final case, that of the Financial Administration (FI) group in 2002, was decided in a manner generally in line with contemporaneous settlements.

Although the limited experience to date suggests arbitration outcomes could put upward pressure on salaries, it is too early to draw a conclusion about how closely arbitration route outcomes will track the general trend of conciliation/strike collective agreement terms. Certainly during the period on which we are concentrating our analysis (1997 to 2003), arbitrations had little effect on changes in the average salary. The future outcomes of the arbitration route nevertheless remain hard to predict.

Impact of pay equity settlements

The *Canadian Human Rights Act* (CHRA) requires employers in the federally regulated labour jurisdiction—which includes the federal government itself as well as enterprises in such areas as banking, railways, airlines, shipping, ports, and inter-provincial trucking—to ensure equal pay for work of equal value. This was enacted in 1977 in part to give effect to Canada's ratification of International Labour Organization Convention 100, the *Equal Pay Convention*. Specifically, section 11 of the CHRA states that it is discriminatory to establish or maintain different wages for men and women doing work of equal value in the same establishment.

The concept of equal pay for work of equal value seeks to eliminate gender-based wage discrimination that has resulted from systemic undervaluation of work performed by women. It compares male and female jobs that may be quite different, using a common assessment method that measures the required skill, effort and responsibility of specific jobs, as well as the conditions under which the work is performed. This concept is thus

much broader in its application than equal pay for equal work, which compares work that is the same or very similar, as it calls for comparison across different occupations.

The Equal Wage Guidelines issued by the Canadian Human Rights Commission in 1986 provide more detail on such topics as the definition of establishment and permissible exceptions. The latter include:

- salary-protection,
- training wages,
- performance pay,
- labour shortage supplements and
- regional rates of pay.

How to apply these guidelines has been controversial and several disputes have taken many years to resolve.

Since the late 1970s, there have been various pay equity settlements and awards in the core public service domain, which contributed to increasing average salaries. Appendix H provides a brief history of pay equity complaints relating to the core public service domain that had been resolved by 2003. Outstanding complaints as of the end of 2003 mainly related to disputes over who should be considered the employer of various groups of employees for the purpose of applying the equal pay for work of equal value provisions of the *Canadian Human Rights Act*.

In summary, the core public service has settled more than a dozen substantial complaints since 1979. In the first few years, complaints were relatively limited in scope. For example, the first settlement in 1980 aligned the salaries of the female-predominant Library Sciences (LS) group with those of the male-dominated Historical Research (HR) group. Other early settlements adjusted pay rates within groups: for female-dominant sub-groups of the General Services (GS) group in comparison with male-dominant sub-sets of the same classification group; and for registered nursing assistants in light of the pay of nursing orderlies within the Hospital Services (HS) group. In 1981, a complaint arguing the equivalence of the work of the Hospital Services (HS) group to that of the General Services (GS) group resulted in pay equity adjustments, and in Treasury Board deciding to apply the GS standard to both groups.

The first multi-group comparison case was settled in 1985 on an interim basis, pending the outcome of the Joint Union-Management Initiative (JUMI) process discussed below. The Nutrition and Dietetics (ND) and the Occupational and Physical Therapy (OP) groups were successful in comparing their work to that of five male-dominated groups.

By far the largest complaint, filed by the Public Service Alliance of Canada (PSAC) in 1984, alleged discrimination between the Clerical and Regulatory (CR) and the Program Administration (PM) classification standards, as well as gender-based wage discrimination between the two groups. In response, the Treasury Board Secretariat invited the unions to work together on a JUMI to develop a service-wide approach for implementing pay equity. When this initiative foundered over disagreement about the existence of gender bias in job evaluations, the Treasury Board proceeded directly to make what was termed an equalization payment based on its own assessment of the extent to which these groups were underpaid. This provided a lump sum to employees of the following groups:

- Clerical and Regulatory (CR)
- Educational Support (EU)
- Secretarial, Stenographic and Typing (ST)
- Nursing (NU).

It also provided ongoing annual salary increases to employees of the first three of these groups. The total of lump sums paid was about \$303 million, or an average of about \$4,300 per affected employee. The annual individual pay adjustments for those who received any increase ranged from about \$994 to \$4,578 per year.

Neither the PSAC nor the Professional Institute of the Public Service of Canada (PIPSC) was satisfied with this result and submitted new or revised complaints for consideration by a Tribunal pursuant to the *Canadian Human Rights Act*. The PIPSC complaints were settled through negotiation in 1995. The settlement provided lump sums and ongoing salary adjustments effective April 1994 for the Nutrition and Dietetics (ND), Occupational and Physical Therapy (OP), and Nursing (NU) groups.

The PSAC complaint was settled only in 1999, following two human rights Tribunal decisions that:

- a. found the data gathered during the JUMI exercise provided a reasonable basis to assess the need for further payments;
- b. determined the method to be used to estimate the existence and extent of a wage gap; and
- c. ordered simple interest to be paid on net wages owing for each year of the retroactive period.

The method prescribed to estimate the existence and extent of a wage gap compares levels within each complainant group to an amalgam of jobs from all male-predominant groups.

In the lead-up to this settlement, the Treasury Board incorporated special pay adjustments in 1998 into the salaries of the CR, EU, LS, HS, ST and Data Processing (DA) groups. Although these adjustments were not explicitly acknowledged by the Treasury Board as related to pay equity, they were taken into account in determining the final pay levels resulting from the 1999 settlement with the PSAC. These special pay adjustments resulted in payments of about \$580 million, and ongoing average salary increases of \$2,491.

Following the settlement, retroactive payments including interest totalling about \$2.85 billion were made to affected current and former employees. Final adjustments were incorporated into salaries of employees in the groups listed above effective July 1998. The final pay increases raised salaries by from \$120 to \$10,363, depending on an employee's group and level. The weighted average amount was about \$1,200.

Settlements were also concluded with single female-dominant professional groups based on comparison with a set of seven male-dominant groups: the Commerce (CO), Computer Systems (CS), Engineering and Scientific Support (EG), Economics, Sociology and Statistics (ES), Financial Administration (FI), Purchasing and Supply (PG) and Welfare Programs (WP) classification groups. Specifically, employees of the Personnel Administration (PE) group, which is non-unionized, received lump sum payments in 1999 retroactive to the date of their complaint in 1991, and increases in their salary level. In 2003 the Translation (TR) group settled their complaint first lodged in 1990 on a similar basis.

Estimated current pay equity expenditures

We have estimated the current ongoing compensation expenditures relating to the continuing effect of pay equity settlements in 2002–03.

Our estimate can only be very rough. We know how much salaries were increased at various times to implement equal pay for work of equal value. But we cannot be certain as time passes to what extent these increases have continued or changed, in that subsequent salary negotiations do not make any distinctions in the rationale for group wage increases. Accordingly, our estimate simply takes the last identifiable increases for pay equity for affected groups and levels, and multiplies those amounts by the relevant populations in March 2003 and any economic increases authorized since the pay equity increases were made.

On this basis, the 2002–03 ongoing salary costs relating to pay equity for the core public service domain was in the order of \$225 million. For the relevant groups, this amounted to about 13% of the current payroll. As illustrated in Table 1013:

- The largest ongoing cost was related to the Clerical and Regulatory (CR) group, at about \$165 million.
- The average amount per CR employee was about \$5,100, or \$4,700 without allowing for later economic increases.
- The overall average for employees in groups receiving pay equity settlements was about \$5,500 per year.
- The largest amount per employee was for the Nursing (NU) group at about \$14,300, around 23% of current salaries.

Table 1013					
Estimated* ongoing salary cost of past pay equity settlements for the core public service domain, 2002–03					
Occupational group	Population	Payroll (M\$)	Pay equity costs (M\$)	% of payroll	Average cost per capita
Clerical and Regulatory	32,296	1,246.6	164.6	13	5,096
Secretarial, Stenographic, Typing	2,039	76.9	7.3	9	3,564
Hospital Services	659	26.1	2.4	9	3,601
Library Science	433	26.6	5.6	21	12,894
Data Processing/ Data Conversion	119	3.8	0.4	11	2,997
Educational Support	25	0.8	0.3	38	10,263

Nutrition and Dietitians (formerly Home Economics)	36	2.3	0.4	17	12,400
Occupational and Physical Therapy	50	3.2	0.6	19	11,934
Nursing	1,622	102.2	23.3	23	14,342
Personnel Administration	3,254	215.6	19.7	9	6,041
Total	40,533	1,704.1	224.6	13%	5,537
*Note: The figures in the table are very much estimates. The apparent precision in giving data to various decimal places reflects the application of the estimation method, not exactness in the result.					

Because various non-salary costs are proportional to salaries, the total-compensation impact of the continuing pay equity expenditures could be expected to be at least 25% higher.

During 2002–03, there was also a small amount paid out in relation to implementing past settlements. This totalled about \$1.3 million.

Separate employers

CCRA was part of the core public service domain at the time of the major pay equity settlement with the Public Service Alliance of Canada. Its employees were therefore beneficiaries of that settlement. Using the same rough estimation method for CCRA as that explained above, the ongoing salary costs for that agency relating to pay equity in 2002–03 would be about \$62.5 million. For CFIA and Parks Canada, the corresponding amounts would be \$3.6 million and \$2.3 million, respectively.

Current litigation initiated by the Public Service Alliance of Canada seeks to extend the 1999 settlement with the Treasury Board to other federal employers, including such separate employers as the Office of the Auditor General, the Office of the Superintendent of Financial Institutions, and the Social Sciences and Humanities Research Council.

Appendix I details our best estimate of all amounts paid as lump sums and interest, and the cost of ongoing salary increases relating to pay equity settlements between 1980 and 2003. Table 1014 summarizes this information. The total of pay equity lump sum payments in current dollars was about \$3.4 billion, including interest. We estimate the total ongoing salary cost in 2002–03 relating to pay equity settlements was at least \$277 million for the combined public service and separate employer domains. In effect, this amounts to about 2% to 3% of the total wage bill for those domains.

Table 1014				
Summary of pay equity payments and salary increases, 1980 to 2003				
	Core public service			Separate employers
	Lump sum cost (\$M)*	Cumulative March 2003 (\$M) *	Ongoing (\$M)	Ongoing (\$M)
PSAC Groups				
General Services (GS)	19.4	–	–	–
Hospital Services (HS)	65.6	12.2	2.3	–
Clerical and Regulatory (CR)	1,779.7	1,265.9	149.5	57.2
Data Processing (DA)	38.1	6.3	0.4	7.8

Educational Support (EU)	3.2	0.7	0.2	–
Library Science (LS)	29.0	68.2	5.0	0.3
Sec. Stenographic and Typing (ST)	337.5	166.0	5.9	0.8
Interviewers and Senior Interviewers	1.0	–	–	–
Interest and other	911.8	–	–	–
Subtotal	3,185.3	1,519.2	163.3	66.1
PIPSC Groups				
Nursing (NU)	81.8	236.3	21.5	–
Nutrition and Dietetics (ND)	4.0	4.4	0.4	
Occupational and Physical Therapy (OP)	1.3	7.7	0.8	–
Social Work (SW-SCS)	0.4	1.9	0.3	
Subtotal	87.5	250.3	23.0	
Other settlements				
National Indian and Inuit Community Health Representatives Organization (NICHRO)	45.7			
Personnel Administration (PE)	60.7	57.7	18.0	2.2
Translation (TR)	17.3	–	4.5	
Subtotal	123.7	57.7	22.5	2.2
Total	3,396.5	1,827.2	208.8	68.3
* Based on September population for each year.				
** Figures on previous pay equity-related costs not available for the separate employer domain. However, most lump sum costs are included in the core public service domain, since the Canada Customs and Revenue Agency, the Canadian Food Inspection Agency, and Parks Canada were covered by the PSAC settlement.				

Impact of new separate employers

We must note the impact of the separation of CCRA, CFIA and Parks Canada from the core public service domain during the period under historical review. Because CCRA is large, with a lower average salary than the rest of the core public service, its establishment as a separate employer contributed to the upward shift in the average salary of the core public service domain.

Up to the late 1990s, the separate employer domain was composed of several mostly small organizations.^[49] The largest, the National Research Council, was quite distinct from the core public service, with a different classification structure and, at least in part, distinct unions. The result was that collective bargaining outcomes among the separate employers had little impact on the much larger core public service domain. Of course the influence was strong in the other direction, if only because separate employer negotiating mandates and collective agreements required approval from the Treasury Board and the Governor-in-Council respectively.

Ratcheting of salaries

With the creation of the Canadian Food Inspection Agency (CFIA) in 1997, and in 1999 of Parks Canada and the Canada Customs and Revenue Agency (CCRA), the situation changed materially. These new separate employers, especially CCRA, are large compared with the core public service, and more independent in determining their compensation policy. They also inherited both the same classification structure and the same unions. The stage was thus set for some ratcheting of salary levels to occur, essentially between the core public service domain of about 170,000 employees and CCRA, which had approximately 50,000 workers.

Experience since 1999 suggests that this phenomenon has to some degree emerged. On one hand, CCRA settlements with its Auditing, Commerce and Purchasing (AV) bargaining unit and with its Computer Systems (CS) group created upward pressure for the Treasury Board with its analogous groups. On the other hand, Treasury Board's 2001 settlement with the Public Service Alliance (PSAC) regarding its four bargaining units forced CCRA to change its negotiating approach.

The AV case in 2000 illustrates many of the issues involved. For CCRA, the AV bargaining unit is dominated by auditors, who number about 4,900 of the 5,250 members. Needless to say, auditors are central to CCRA's business, and in 2000 the market for such expertise was competitive. It was therefore entirely reasonable for CCRA to accept an additional increment at the top of each pay level for its auditors. And because there were only about 350 other bargaining unit members in the Commerce (CO) and Purchasing (PG) classification groups, it was easy to apply the increases to the whole unit.

For the core public service domain, however, the AV bargaining unit comprised about 3,000 in the PG group, 2,000 COs, and only about 100 auditors. Although the Treasury Board successfully resisted extending the extra increment to its AV bargaining unit, expectations remain high that these employees will eventually catch up to their CCRA colleagues. This bargaining unit has chosen the arbitration route in the current round of bargaining, presumably in the hope that an arbitrator will rule in favour of matching CCRA's extra step. [\[50\]](#)

Conversely, the Treasury Board's inclusion of pay line harmonization for the Program Administration (PM), Administrative Services (AS), and Information Services (IS) groups in its 2001 settlement with PSAC's Program Administration (PA) bargaining group drove CCRA to replicate this feature in its own settlement, even though this move did not serve any pressing business need in CCRA. Also, the Treasury Board's approval of two additional leave days created headaches in CCRA where front-line service requires replacing absent staff. While this was also true in the core public service domain, the overall proportion of front-line staff and shift operations is not as great as for CCRA.

Without delving into the details of other cases, we can see that each employer has its own imperatives that can push to different outcomes in collective bargaining. There is little doubt that the result has been somewhat higher average salaries both in the core public service domain, and among separate employers—especially CCRA—than would have been necessary if either of the two worlds were more distinct or managed as one domain. The current middle ground—of different interests with more or less the same structures and unions—may be transitional, but in the meantime it favours ratcheting.

Terminable (recruitment & retention) allowances

A substantial monetary benefit introduced in the 1997 to 2003 period is the recruitment and retention allowance. In 2002–03 recruitment and retention allowances adding up to about \$77.4 million were paid to a total of about 15,500 employees in the core public service domain.

These allowances are often referred to as "terminable" since, in principle, they were implemented temporarily to respond to pay increases for hot skills in the relevant external labour markets. They do not form part of base salary. However, in practice, once implemented, there is strong pressure from employees, bargaining agents, and often departments to maintain these allowances and to integrate them into the regular pay structure even if the circumstances that justified them change.

The first such allowance in recent times was established for the Computer Systems (CS) group in 1997. The combination of the boom in the information technology of the late 1990s and the looming challenge of adapting computer systems to the new millennium provided the rationale for this allowance. Criteria were then defined for assessing the business case for establishing such an allowance for other groups.

As of the end of 2003, recruitment and retention allowances were in place for more than 16 sets of employees. The largest allowances are for:

- forensic psychiatrists in the Correctional Service of Canada (CSC), ranging from \$50,800 to \$54,250 per year, and for
- doctors, ranging from \$13,850 to \$23,750.

The groups with the largest number of employees receiving terminable allowances are:

- the Computer Systems (CS) group whose more than 11,300 members are eligible for between \$1,668 and \$3,420, and
- the more than 3,275 employees in the Engineers (EN) group who receive 15% of the average salary for their classification level.

Table 1015 gives some details on which groups receive terminable allowances, the range of the amounts to which they are entitled, and the estimated cost for each group in 2002-03.

Agreements in 1998 set up such allowances for scientific researchers at the Communications Research Centre, and for employees of the Defence Science (DS) group. In 1999, allowances were applied to the following groups:

- Primary Product Inspection (PI)
- Technical Inspection (TI)
- Aircraft Operations (AO)

Table 1015 Summary of recruitment and retention (terminable) allowances in effect in the core public service domain*, March 2003.		
Occupational group	Annual amounts established by the policy	Estimated costs (\$M) 2002-03
MD Medicine	\$13,850 to \$23,750	
MD – MOF at CSC	\$8,500 to \$11,000	
Forensic Psychiatrics at CSC	\$50,800 to \$54,250	
PS – Psychology at CSC	\$2,000 to \$12,000	
PS – Psychology at PSC	\$2,000 to 7,500	
NU – Nurses at CSC	\$4,500	
NU – Nurses	\$4,500 annually	
TI – Technical Inspection	\$2,963 to \$11,000	6.8
PI – Products Inspection at Grain C. in BC	\$3,000 to \$5,000	0.5
SE – Research Scientists	\$8,000	0.5
DS – Defence Scientists	\$8,000	4.2
CS – Computer Systems	\$1,668 to \$3,420	24.1
EN – Engineers	15% of average salary	26.6
SG – PAT	15% of average salary	1.9
AR	15% of average salary	2.4
UT – University Teaching	\$3000	0.3
Other		2.5

Total		78.7
* Note: As discussed below, separate employers generally adopted similar allowances for the same groups.		

In 2000, terminable allowances were extended to employees in these groups:

- Medicine (MD)
- Nursing (NU)
- Psychology (PS) group employees working in remote and isolated First Nation communities
- Architecture and Town Planning (AR)
- Engineering and Land Survey (EN)
- Patent sub-group of the Scientific Regulation (SG-PAT) group

In 2001 the following groups joined this trend:

- University Teaching (UT)
- Technical Services (TC)
- Research (RE)
- Health Services (SH)

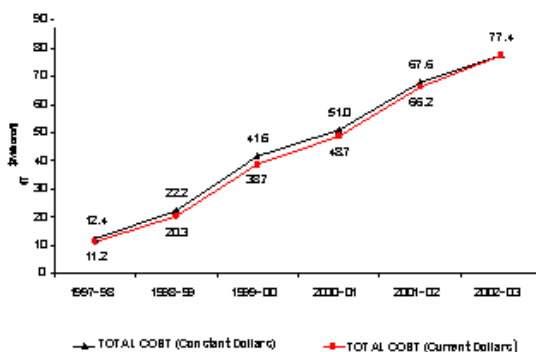
Finally, in 2003 terminable allowances were extended to the Applied Science and Engineering (AP) bargaining unit broadly, and the existing allowance for the Aircraft Operations (AO) group was increased.

Figure 1016 sets out the increase in the cost of terminable allowances. From a first year cost of \$11.2 million in 1997 (\$12.4 million in constant 2003 dollars), this area of compensation in the core public service domain grew by 2002-03 to \$77.4 million. This is less than 1% of the total salary mass for this domain, but a significant amount both in absolute terms and in its value for the approximately 15,500 employees who benefit.

Figure 1016

Growth in the cost of recruitment and retention allowances in the core public service domain, 1997-98 to 2002-03

[Display full size graphic](#)



Separate employers

The separate employers also utilize recruitment and retention allowances. At CCRA over 3,700 or about 7% of the population receive such payments. The largest group of recipients are the Computer Systems (CS) group (over 3,300). The total value in 2002-03 was about \$8.7 million. Other examples include:

- The NRC pays an allowance of \$8,000 per year for their Research Officers and Research Council Officers, for a total expenditure in the order of \$10 million.
- Parks Canada paid about \$680,000 in terminable allowances to a total of 132 employees in the Computer Systems (CS), Architecture and Town Planning (AR) and Engineering and Land Surveying (EN) groups.
- CFIA pays terminable allowances for the same groups, where they are present, and on the same basis as in the core public service domain. In 2002-03, CFIA paid 141 CS employees about \$278,000.

SECTION THREE COMPENSATION COMPARABILITY

5. Comparing Federal Total Compensation with Economic Indicators, 1990 to 2003

This chapter compares federal compensation trends to available evidence on trends in the broader Canadian economy.

Federal government employment and salaries

As we noted in Chapter 4, federal employment in the combined core public service and separate employer domains was about:

- 245,000 in the early 1990s, then
- fell below 200,000 in 1997–98 and 1998–99, and
- grew back to about 235,000 by 2002–03.

If we add in the regular members of the Canadian Forces and the regular and civilian members of the Royal Canadian Mounted Police (RCMP) for these years, we would have totals of about:

- 350,000 for 1990–91,
- a bottom of about 275,000 in 1998–99, and
- a total of just under 315,000 for 2002–03.

The difference in pattern from the first set of numbers results from the general downward trend in the Canadian Forces population except in the last few years, and the relatively stable population for the RCMP.

Total salaries for the combined core public service and separate employer domains stood at about \$9.1 billion in current dollars in 1990–91, declined to \$8.2 billion in 1997–98, and then grew to about \$12.5 billion in 2002–03. Adding in the salary mass for the regular armed forces and the RCMP gives us totals of \$13.3 billion in 1990–91, \$12 billion in 1997–98, and \$17.3 billion in 2002–03.

Average salaries have evolved as shown in Table 1017 below.

Table 1017			
The evolution of average salaries			
Domain	1990–91 Gross average salary	1997–98 Gross average salary	2002–03 Gross average salary
Core public service and separate employers	\$37,500	\$41,500	\$52,800
Canadian Forces	\$35,000	\$42,600	\$52,700
RCMP	\$45,400	\$50,800	\$59,900

	2002–03 \$ Constant		
	1990–91 Gross average salary	1997–98 Gross average salary	2002–03 Gross average salary
Core public service and separate employers	\$47,600	\$46,300	\$52,800

Canadian Forces	\$44,500	\$47,500	\$52,700
RCMP	\$57,600	\$56,700	\$59,900

Our first perspective on comparability is to summarize the general state of the Canadian economy and of employment and incomes during the period from 1990–91. We then compare rates of growth in employment, salary mass and average salary in the federal public sector with these broad trends in the overall Canadian economy. Appendix J provides the data underlying the figures used in this chapter to illustrate trends in economic indicators.

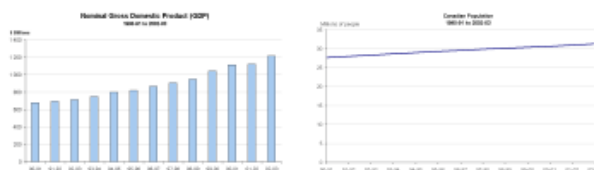
General economic indicators for Canada

The basic trend lines of the Canadian macro-economy between 1990 and 2003 have been decidedly healthy. Figure 1018 gives details for several key economic indicators. Figure 1019 puts these indicators together in one graph on an index basis (1990–91 = 100). Here we offer a brief description of the evolution of these indicators.

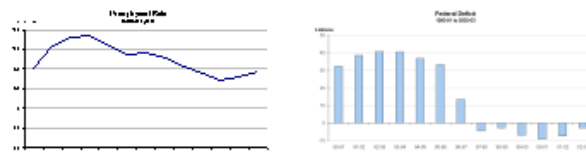
Figure 1018

Key economic indicators in Canada, 1990–91 to 2002–03

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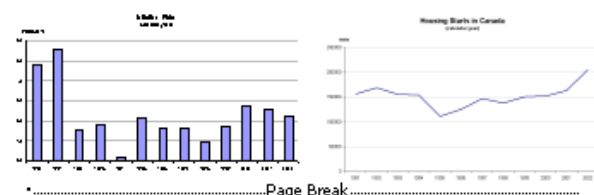
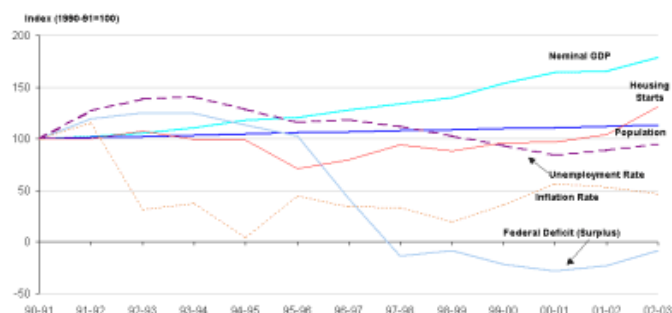


Figure 1019

Comparison of rate of change in key economic indicators in Canada, 1990–91 to 2002–03

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Nominal Gross Domestic Product (GDP)

This is the total value of goods and services produced during the year in Canada, expressed in current dollars. Between 1990 and 2003, GDP grew from about \$680 billion to over \$1.22 trillion, an increase of 79%. This growth was fairly steady from year to year, with slowdowns in the early 1990s and in 2001-02.

Population

Although the total Canadian population is not an economic indicator in itself, it is a critical variable for putting the size of government in perspective. Between 1990 and 2003, the Canadian population is estimated to have grown from about 27.74 million to 31.39 million, an expansion of 13%.

Unemployment

This is a key measure of the tightness of the Canadian labour market, and the competition for workers in general. Unemployment was high in the early 1990s, but then fell through the second half of that decade to stabilize in the range of 7% to 7.5% in the period after 1999.

Federal Deficit

This is a measure of the health of federal government finances. The federal deficit remained above \$30 billion per year in the first half of the 1990s, reaching over \$40 billion in both 1992-93 and 1993-94. In the second half of the 1990s, the deficit turned into a surplus that ranged from a low of nearly \$3 billion in 1998-99 to a high of over \$9 billion in 2000-01.

Inflation

This indicates how stable prices are in the economy. Starting above 5% in the 1990s, inflation plunged in the next few years to stabilize within the Bank of Canada target range of 1% to 3% per annum from 1995 onwards.

Housing Starts

This is a key leading indicator of the confidence and short-term trend in the economy. Housing starts averaged about 150,000 per year through these years. Activity was soft in 1995, 1996 and 1998, falling as low as 111,000 in 1995. Results were outstanding in 1992, 2001 and especially 2002, with 205,000 starts.

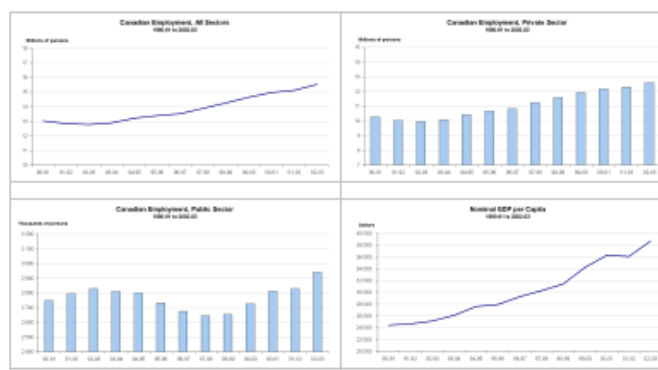
Canadian employment and income

This second set of data still looks at the overall economy, but zeroes in on employment and income indicators. Again, the general picture for the period 1990-2003 is positive with substantial growth in both employment and income per capita. Figure 1020 identifies changes in the levels of employment in the whole economy, and in the private and public sectors respectively, as well as selected indicators of income levels. Figure 1021 puts these indicators into one picture that shows their relative growth since 1990 on an index basis (1990-91 = 100). We offer below a brief comment on each of these indicators.

Figure 1020

Employment and income in Canada, 1990-91 to 2002-03

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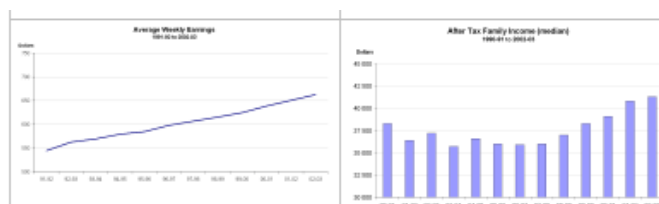
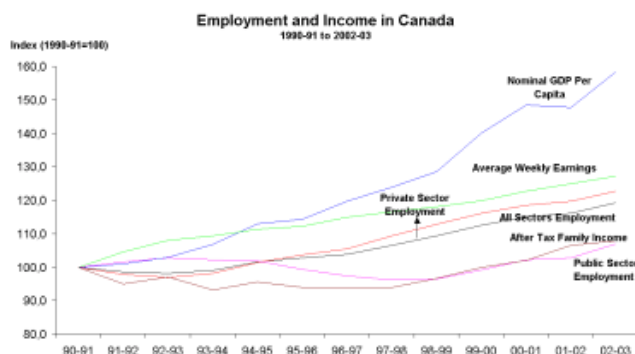


Figure 1021

Comparison of rate of change in key employment and income indicators in Canada, 1990–91 to 2002–03

[Display full size graphic](#)



Total employment

The number of people with a job in Canada increased from about 13 million in 1990–91 to nearly 15.6 million in 2002–03, a growth of 19%. This compares favourably with the overall population expansion of 13% for the same period. Except for 1991–92 and 1992–93, total employment has grown every year during the period.

Public sector employment

Public sector employment covers public servants for the federal, provincial and territorial governments, as well as employees of municipalities, school boards, health authorities and hospitals, and universities, and publicly owned business enterprises. Despite growth in the Canadian population and overall employment, this indicator has remained quite stable, remaining within a narrow range between a low of 2.65 million in 1997–98 and 1998–99, and a high of 2.94 million in 2002–03.

Private sector employment

This indicator is the difference between the level of total employment and public sector employment. Because public sector employment changed relatively little between 1990 and 2003, private sector employment clearly drove overall employment. Jobs in the private sector expanded from around 10 million in the early 1990s to 12.6 million in 2002–03, an increase of nearly 23%.

Nominal GDP per capita

This is the most general indicator of changes in income per person. This indicator rose from \$24,450 in 1990–91 to \$38,700 in 2002–03, an increase of nearly 60% in current dollars. The corresponding growth in real terms was about 30%. Most of the expansion occurred in the period from 1996–97 onwards (except for 2001–02 which witnessed a small decrease). Seventy per cent of the real increase took place during that seven-year period.

Average weekly earnings

This is a broad measure of weekly earnings (excluding overtime) for all employees. In 1990–91, [\[51\]](#) the average weekly earnings in Canada were estimated to be \$520.89. This grew to \$662.47 by 2002–03, an increase of about 27%. As Figure 1020 shows, the growth was fairly steady over the period.

A better measure in principle is average hourly wages. This indicator avoids some pitfalls inherent in average weekly earnings such as defining what a week is. However, the data series is only available from 1996–97, so our chart features the indicator with a more complete data set. Starting with 1996–97, average hourly wages increased from \$15.61 to \$18.04 in 2002–03, a growth rate of 16%, which is considerably greater than the 11% increase in average weekly earnings in this seven-year period.

Median after-tax family income

This is an important general indicator of the income actually available to families, expressed in constant 2002 dollars. After falling somewhat in the early 1990s, this measure stagnated in the range of \$36,000 to \$37,000 until 1998–99, after which it has grown steadily. By 2002–03 it reached \$41,300, an increase of about 8% compared with 1990–91. From the low point in 1996–97 (\$35,900), the increase was 15%.

Comparing employment and salary changes, federal public sector and the broader Canadian economy

We begin by looking at employment in our comparison of the experience of employment and salary change in the Canadian public sector with the performance of the overall economy. Figure 1022 shows the trends in federal employment between 1990–91 and 2002–03. Figure 1023 compares these trends with the broader Canadian economy.

We present two perspectives on federal employment. The first is a broad measure we call "federal public sector employment." This includes employees of the core public service domain, the separate employers, the Canadian Forces, and the regular and civilian members of the Royal Canadian Mounted Police. It excludes federal business enterprises, cultural Crown corporations, reservists, and such special groups as federally appointed judges, parliamentarians, employees of Parliament and ministers and students. The second measure we call "public service and separate employers." This covers the main departments and agencies that form the core public service and the separate employer domains.

On the first measure, as noted at the beginning of this chapter, we see federal public sector employment:

- above 350,000 early in the 1990s,
- falling to about 275,000 in 1998–99, and then
- recovering to about 315,000 in 2002–03.

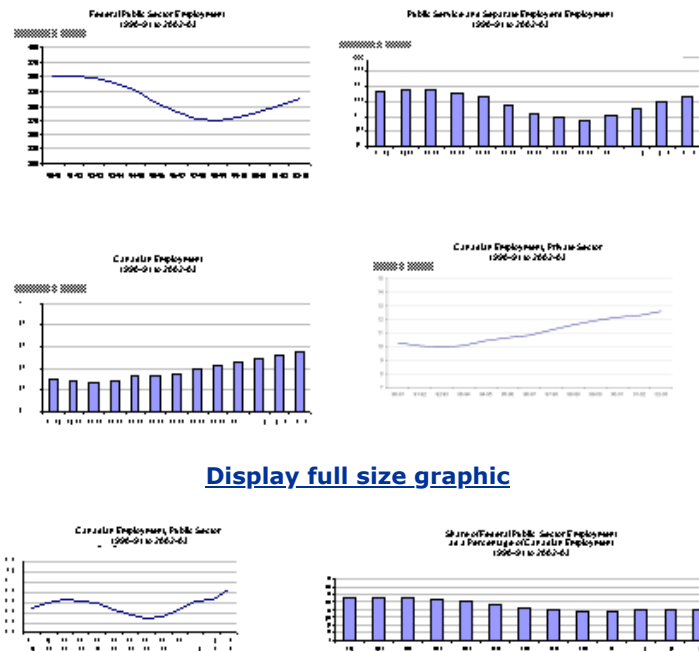
For the narrower measure covering the core public service and the separate employer domains, we see a similar pattern with the total of:

- about 245,000 in the early 1990s,
- declining below 200,000 in 1997–98 and 1998–99, and
- growing back to about 235,000 in 2002–03.

Figure 1022

Federal and overall Canadian employment trends, 1990–91 to 2002–03

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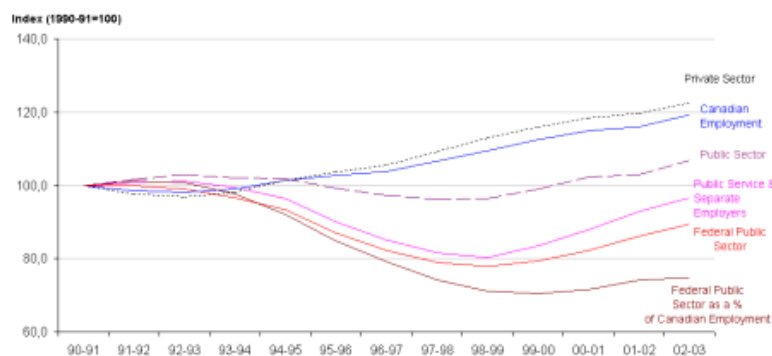
Figure 1023 provides the clearest picture of how changes in federal employment compare with those in the overall economy. From Figure 1023 it is evident that according to both the measures we are reporting, federal employment declined much more steeply than did employment in the rest of the economy. Since 1998-99, the rate of growth in the federal public sector has been greater than for the general economy. Nevertheless, even on the faster growing measure—that for the combined core public service and separate employer domains—federal employment had not reached its 1990-91 level by 2002-03. In contrast, private sector employment in 2002-03 was nearly 23% above 1990-91 levels, and overall public sector employment was 7% higher.

Perhaps the most informative indicator of the place of federal employment within the Canadian economy is federal public sector employment as a percentage of Canadian total employment. This proportion stood at about 2.7% in the early 1990s, declined to 1.9% in 1999-2000, and has since increased only modestly to 2.0%.

Figure 1023

Comparison of trends in federal employment to total Canadian employment, 1990-91 to 2002-03

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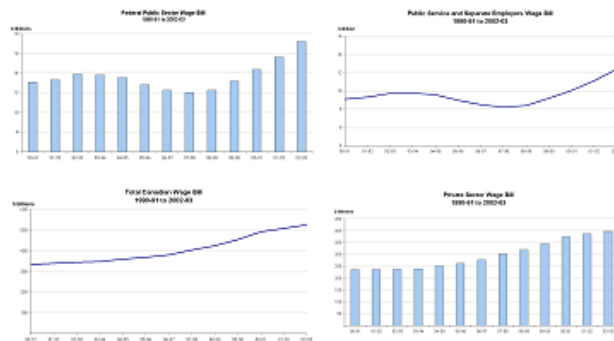


The next area of comparison is total salary mass, also called the wage bill. Figure 1024 depicts the salary mass for the broader and narrower definitions of the federal public sector used in the previous section, as well as the total Canadian wage bill and the corresponding totals for the private sector, the broad provincial and territorial public sector, and the broad municipal public sector. As in the previous sections, Figure 1025 presents all these indicators in the context of comparative change on an index basis (1990-91 = 100).

Figure 1024

Federal, provincial, municipal and overall Canadian wage bills, 1990-91 to 2002-03

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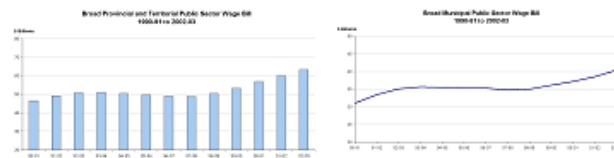
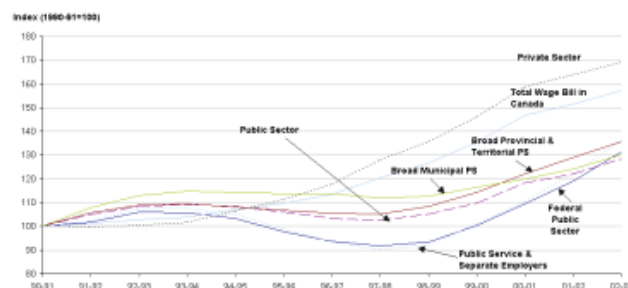


Figure 1025

Comparison of changes in federal, provincial, municipal and overall Canadian wage bills, 1990–91 to 2002–03

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As noted, we distinguish the broader federal public sector, which we define as the core public service and separate employer domains, and the Canadian Forces and the RCMP regular and civilian members, as well as a narrower version limited to just the combined core public service and separate employer domains.

For the broader federal public sector, the salary mass remained for a decade in a fairly tight range extending from a high of \$13.3 billion in 1993–94 to a low of \$12 billion in 1997–98. Thereafter the total rose substantially, reaching \$17.3 billion in 2002–03. From its lowest point in 1997–98 to its highest in 2002–03, the increase was 43%. Looking then at the narrower public service, we see a very similar pattern, with the salary mass fluctuating from a high of \$9.8 billion in 1993–94 to a low of \$8.2 billion in 1997–98, followed by a steady increase to \$12.4 billion in 2002–03. This represents a 36% growth rate from 1990–91 to 2002–03 and a 51% growth rate from 1997–98 to 2002–03.

The total Canadian wage bill rose even more rapidly, with increases each year. The total was \$335 billion in 1990–91, and \$527 billion in 2002–03, an increase of 57%. The growth in the Canadian private sector was even more pronounced at 69%. By contrast, the overall Canadian public sector increase was about 29%.

We also looked specifically at the broad provincial and territorial public sector.^[52] The wage bill in this area grew by 36%, from about \$46.6 billion in 1990–91 to around \$63.2 billion in 2002–03. Like the federal public sector, the provincial and territorial public sector was very stable for several years, remaining in the range of \$49 billion to \$51 billion from 1991–92 to 1998–99. As was the case with the federal public sector, most of the increase in the salary mass took place in the last few years.

A very similar pattern applies to the broad municipal public sector.^[53] From 1992–1993 to 1998–99, the total municipal salary mass in Canada remained in the range of \$34.8 billion to \$35.6 billion. Thereafter, this indicator rose to \$40.4 billion by 2002–03. Compared with the 1990–91 level of \$31.0 billion, this sector increased by 30%.

Looking at Figure 1025, we can observe these various indicators compared on an index basis (1990–91 = 100). The total federal salary mass grew between 1990–91 and 2002–03 by less than total Canadian wages or the private sector wage bill, somewhat faster than the broad municipal public sector, and by about the same proportion as the broader provincial public sector. However, looking only at the period from 1997–98, the rate of increase in both of our indicators of the federal salary mass has been greater^[54] than in any of the other measures.

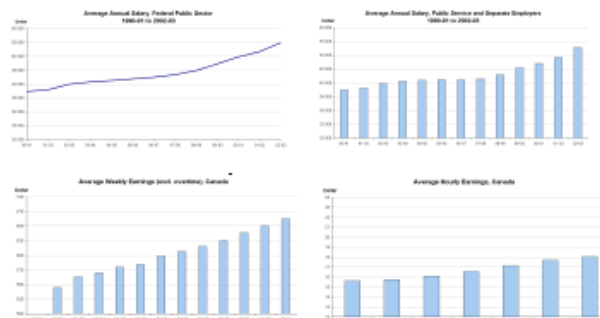
Total salary mass is an important indicator, but it combines the impact of two trends: growth in average earnings and increase in the number of employees.^[55] We have already looked at relative changes in employment levels. We now examine indicators of change in average salaries.

Figure 1026 gives the experience from 1990–91 to 2002–03 for average wages in the broader and narrower versions of the federal public sector that we have used throughout this section, as well as average weekly earnings^[56] and average hourly wages^[57] for the Canadian private sector, and negotiated wage increases for both private and public sector unionized employers with at least 500 employees. Figure 1027 puts all of these indicators together for comparison on an index basis.^[58]

Figure 1026

Overview of changes in average salary and earnings in the federal public sector and in the Canadian economy, 1990–91 to 2002–03

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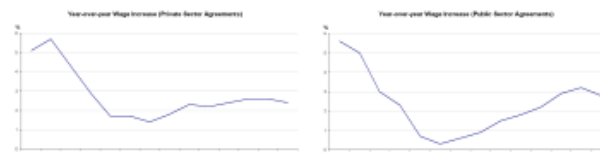
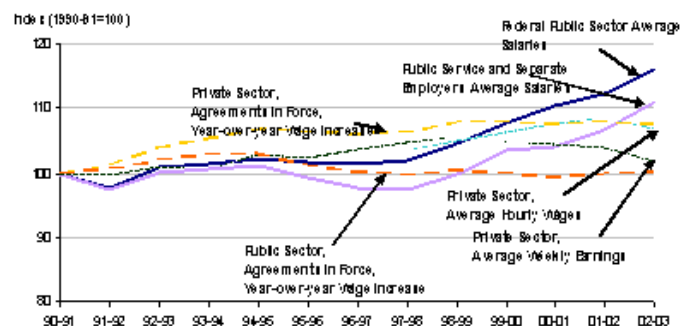


Figure 1027

Comparison of changes in average salary in real terms for the federal public sector and for selected indicators covering the Canadian economy generally, 1990–91 to 2002–03

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We define average salary as the total salary mass for a given group divided by the number of employees. For the broader version of the federal public sector, the average salary in current dollars rose from about \$37,000 in 1990–91 to nearly \$54,900 in 2002–03, an increase of 47%. For the combined core public service and separate employer domains, the change was a bit smaller. Average salaries in this context grew from \$37,500 in 1990–91 to about \$52,800 in 2002–03, a change of 41%. The corresponding rates of increase in constant dollars were 15.8% for the broader federal public sector, and 11.0% for the combined core public service and separate employer domains.

Looking at the graphs in Figure 1026 of these two federal average salary indicators, we note the fact reported in Volume Two that, particularly in real terms, nearly all of the observed increase occurred from 1998–99 onward.

So how do these increases compare in a macro sense with trends in the overall Canadian economy? Earlier in this chapter, we presented data on average weekly earnings excluding overtime, and average hourly wages. These are reproduced in Figure 1026. Average weekly earnings grew by about 27% between 1991–92 and 2002–03. During the period beginning in 1996–97, when both indicators are available, average hourly earnings grew faster.^[59] In real terms, however, both indicators have exhibited little or no growth since 1991–92. (The better rate of increase was in average hourly earnings, which expanded minimally—by about 2% in real terms between 1996–97 and 2002–03.)

Looking now exclusively at the private sector, there is little difference in the pattern observed for average weekly earnings, where the increase was 29.4% in nominal terms and 1.9% in real terms over the years under review. For average hourly wages, we see a similar rate of growth in the private sector compared with the whole economy. In real terms, the private sector saw a small increase of 2.9% in average hourly wages between 1996–97 and 2002–03.

Finally, we look at the year-over-year wage increases in both the public and the private sectors among unionized employers with at least 500 workers on the payroll.^[60] For the Canadian overall public sector the cumulative increases in nominal terms from 1990–91 to 2002–03 amounted to 27.2%; for the private sector, the corresponding cumulative increase was 36.5%. In real terms, these compounded increases were 0.2% and 7.5% for the public and private sectors respectively.

We bring these comparisons together on an index basis in Figure 1027. Note that the Figure expresses all the indicators in real terms (i.e. constant dollars). We observe that throughout the period since 1990–91 year-over-year negotiated wage increases for large private sector employers exceeded those for the overall public sector. This was also true specifically for changes in average salary in the federal public sector until 1999–2000 when our broad measure^[61] of federal public sector average-salary change surpassed the private sector "agreements in force, year-over-year wage increases" cumulative change. In 2001–2002, the average salary for the combined core public service and separate employer domains also passed the private sector indicator. Average weekly earnings in the private sector grew more rapidly than federal average salaries in the early and mid 1990s. Overall, we can see that federal public sector average salaries increased substantially in real terms after 1997–98, whereas none of the other indicators did.

There are two important caveats to register regarding this analysis of average salaries. First, we know from Chapter 4 that part of the increase in federal public service average salaries arose from changes in the composition of the workforce. This trend toward a greater proportion of specialized knowledge workers within the public service, and more complex work throughout the service has contributed to higher salaries on average. We estimate in Volume Two that about 10 percentage points of the 41% increase in the nominal average salary in the combined core public service and separate employer domains between 1990–91 and 2002–03 was a result of this phenomenon. We do not have comparable information that would permit us to assess the extent to which a similar change in the mix and level of positions with other employers has also changed.

Second, the use of an index approach to compare rates of change in various indicators says nothing about how the starting point for federal average salaries compared with the private sector. We encountered in our research one estimate that bears on this issue. A Treasury Board Secretariat study dated October 1991 claimed that "on a national basis, average salaries in the federal public service were 8.3% *behind* those of the private sector."^[62] Compared with the provincial government sector, federal average wages were found to lag by 2.4% on average. These estimates were based on reports from the Pay Research Bureau (PRB),^[63] which carried out job-matching studies for selected occupations in comparison with private and other public employers.

We are not able to determine exactly how these lags were calculated, nor to assess how credible the survey methodology was or how rigorously the surveys were carried out. We do know that employer representatives considered that PRB samples were skewed in favour of large, unionized employers. If we accept this information as the worst-case comparison, Figure 1027 would show a lower starting point (91.7) for the federal public sector average salary line, which would narrow but not eliminate the gap between that line and the index line for year-over-year wage increases in private sector agreements in force. In other words, even assuming such a worst case—an 8.3% federal lag in 1990–91—by 2002–03 the cumulative salary increases benefiting federal public

servants would have closed any gap between their average salaries and those in the general Canadian economy. If the original gap were in fact smaller, as seems likely in comparison with the private sector as a whole, this would suggest that a small premium in favour of the federal public sector had emerged by early in the 2000s.

Beyond this comparison of the evolution of average salaries, we also looked at differences in the distribution of salaries within the federal public service in comparison with the broader Canadian economy. With assistance from Statistics Canada, we compared the distribution of earnings as reported in the 2000 Census for four groups of employees in both the federal public sector and the overall Canadian private sector. [64] At the broadest level we found the following distribution of earnings:

	Federal	Private
Less than \$40,000	34%	52%
Between \$40,000 and \$100,000	64%	40%
Over \$100,000	2%	8%
Total	100%	100%

Figure 1028 presents a more detailed comparison using \$20,000 income bands, again based on the 2000 Census. Figure 1029 provides the same comparison for the four occupational groups: managers, professionals, secretaries and clerks. In both Figures 1028 and 1029 the data relate to full-time, full-year (at least 48 weeks) workers for occupations with at least 400 Census observations in both the federal government and the private sector.

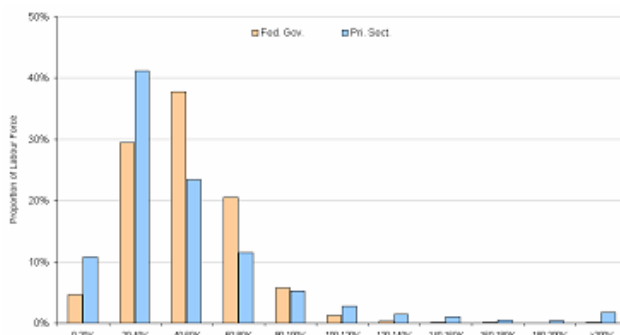
The general pattern shows a substantially smaller proportion of federal government than private sector workers earning below \$40,000, a much greater share from \$40,000 to \$80,000, a similar share from \$80,000 to \$100,000, and a progressively smaller relative share for income bands above \$100,000. When we look at the four groups, we see a more pronounced version of the general pattern for managers and professionals. For secretaries and clerks we see the private sector dominant below \$40,000, and the federal government much more prominent above that income level.

Specifically, we find about 83% of federal government managers between \$40,000 and \$100,000, whereas in the private sector only about 50% fall in that range. Federal government professionals are even more concentrated, with about 78% between \$40,000 and \$80,000; for the private sector, professionals are more prominent both below \$40,000 and above \$80,000.

Figure 1028

Annual earnings in the federal government and the private sector by \$20,000 income bands based on the 2000 Census

[Display full size graphic](#)



An important factor influencing the general pattern is the finding from Census data that women in these groups in the federal public sector earn more than women in the private sector. Except for managers and professional women over age 40, this phenomenon was more pronounced in the 2000 Census than in that of 1990. Figure 1030 illustrates these points. For female federal government managers over 40 years old the difference in 1990 was about 12%, but by 2000 it was negligible. For female federal government professionals under 40, the difference grew from about 11% in 1990 to about 13% in 2000. For female secretaries and administrative

officers under 40 the gap increased from about 20% in 1990 to 27% in 2000. The corresponding difference for female clerks over 40 expanded from 18% in 1990 to 28% in 2000.

Figure 1029

Annual earnings in the federal government and the private sector by \$20,000 income bands for managers, professionals, secretaries and clerks, based on the 2000 Census

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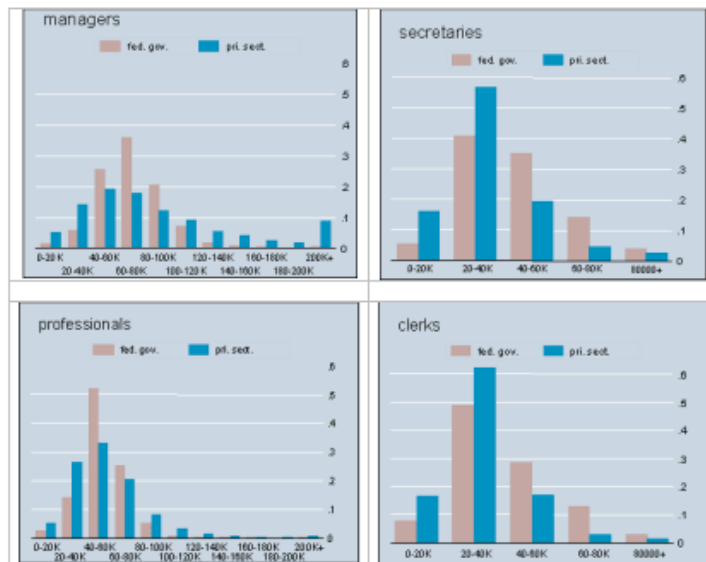
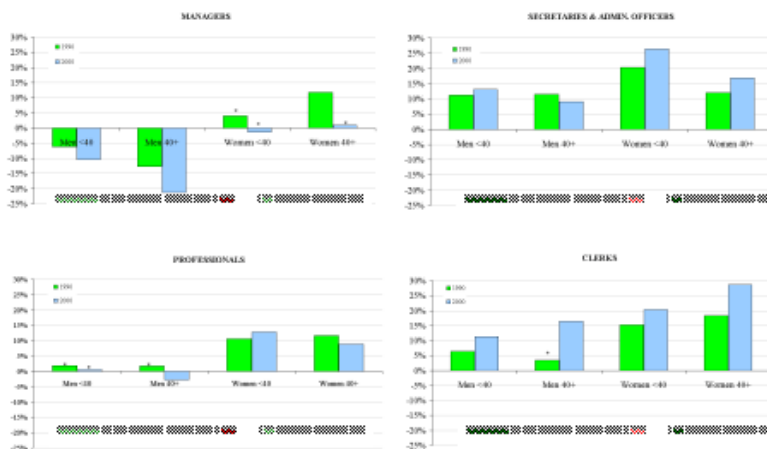


Figure 1030

Percentage wage differences between the federal government and the private sector for men and women above and below age 40 in the 1990 and 2000 Censuses

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Conclusion on comparisons between the federal public sector and the broader Canadian economy

In this section we have presented a variety of indicators regarding change in the general Canadian economy, in employment and in income. Within this context, we have provided a very broad comparison between the federal public sector and the overall Canadian economy in the evolution of employment, salary mass, average salary, and the distribution of earnings by \$20,000 pay bands. From all of this description and discussion, we draw five conclusions.

Federal employment has become a smaller proportion of Canadian employment and population

First, current employment levels in the federal public sector constitute a substantially smaller proportion of total Canadian employment than previously, despite relatively rapid growth in recent years. From a level of 2.7% of total employment in the early 1990s, federal public sector employment declined to 1.9% in 1999–2000, before increasing to 2.0% in 2002–03. To restore the federal public sector employment share of the early 1990s, the federal work force would need to be at least 100,000 more numerous.

Similarly, the federal public sector has shrunk as a proportion of the Canadian population. Whereas in 1990–91, there were 12.65 federal public sector ^[65] workers per 1,000 Canadians, by 2002–03 that rate had fallen to 9.99. Although the roles of the federal government have shifted over these years (giving up various operational responsibilities such as air traffic control, for example), it appears that the federal public service output per employed Canadian or per Canadian resident has improved over the years under review.

Federal salaries have grown faster than private sector salaries

Second, on a cumulative basis since 1990–91, average federal public sector salaries have increased by a larger proportion (15.8% in constant dollars) than private sector year-over-year wage increases in collective agreements in force (7.5% in real terms).

Federal salaries have also grown much more rapidly than private sector average weekly earnings, which experienced marginal real growth of only 1.9% up to 2002–03. The higher rate of increase in the federal public sector is concentrated in the period following 1997–98.

There is a small wage premium for the federal public sector

Third, at this overall level of comparison between sectors there is at most a small premium in favour of federal public sector salaries versus those paid in the Canadian private sector. Even if we were to accept as a worst case the 1992 Treasury Board Secretariat calculation based on Pay Research Bureau data which indicated that "on a national basis, average salaries in the federal public service were 8.3% behind those of the private sector," by 2002–03 the cumulative salary increases benefiting federal public servants would have closed any gap between their average salaries and those in the general Canadian economy. ^[66]

Federal wages are relatively egalitarian

Fourth, the distribution of federal public sector wages by level of annual earnings is more concentrated than for the overall Canadian private sector. As Figure 1024 illustrates, about 60% of federal public sector workers were earning between \$40,000 and \$80,000 as reported in the 2000 Census, versus only about 35% of private sector employees. In this sense, the federal public sector wages distribution could appropriately be described as relatively egalitarian. This pattern has prevailed at least since the time of the Glassco Commission whose report observed the same pattern of paying equal to or better than comparable jobs in private industry in the "lower grades" of the federal public service, with senior administrative (i.e. executive) and professional posts "at a marked monetary disadvantage in competition with private industry."

Women are better paid in the federal public sector than in the private sector

Fifth, one factor in the pattern stated in the last paragraph is that in general women are relatively better paid in the federal public service than in private industry. This point is well illustrated in Figure 1030, which shows substantial gaps in favour of women in the federal public service versus the private sector, particularly in clerical and secretarial occupations.

This concludes our high-level comparison of indicators of employment and salaries in the federal public service and in the overall Canadian economy.

6. Studies Comparing Federal Compensation to the Private and Broader Public Sectors

In the first part of this chapter, we look at three studies that provide overall comparisons between compensation in the federal public sector and the external economy. In the second part we review studies making such comparisons in relation to particular occupational groups or domains.

Comparing the federal public sector to the external labour market

We examine two types of studies, the first using data from the 2001 Census, and the second using Labour Force Survey data from the late 1990s and early 2000s. The latter study also includes the use of econometric modelling to generate comparisons while correcting for differences in workforce characteristics.

CFIB studies using Census data

The Canadian Federation of Independent Business (CFIB) published the first and most general study in our sample.^[67] Based on the 2001 Census, it is the fourth in a series using Census data from 1986, 1991, 1996 and 2001. As reported by the CFIB, the main findings of the most recent edition as they relate to the federal public sector are:

Wage premium

Federal employees in public administration enjoy a 15.1% wage premium over their private sector counterparts—23.3% when non-wage benefits are included.

A significant overall increase in the wage premium favouring federal employees, over the 1995–2000 period is found ... Although federal public wage premiums fell to 8.9% by 1995, they dramatically increased to 15.1% in 2000.

By way of comparison, provincial employees in public administration enjoy a 9.1% wage premium over their private sector counterparts—14.8% when non-wage benefits are included ... Over the 1995–2000 period, provincial wage premiums decreased below those observed in 1990.

Regional variances

Federal public administration wage premiums substantially differ across the country ... from a high of greater than 25% in New Brunswick and Manitoba, to a low of 7.1% in Alberta, 11.5% in British Columbia, and 13.5% in Ontario.^[68] At the level of metropolitan regions, the premium was reported as greatest in Winnipeg (25%), and smallest in Calgary (2.1%).

Population

In addition to the significant increases in federal public administration wage premiums since 1995, the federal public service has increased its workforce by over 20% from 1998 to the first quarter of 2003—reversing the cuts made in the mid 1990s.

The corresponding municipal premiums were 11.4% on wages, and 14.2% when non-wage benefits were included. The municipal wage premium was down from 11.8% in 1995.

Defining occupations

The CFIB methodology compares narrowly defined occupations that can be found readily in both the private and public sectors. Excluded are occupations that exhibit "excessive wage differentials"^[69] between the sectors. Only full-time, full-year employees were included. At the national level, 257 occupations were included out of a total list of 514 occupational groups defined in the Standard Occupational Classification system. In deriving an aggregate estimate, occupational results were weighted by the relevant populations.

As a broad gauge of changes in relative compensation in particular, such studies as those published by the CFIB are interesting, particularly in highlighting trends that need to be understood. These studies provide a touch point, raising questions that deserve deeper examination. Moreover, they remind us that in comparing sectors, total compensation needs as much attention as salaries alone.

However, CFIB-type studies assume that the skill and experience requirements for the various occupations are the same in different worlds, which is unlikely to be true. Studies of this type have been published for many years. A 1984 internal Treasury Board Secretariat publication commented thus:

Frequently, comparisons of earnings, pay increases and compensation generally are made between the public service and other sectors of the Canadian economy ... These comparisons do not rely on matching job content ... They focus on a broad occupational grouping such as economists, engineers, or clerks ... The fundamental flaw in these broad or 'macro' comparisons is the failure to take into account the different occupational or job compositions in the constituencies being compared ... There is no valid reason why pay or compensation, or rates of increase for a broad occupational grouping such as engineer ... should be the same in different industries or organizations if the skill requirements within these occupations differ markedly among industries and organizations.^[70]

As we will see later in this section, the more the specifics of particular jobs are controlled in comparing compensation, the more so-called "premiums" decrease. Accordingly, the macro nature of the CFIB studies suggests that we must interpret them with caution.

Furthermore, the private sector includes very diverse employers. It is reasonable to include employers of all sizes and types in macro assessments but when it comes to interpreting the results, we need to take into account that the federal government is a large, mainly unionized employer. It will likely always provide better salaries, benefits and job security than the majority of small and medium private businesses, as do larger, unionized private employers in the main.

Comparing median versus average income

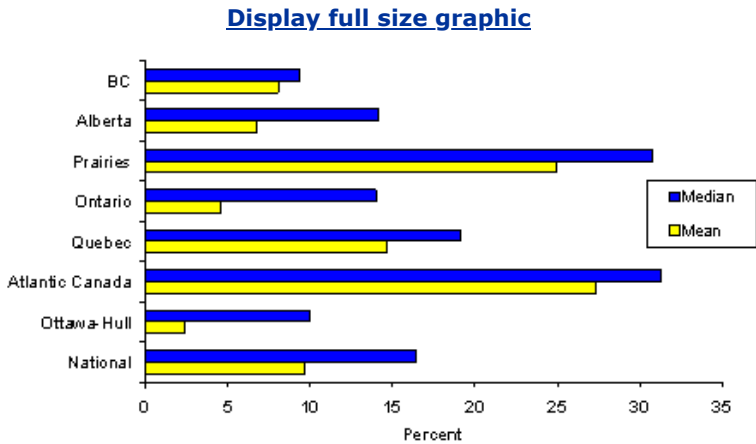
A second critique relates to CFIB's selection of median income as the basis for comparison between sectors. The rationale is this:

Since the arithmetic average is subject to instability caused by extreme outliers, the median employment earnings of each occupation are used in calculating wage premiums.^[71]

While there is merit to this viewpoint, it results in a larger wage premium than that derived from calculations using average salaries. Using a methodology similar to that employed by the CFIB study, the Treasury Board Secretariat derived a national federal public sector wage premium of 9.6% using arithmetic averages. This result, which is more than one third smaller than the premium reported in the CFIB study, arises because the distribution of salaries in the public sector is much more egalitarian than in the private sector. Since wide income dispersion is a basic characteristic of the private sector, use of the median tends to magnify differences in comparing income levels between the two sectors.

Figure 1031 below illustrates that the gap in wage premiums as measured by average versus median earnings is quite striking in some regions, especially Alberta, Ontario and the National Capital region. Apparently the difference between the average and the median is most pronounced in Alberta and Ontario, parts of the country where the private economy is most developed and entrepreneurial.

Figure 1031
Average versus median wage premiums by region based on data from the 2001 Census



The 2000 pay-equity data anomaly

A third critical observation relates to an important accident of timing that appears to have artificially increased federal public service incomes reported in the 2001 Census. The year 2000, for which income was reported in the 2001 Census, was an unusual year for federal public sector earnings. As we note in Volume Two, about \$1.3 billion was paid during 2000 in retroactive and interest payments to employees affected by the 1999 settlement of the Public Service Alliance of Canada pay equity complaint, as well as other wage settlements. Statistics Canada has confirmed to us that wages and salaries reported by federal government clerks in the annual Survey of Labour and Income Dynamics (SLID) show a definite anomaly in 2000 compared with the years immediately before and after.^[72] Table 1032 provides the detailed evidence.

Table 1032
Average wages and salaries for clerks and other federal government employees, Survey of Labour and Income Dynamics, 1998 to 2001

	Clerks			Non-clerks		
	All	Men	Women	All	Men	Women
1998	\$31,201	\$38,064	\$28,302	\$38,791	\$42,861	\$32,791
1999	\$36,124	\$40,020	\$35,145	\$42,567	\$46,679	\$35,599
2000	\$45,570	\$46,090	\$45,418	\$46,841	\$48,852	\$43,695
2001	\$36,428	\$40,218	\$35,281	\$47,522	\$51,609	\$40,792

Female and male clerks constitute more than 20% of the population of the combined core public service and separate employer domains. To remove the effect of the one-time pay equity payments in 2000, the annual wages and salaries for clerks in the federal government must be scaled down, using a ratio of 35/45 for women and 40/46 for men. With this correction, there is no longer an increase in the federal public service wage differential versus the private sector between 1995 and 2000. The correction makes the data for clerks equivalent to that of other public servants, for whom no transient salary increase is evident in SLID data.

Pursuing the analysis further, Statistics Canada calculated that if we do not correct for the receipt of one-time employment equity retroactive payments, the federal-private sector differential for clerks rises from 12% in 1990 to 14% in 2000. However, if we correct the data using the scaling factors noted above, the differential for this group falls from 12% in 1990 to 6% in 2000. The conclusion of this analysis is that there is little support for the notion that the federal-private sector wage differential has increased for workers in the group comprising secretaries and administrative officers, clerks and professionals. Finally, we note that if we apply the CFIB analysis by gender, the wage difference between the federal public sector and the private sector was much larger for female (18.1%) than for male employees (3.2%). In effect, then, the overall federal government "wage premium" mainly reflects relatively higher female wages, which in turn reflects in part various federal social policies. These include pay equity, as well as family-friendly policies such as income supplementation of Employment Insurance to 93% of annual income for up to a year for combined maternity and parental leave.

This insight raises an important issue in how we should interpret private sector compensation levels and practices as a standard for comparability. The private sector no doubt reflects market realities in determining salary levels. However, the market itself may reflect some discriminatory attitudes and practices that disadvantage women. To the extent this may be true, any equitable policy on comparability needs to take account of this phenomenon.

CPRN and Gunderson studies using Labour Force Survey data

A second type of general study uses Labour Force Survey data and econometric modelling to generate compensation comparisons that correct for differences in the workforce characteristics of the sectors being compared. The Canadian Policy Research Networks published such a study in 2000. ^[73] The Treasury Board Secretariat commissioned a follow-up study from Morley Gunderson in 2003. ^[74] Our principal focus is on the more recent study.

Among the most pertinent findings of these studies are the following points:

Higher earnings

After controlling for other wage-determining variables such as education, age, length of tenure, gender, coverage by collective agreement, and size of establishment, public sector employees "invariably earn more than do employees in the private sector who have the same endowment of other wage-determining characteristics."

In all three levels of government, the public sector premium increased over the 1997 to 2003 period. The increase was most pronounced in the federal government, going from 6.9% in 1997 (where it was in the middle of the public sector premiums) to 16.2% in 2003 (at the high end of the premiums).

"The federal government premium in 2003 ranges from 12.4% when controlling for collective bargaining coverage and 47 occupations, to 23% when not controlling for collective agreement coverage or any occupation groups."

Higher premiums for some groups

"The federal premium, as is the case for most elements of the public sector, is generally larger for females than for males, and for low-wage service jobs. It is lower (often negative) for trades, labour and primary occupations, and about average for managerial/professional occupations and for clerical/secretarial/administrative occupations."

Other public sector premiums

In descending order, the "pure public sector premiums were: utilities 17%, provincial government 16.7%, federal government 16.2%, local government 13.5%, other public 9.0%, health 7.4%, and education 6.7%."

In the CPRN 2000 study, Gunderson, Hyatt and Riddell discuss the relative merits of the Census and the Labour Force Survey (LFS) as data sources for comparing public and private sector earnings. Both are tried-and-true surveys with long histories and well-established reputations both within Statistics Canada and elsewhere. Both have a wide range of control variables, with the Census including indicators of visible minority or immigrant status, for example, that are not available in other surveys. However, for the purpose of this analysis the "class of worker" variable included in the LFS but not the Census is more pertinent.

Overall, Gunderson et al. prefer the LFS. Among their principal reasons are three points:

- The LFS measures hourly wages and permits control for differences in hours worked, whereas the Census measures annual earnings.
- The LFS is based on telephone interviews. With experienced interviewers, errors are less likely than with respondents filling in a survey form and returning it as with the Census.
- Although the Census has many more observations than the LFS, the LFS provides current information monthly, whereas the Census data is not released for public use until three or more years after the period on which it reports. [\[25\]](#)

These two studies provide an intriguing empirical approach to mining complex data for comparative purposes. They involve developing econometric equations that allow the researcher to use the relevant Statistics Canada database to estimate the impact on earnings of selected variables such as age, length of tenure, education and unionization, among others. This method can be used to compare the government and private sectors or compare between industries. In this way, the researcher attempts to strip away factors that can legitimately explain differences in earnings between sectors. After controlling for these variables, if the wage difference favours the public sector this may be interpreted as a wage premium. In effect, the Gunderson studies assert that the government wage premium is an economic rent that is extracted by the public sector over and above the wages that are determined in the overall Canadian labour market.

Wage premiums in the private sector

As noted by Gunderson et al., general studies are not without important limitations. Most significant is the assumption that the econometric model constructed by the researchers includes all the key variables that determine market wages and can explain differences between the public and private sectors. As a way to test whether this is the case, Treasury Board Secretariat analysts replicated the Gunderson model and disaggregated the private sector. The purpose was to determine whether there are significant wage discrepancies between different parts of the private sector that are unexplained by the model's other variables.

Assuming that private sector wages are driven by an overall labour market, and that the model includes all the pertinent explanatory variables, wages differences within the private sector should be relatively small. Conversely, large and unexplained wage premiums between different parts of the private sector may indicate that key determinants of market wages are missing in the equations. Thus, the remaining difference between the public and the private sectors would not necessarily reflect a wage premium or that public sector wages are out of line with the market.

In fact, the Treasury Board Secretariat estimates showed that many of the wage differences between parts of the private sector were larger than the difference between the private sector as a whole and the federal public sector. Table 1033 presents the results of this analysis. We note that the professional/finance occupations in the private sector differ from the mining and oil sector and the retail sector, for example, by a greater amount than the federal public sector differs from the private sector as a whole. These results suggest that key factors other than those included in the Gunderson equations could explain the variations in the private sector, and might also contribute to an explanation of the gap between the public and private sectors.

Table 1033

Wage differences between areas in the private sector based on Labour Force Survey data*

Private sector area	% Wage difference vs. professional/finance	% wage difference vs. professional/finance
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	using 10 occupational groups	using 47 occupational groups
Professional/finance (ref. group)	–	–
Agriculture	-11.2	-4.8
Mining & oil	19.8	17.7
Construction	12.0	9.0
Manufacturing	0.4	2.0
Wholesale	3.5	-2.9
Retail	-14.5	-10.1
Storage	-0.6	-2.2
Miscellaneous	-14.6	-10.9
Federal Government	13.9	12.2
* Source: TBS Compensation Policy Division.		

Closely matching occupations in the private and public sectors

Gunderson focuses on regression results using only 10 broadly defined occupational groups, although he calculates results using 47 occupational groups. Using the latter approach, the estimated federal public sector premium declines by almost 4 percentage points to 12.4%.

Gunderson et al. suggested that using 47 occupations could result in underestimating wage gaps because there may be a tendency in government to overclassify positions as a way of paying higher wages. This could be pertinent if vertical stratification were an important factor in the data, for instance, if data relative to junior and senior positions for the same types of jobs were reported as separate occupations at this level of disaggregation. However, a cursory examination of the data indicates that this is not the case. Moreover, almost 97% of federal government positions in the sample are concentrated in 20 of the 47 occupations. The Treasury Board Secretariat analysis found that using the 47 occupations reduces wage differences across private sector areas as well. This suggests that the closer you match occupations, the less there is a difference. These points support the view that using 47 occupations may better use all the data available in assessing the presence and size of any wage premium.

Measuring regional and seasonal variations in wage differences

Government wages are generally the same for the same work regardless of location. The Labour Force Survey (LFS) database, in contrast, disproportionately includes areas where private sector wages are relatively low compared to major metropolitan areas. This is because the LFS oversamples smaller jurisdictions^[76] to report on them. Then, to allow the aggregation of observations coming from regions that are not sampled proportionately, the survey design assigns smaller sampling weights to oversampled smaller jurisdictions. The regression analysis in the Gunderson study did not take account of the sampling weights embedded in the LFS micro-data.

To assess the impact of ignoring sampling weights, Treasury Board Secretariat first repeated the unweighted regressions performed by Gunderson et al. and successfully replicated their results.^[77] Then TBS ran regressions that incorporated the LFS micro-data sampling weights. The analysis yielded a narrowing of the wage premium:

- Using April 2003 data, the wage premium for the federal government when controlling for 10 occupations was estimated at 14.5%, down 1.7 percentage points from the 16.2% estimate achieved using unweighted data. When controlling for 47 occupations, the wage premium narrowed to 10.9%, compared to 12.4% with the unweighted approach.

- Similarly, when April 1997 data was used, the wage premiums associated with the models using 10 and 47 occupations dropped by 2.0 and 1.5 percentage points respectively.

We concluded that using the LFS sampling weights to make the data more representative of the regional distribution of the Canadian population reduced the reported wage premium significantly. The difference ranged from 1.6 percentage points when controlling for 47 occupational groups with April 1997 data, to 3.2 percentage points when controlling for 47 occupational groups with April 2004 data.

We also observed that Gunderson et al. only used LFS data for April in their analysis. To test how sensitive the analysis is to seasonal variation, we looked at October 2002, October 2003 and April 2004 data, in comparison with Gunderson's April 2003 data. Because only one sixth of the LFS sample is renewed each month, using sample periods six months apart provides samples with completely different observations. Table 1034 summarizes the results of the test of seasonal sensitivity. In summary, we found the following:

- When controlling for 47 occupational groups, the estimated federal government wage premium using unweighted data declines from 12.4% using the April 2003 data as in the report by Gunderson et al., to 11.2% and 8.8% using the data for October 2002 and October 2003 respectively.
- If we incorporate the sampling weights as well, the wage premium drops further, from 10.9% using the April 2003 data, to 8.7% and 6.6% with the October 2002 and October 2003 data respectively.

Table 1034				
Wage differences between the federal government and the private sector, based on Labour Force Survey data for October and April in selected years using weighted and unweighted regressions				
	% Wage difference			
	Unweighted regressions		Weighted regressions	
	10 occupational groups	47 occupational groups	10 occupational groups	47 occupational groups
October 2002	14.3	11.2	11.6	8.7
April 2003	16.2*	12.4*	14.5	10.9
October 2003	12.4	8.8	10.2	6.6
April 2004	15.3	12.3	12.3	9.1
* Results reported in Gunderson's report.				

Wage premiums appear to be quite sensitive to seasonal factors. A likely explanation is that April falls in the peak tax return season, when the Canada Customs and Revenue Agency uses thousands of seasonal workers in clerical positions for which there is a wage premium that is relatively high compared to the private sector.

The studies by Gunderson et al., like the CPRN study based on the Censuses, raise important points deserving further investigation. Notwithstanding the methodological issues that they raise, the upward trend in any federal public sector wage premium identified in both the CFIB and the Gunderson studies must be taken seriously.

Institut de la statistique du Québec Study using job matching

L'Institut de la statistique du Québec (ISQ) [Quebec Statistical Institute] is mandated to compare the compensation of unionized employees in the provincial administration québécoise [Quebec public sector], which includes the public service, school boards and CEGEPS, hospitals and other health and social service providers, with that of other unionized and non-unionized employers in Quebec. The Institute's annual comparative study looks at average salaries adjusted for hours worked, as well as total compensation. The analysis is based on matching specific jobs through an annual survey of establishments with more than 200 employees. Separate comparisons with private sector and federal government employees are also presented in the report.

The Institute's 2003^[78] report offers the following points relevant to the federal public sector:

- Employees of l'administration québécoise were paid an estimated 9.1% less in salaries compared with l'administration fédérale, [federal government] and 7.5% less on total compensation. [79]
- The relative change compared with the 2002 report saw the gap between l'administration québécoise and l'administration fédérale widen by 1.1% in salaries, and by 0.9% on total compensation.
- L'administration québécoise trailed the Quebec private sector by 10.6% on salaries, and 3.5% on total compensation. For the unionized private sector, the gaps were wider at 13.9% on salaries and 10.8% on total compensation. For the non-unionized private sector in Quebec, the differences were much smaller, at 4.4% and parity respectively.

In its methodological appendix to the 2003 report, the ISQ provided an extensive description of how it compares jobs and compensation. [80] The comparisons are based on 60 benchmark jobs, representing 20% of the administration québécoise, in such areas as financial administration professional, engineer, laboratory technician, administrative support staff, motor vehicle mechanic and cook. For most jobs, two or three levels of complexity and responsibility were analyzed.

The forms of remuneration included in the total compensation assessment included salaries, pension contributions, insurance of all kinds and statutory programs. Bonuses, overtime and job security are not part of the analysis. Comparisons are made on the basis of employer expenditures for the various components of total compensation. The normal hours of work are taken into account in adjusting the comparisons. The federal public sector had the longest working hours among the groups examined by the ISQ.

Comparing federal wages to the private sector

The detailed data released in the ISQ study enable a comparison of wages for federal government employees and those of Quebec private sector employees. The overall comparison with this provincial private sector can be extended to the whole Canadian private sector by taking into account the salary differentials between the private sectors in Quebec and the whole country. Based on June 2003 Labour Force Survey data, Quebec private sector wages for firms with more than 100 employees was 5.5% below the national private sector average for the same type of employees. [81]

Table 1035 summarizes a Treasury Board Secretariat comparison of federal government wages and Quebec private sector wages using the ISQ data. The total wage differential and those for occupational categories are weighted averages based on the federal government's populations [82] for the jobs included in the survey. These data can differ substantially from those reported by the ISQ because they are based on federal government rather than provincial government populations. However, both the compensation data for the positions used to calculate these aggregates, and the job matching are from the ISQ's work.

Table 1035

Wage differences between federal government employees and comparable private sector employees in Quebec, 2003

	Federal gov. emplt.	Federal gov. wage	Private sector wage	Wage difference	Federal gov. tot. comp. hourly	Private sector tot. comp. hourly	Total comp. difference
Professionals	9,484	\$62,052	\$62,672	-1.0%	\$45.79	\$43.78	4.6%
Technicians	9,299	\$52,044	\$49,262	5.6%	\$39.20	\$34.84	12.5%
Office personnel	22,175	\$36,987	\$36,319	1.8%	\$28.23	\$26.45	6.7%
Service	962	\$32,626	\$29,258	11.5%	\$22.51	\$17.13	31.4%
Trades	1,638	\$41,295	\$54,568	-24.3%	\$29.82	\$37.93	-21.4%
Total	43,558	\$45,725	\$45,350	0.8%	\$34.33	\$32.24	6.5%

Source: Private sector wages, job matching and total compensation data from the Institut de la Statistique du Québec

Using this approach, federal government employees in 2003 earned on average 0.8% more than comparable Quebec private sector employees. The wage differential ranged from -24.3% for trades to a premium of 11.5% for service employees, most of whom are cooks and cafeteria workers. When taking account of the difference between provincial and national private sector wage averages, we can reasonably interpret these findings as indicating that federal government employees were on average paid about 5% below private sector employees in Canadian firms with 200 employees or more.

However, when all other compensation benefits are included such as pension plan contributions by employers, and wages are adjusted to reflect the number of hours worked, the difference in compensation turns into a premium of 6.5% for federal government employees relative to Quebec private sector employees. The total compensation differential ranged from -21.4% for trades to 31.4% for service workers.

The main caveat with this comparison exercise is that the jobs used for comparison were limited by the ISQ data. The benchmark positions surveyed by the ISQ were selected to reflect the wide range of positions in the administration québécoise. These positions do not correspond to the job structure of the federal public service. Therefore, this wage comparison between the federal government and the private sector should only be seen as indicative of the actual wage differential between federal government employees and private sector employees

Overall comments on general studies

In this section we have reviewed three distinct approaches to comparing salaries and total compensation across sectors of the economy.

First, the most general comparison, a CFIB study derived from 2000 Census data, found a relatively large wage premium (15.1% on wages and 23.3% on total compensation) between the federal public sector and the Canadian private sector.

Second, Gunderson et al. reported a somewhat larger federal salary premium (16.2% on salaries), albeit for 2003, ^[83] based on Labour Force Survey data. However, this gap was derived when focusing on 10 broad occupational groupings. When a set of 47 occupations was used, the wage difference between the federal public sector and the overall private sector declined to 12.4% for 2003.

Third, with the 2003 ISQ report, we have an assessment based on direct comparison of specific jobs. At this level of detailed comparison, we find a negligible difference between federal public sector wages and those in the Quebec private sector, and by extension, the Canadian labour market as a whole. Overall, these results suggest a general principle that the more rigorously we define the characteristics of particular occupations and jobs in comparing compensation, the less we find a general salary premium for the federal public sector.

Earlier in this chapter we concluded that there was no evidence of a general lag in federal public service salaries compared with the Canadian private sector. We came to this view based on two points. First, the 1992 Treasury Board Secretariat study calculation based on work by the Pay Research Bureau during its last years, that "on a national basis, average salaries in the federal public service were 8.3% behind those in the private sector." We view this as a worst case, with a strong likelihood that compared to the overall private sector—not just large unionized private sector employers—any lag would likely have been smaller than 8.3%. Second, we noted that federal public sector average salaries had increased more rapidly in the late 1990s and early 2000s than broad indicators of private sector salary increase. Putting these points together suggests that a small premium in favour of the federal public sector had emerged by the early 2000s.

While both the CFIB and the CPRN/Gunderson studies report a substantial federal public service wage premium in comparison with the Canadian private sector, we have seen that both studies may overstate the extent of any average salary gap. In the CFIB study, for example, using average instead of median salaries, and discounting for the one-time pay equity payments in 2000, accounts for most of the reported salary difference. For the CPRN/Gunderson study, we note that controlling for 47 versus 10 occupational categories reduces the wage premium by about one quarter. The ISQ, meanwhile, found very little federal public sector lead versus the private sector, based on analysis of specific job matches for 60 benchmark jobs. Taking all the evidence into account, we conclude that as of 2003 the overall federal public service wage premium was likely well under 10%. ^[84]

Importantly, however, all the studies report a relative increase over recent years in federal public sector salaries in comparison with the various comparator groups. For the CFIB study, the increase was from an 8.9% federal wage premium in 1995 to the reported 15.1% in 2000. For Gunderson et al. the growth was from 6.9% in 1997 to 16.2% in 2003. For the ISQ, the gap on salaries between the federal and Quebec administrations grew by 1.1% between 2002 and 2003 alone.

Whatever the actual absolute difference in salary levels between the federal public sector and other sectors, our own analysis in this report confirms a relatively rapid and unprecedented rate of increase in real average salaries in the federal public sector. If federal public sector average salaries continue to grow faster than salaries in the

private sector or elsewhere in the economy, a substantial wage premium will certainly open up in favour of the federal public sector.

Macro studies are not definitive tools for assessing by how much one broad employment sector lags or leads other sectors. But they are clearly valuable as bellwethers of directional change. They can also serve to highlight issues requiring more in-depth analysis. In the end, however, we need to complement macro-analysis with careful studies of particular occupational groups. We now turn our attention to describing and assessing a sample of such studies completed in the past few years.

Studies comparing compensation for particular occupational groups

In this section we look at four types of compensation studies focusing on particular occupational groups:

The first is a joint employer-union study relating to the Operational Services (SV) bargaining unit.

The second is a study related to the Foreign Service (FS) bargaining unit carried out jointly on behalf of the union, the main employing departments, and the Treasury Board Secretariat.

The third is a study initiated by employing department Transport Canada in regard to the Aircraft Operations (AO) bargaining unit.

The fourth type involves two studies sponsored by the Treasury Board Secretariat as employer. The affected groups are the Computer Systems (CS), and the Executive (EX) groups.

The fifth relates to studies respecting RCMP compensation.

In concluding this section, we describe briefly the pilot compensation studies being undertaken on certain occupations by Statistics Canada on behalf of the National Joint Council's Joint Compensation Advisory Committee.

Union-employer joint study (Operational Services group)

The best example of a recent joint union-employer study of compensation for a particular bargaining group is the Morneau-Sobeco national compensation survey relating to the Operational Services (SV) group. This group includes a wide variety of trades-oriented occupations such as firefighters, ships' crews, hospital service workers, labourers, electricians, plumbers, carpenters, cleaner/janitors, mechanics and others. The study covered wages and benefits for a group of 31 job titles representing over half of the approximately 12,000 employees in the SV bargaining group.^[85] The survey instrument was sent to 700 private and public employers across the country. A total of 172 organizations responded, about two thirds in the private sector, employing a total of 38,000 workers.

For each of the 31 job titles, Morneau and Sobeco provide mean hourly rates and the 10th, 25th, 50th (median), 75th, and 90th percentile rates, along with the number of incumbents included in the sample for that job title. The report documents in a similar fashion such matters as hours of work, vacation, and access to employer-supported insurance, pensions and other benefits.

The report does not compare its findings to the existing wage rates for the federal government's Operational Services employees. According to the Public Service Alliance of Canada:^[86]

The average hourly wage for the 31 jobs surveyed by Morneau-Sobeco is \$21.41 (when weighted in accordance with the population for these jobs in the federal government). The current average wage paid for these jobs at Table 2 [the union name for the SV bargaining group] is \$17.78 an hour, which is \$3.63 an hour behind the external market. In percentage terms, the external average is 20 per cent ahead of the Table 2 average."^[87]

In an internal assessment, the Treasury Board Secretariat observed:^[88]

Overall, the findings of the joint study suggest that for many positions, the Federal Public Service rates are comparable and even lead external markets (8 out of 31 positions).... For most positions, however, the Federal Public Service rates are below those of the external markets (23 out of 31 positions). It should be noted, however, that more than half of the job comparisons suggesting that the Federal Public Service is above market are to be interpreted with caution due to significant regional distribution discrepancies between the SV population and the population in the joint study,^[89] which may create a bias.^[90]

This internal assessment compared the Morneau-Sobeco findings with data from other sources such as the 2001 Census and the Fair Wages Survey regularly completed by the Labour Branch of Human Resources and Social Development Canada (HRSDC) relating to construction occupations. For 16 of the 31 jobs, the Treasury Board assessment found lower wages in one of the other sources, sometimes substantially lower. For example, for

labourers the Morneau-Sobeco study found a 26.3% gap versus the external market, whereas the HRSDC survey reported only a 4.7% gap. For cleaner/janitors, interestingly, the joint study reported a 29.4% gap, but the 2001 Census wage information suggests federal public service and external market rates are comparable.

Another source of caution highlighted by the Treasury Board Secretariat is the reliance on information from organizations with fewer than 10 employees for 15 out of 31 jobs. Such unrepresentative sources introduce a significant risk of error.

Most fundamentally, however, the Morneau-Sobeco survey report does not explicitly come to terms with the reality that wages for trades-oriented jobs vary widely on a regional basis in Canada. The main report presents hourly rates for various percentile levels as already noted but there is no attempt in the study to weight wages regionally to align with the locations where the federal SV employees work. In fact, for 22 of 25 jobs paid according to pay zones, the survey sample population distribution varied by at least 10% in at least one zone from the distribution of the SV population.^[91] For cooks, for example, only 23% of surveyed workers were in zone 2, while 70% of federal public service cooks worked there.

The Public Service Alliance of Canada (PSAC) has long been forthright in seeking to eliminate regional wage differences and they have achieved considerable success through collective bargaining over the years. However, there is no homogeneous Canada-wide external labour market for most trades. So logically, trades should either be paid regional rates coinciding to the local markets, or at least according to national or zonal rates reflecting the actual geographic distribution of federal public servants in the SV group.

Our review of the Morneau-Sobeco survey on the Operational Services group is instructive. This is clearly a serious piece of work. It certainly supports well the general notion that trades-oriented federal employees lag the external wage market.^[92] However, determining with precision what that gap is can be debated at length. There is no doubt that the SV study contributes usefully to the debate but it does not resolve definitively the issue of comparability as it relates to the trades-related occupations in the public service.

Studies co-sponsored by the union, the employer, and the main affected departments

Here we review briefly two studies that were carried out in the past few years through cooperation among the relevant union, the main employing departments, and the Treasury Board Secretariat, the formal employer. The first study relates to the Foreign Service (FS) bargaining unit, and the second to the Aircraft Operations (AO) group.

Foreign Service study

Pricewaterhouse Coopers (PwC) conducted the Foreign Service study on behalf of the Department of Foreign Affairs and International Trade, Citizenship and Immigration Canada, the Treasury Board Secretariat and the Professional Association of Foreign Service Officers.^[93] This was a wide-ranging study covering issues well beyond compensation per se, including the impact of rotational assignments abroad on Foreign Service officers' spouses and elderly parents, and recruitment and career progression.

On the compensation side, the report described how the Foreign Service (FS) pay ranges juxtapose with those of other federal public service classification groups such as Economics, Sociology and Statistics (ES), Commerce (CO), Program Administration (PM), Law (LA), Administrative Services (AS), Career Assignment (CA) and Management Trainee (MM). PWC also reported the findings of a survey of compensation and other employment conditions for other foreign services, international organizations and private sector companies.

On the internal comparability side, the comparator groups identified had classification levels that reached pay maximums considerably higher than the FS group. Among countries that shared compensation data relating to their foreign service, five were reported as paying higher salaries than Canada, including two with salaries more than 60% higher; six had fairly similar salary levels; and three had somewhat lower salaries.

What is most striking about the FS study is its unclear focus. In effect, a wide range of information that might or might not be pertinent was assembled, but without any expressed theory of what comparators are most appropriate and why. For example, the study was unclear in choosing between internal equity and external competitiveness as the main driver of wage setting. In the case of Foreign Service officers, their work is much more like that of other public servants than any Canadian external groups. Still, it is not obvious to which public service analogue group we should compare Foreign Service salaries. Both the FS population and their actual work blend aspects of the work of economists, lawyers, commerce officers, program administrators and administrative service officers.

Comparisons to other countries' foreign services or to international organizations are, in principle, logical in regard to work content. However, there is little indication that care was taken to ensure accurate job matches; overly generic benchmark jobs cover a wide spectrum of potential job value and invite interpretation difficulties. In any case, each country has its own living standard and approach to remunerating public servants. The fact

that United Nations employees or diplomats representing the United States or Switzerland^[94] earn substantially more than Canadian diplomats has a certain propaganda value. However, it has little evident relevance in determining Canadian salaries. Moreover, using simple currency conversion to compare these or other salaries is overly simplistic. All countries base their compensation on labour market influences in the home country, which can vary dramatically from one country to another. At a minimum, it would be necessary to compare on the basis of purchasing power parity.

Aircraft Operations study

During the late 1990s, some specialized occupations became hot in the external labour market to the point where employing departments initiated compensation reviews to address problems in recruiting and retaining qualified staff. This was largely a result of the position of the Treasury Board Secretariat that it would consider temporary recruitment and retention allowances for particular groups, where a department could make a compelling case that it was experiencing problems to ensure an adequate supply of skilled employees.

One such example is the Pricewaterhouse Coopers study regarding the civil aviation inspector community commissioned in 1998 by Transport Canada.^[95] The study was undertaken in the context of the expanding aircraft and airline industries of the late 1990s, which gave rise to general optimism that growth would take off. Within this set of expectations, PwC surveyed 25 air operators using three benchmark positions. The 14 companies responding were grouped into four tiers: national flag carriers, national charter carriers, regional carriers and commuter operators. Compared with the full set of respondents, the PwC survey found Transport Canada (Aircraft Operations group) salaries between the 21st and the 30th percentiles.

The Treasury Board Secretariat considered the PwC survey market data to be invalid and unreliable for several reasons. First, the job matching on the three benchmark positions, was considered weak. Second, TBS analysts felt the salary comparisons did not consider issues relating to extra duty pay, the existing terminable allowances, differences in benefits, and the less stressful working conditions of a government regulatory operation versus those of operational pilots employed by airlines. In summary, TBS argued that the survey did not meet a simple face validity test because the disparity between the AO positions and the broader market were purportedly enormous. If true, this should have resulted in an exodus from Transport Canada; however, substantial departures did not materialize.

As a result of basic disagreements on the PwC study's validity, negotiations with the AO bargaining unit were protracted, spanning several years. This made the vulnerability of such studies evident: the transience of hot labour markets. In the aftermath of September 11, 2001, and the subsequent restructuring of the international and Canadian airline industries, all of the forecasts for pilot shortages and rapidly increasing salaries were reversed as layoffs replaced recruitment and salaries were rolled back.

Studies conducted for the core public service

Under this rubric we look at two quite different studies commissioned by the Treasury Board Secretariat as the employer for the core public service. The first relates to the Computer Systems (CS) bargaining unit, and the second to the Executive (EX) classification group for whom the Treasury Board sets the salary ranges based on the recommendations of an external advisory group.

Watson Wyatt study for the Computer Systems group

In preparation for the 2002–2005 bargaining round for the CS bargaining group, the Treasury Board Secretariat asked Watson Wyatt to review published surveys on salaries in the informatics area.^[96] Despite their inherent limitations, such studies can assist in positioning public service compensation in the context of the wider labour market. Based on job capsules describing succinctly the duties of 15 jobs widely used in the industry, Watson Wyatt gathered published survey data on compensation for comparable external jobs, with data from various sources adjusted to a common September 2002 date. The surveys included were those conducted by Watson Wyatt itself, Mercer, Morneau-Sobeco, the Toronto Board of Trade, and Towers Perrin.

The study looked at base salary and total cash compensation, which included the federal government's recruitment and retention allowances. On base salary, the federal public service was found to pay about the same as the external market for jobs at the first three classification levels of the Computer Systems group (i.e. CS 1 to CS 3), but less at the CS 4 and CS 5 levels. Looking at total compensation, Watson Wyatt found a federal public service premium at the lower three CS levels, and an increasing lag at the CS 4 and CS 5 levels.

It is important to emphasize that studies of this type essentially compare salary structures rather than actual salaries. For greater precision, Watson Wyatt provided information on salary ranges at the 25th, 50th and 75th percentiles, as well as the arithmetic average. Overall, Watson Wyatt concluded:

We are able to say that the [federal] public sector is not underpaying the CS1 to CS3 levels. However, the public sector is underpaying the CS4 and CS5 levels. This conclusion is based both on the base salary comparison and

on the total cash compensation comparison.

Interestingly, this study had no discernible impact on the ensuing substantive negotiations with the Professional Institute of the Public Service of Canada (PIPSC), representing the CS bargaining group. The eventual settlement made no distinction in salary adjustments between CS1 to 3 and CS4 and 5. On the other hand, the existence of this study may have affected the process of negotiation, for example, by making PIPSC reluctant to proceed to a conciliation board, where they would have needed to counter the survey report's findings.^[97]

Hay Associates study for the EX group

Finally, we report on a comparison of Executive (EX) compensation with that of comparable executives in the private and broader public sectors, completed by Hay Associates in 2001.^[98] The study was commissioned by the Treasury Board Secretariat in support of the work of the Advisory Committee on Senior Level Retention and Compensation. The comparator market comprised two sub-markets:

- The first is a group of 75 organizations in the broader public sector including municipalities, provinces, universities, school boards, colleges, health agencies, Crown corporations, government agencies, and not-for-profit organizations.
- The second comprises 283 private companies in the industrial-and-financial category included in Hay Group's compensation data base.

The Hay system for evaluating the scope and challenge of jobs was used to ensure the comparison of jobs at the same level of difficulty. The compensation elements included in the analysis were:

- salary,
- bonus,
- the actuarial value of employer paid benefits,
- perquisites and paid time-off, and
- the actuarial present value of any long-term incentive.^[99]

The findings used median salaries for comparison.

- Federal public service Executive salaries were within +/- 5% of those in the Canadian broader public service, except at the Deputy Minister (DM) 2 level, where there was a 13% lag.^[100]
- Compared with the Canadian private sector, there was a 10% public sector lag for comparable positions equivalent to the EX 1 level, with the gap increasing from level to level, reaching 42% at EX 5 and 84% at DM 2.^[101]
- The target percentages for performance bonuses in the federal public service were generally found to be half the level in the Canadian private sector, and equal to or below those in the Canadian broader public sector.^[102]
- Long-term incentives such as stock options were not available in the federal public service and were relatively rare in the broader public sector. They were, however, prevalent in the private sector, especially at higher levels of executive management. The median present value at the equivalent of the DM 2 level was 35% of salary.^[103]
- On non-cash benefits as a proportion of base pay, federal public service executives enjoyed a lead on the broader public sector, especially at the DM-2-equivalent level, and lagged the private sector somewhat.^[104]
- On total remuneration, the Hay Group found a lead ranging from 2% at the EX 3 level to 8% at the EX 1 level for the federal public service versus the broader Canadian public sector. Compared with the Canadian private sector, however, the federal public service lagged by progressively larger amounts, starting at 17% at the EX 1 level and rising to 147% at the DM 2 level.^[105]

This is a credible study based on a proven and widely used methodology. There are some subjective elements that could be the subject of critique:

- First, the Hay system for evaluating jobs in itself can be applied differently in different circumstances. For example, the Hay Group discounts federal public service point ratings by dividing by a factor of 1.113 in standardizing them for comparison with the ratings for jobs in their Canada-wide database.
- Second, the methods used to evaluate non-cash benefits follow Hay standard methods, which could certainly be debated. Hay does not, for example, assign a value for retiree health and dental coverage, since it is "uncommon in the general market."

Nevertheless, the annual updates of this total compensation comparison for executives provides a consistent basis for the Advisory Committee on Senior Level Retention and Compensation to formulate recommendations on adjustments to federal executive compensation.

Mercer study for the RCMP

Starting in 1993 and annually since 1998, William M. Mercer has produced an annual comparison of total compensation among major Canadian police forces, for the RCMP Pay Council. As described in Chapter 11 of Volume Two, this survey covers six large municipal police forces across the country, the two provincial police forces, and the RCMP itself. The reports provide details on cash compensation, hours of work, leave, pension and savings plans, group benefits of all kinds, and other compensation, allowances and perquisites. This information is used to determine what salary and benefit adjustments should be recommended for approval to the Treasury Board.

This survey is strongly factual in approach. A small number of appropriate comparators are fully documented. There can be some question about whether the work of all these police forces is strictly the same. The RCMP, for example combines what could be called "classic" provincial and municipal policing, with a national role that goes beyond what other forces undertake, particularly in such areas as national security. Nevertheless, similarities are likely as great as can be established in other comparative studies.

General comments on studies of particular groups

In contrast with the general studies described in the previous section of this chapter, studies of particular groups can be very useful in principle for comparing apples and apples in regard to compensation. However, as we have seen in reviewing the very different surveys and studies analyzed in this section, there are no established approaches or standards that are applied consistently in undertaking such studies. As could be expected, the studies tend to be commissioned in the lead up to collective bargaining, or some other compensation determination process, rather than regularly scheduled. Most studies are ad hoc, undertaken once and not repeated, which reduces greatly their utility.

The need to recreate a standing capacity to conduct group-specific compensation studies relating to the federal public service, to assist in building a common information base for collective bargaining, has been recognized for some time. The *Public Service Modernization Act*, passed by Parliament in November 2003, provides for the establishment of a pay research unit in the new Public Service Labour Relations Board.

In recent years, the National Joint Council has sponsored a union-management Joint Compensation Advisory Committee (JCAC) to undertake pioneering work relating to systematic compensation surveying. Since 2001, in particular, the JCAC has contracted with Statistics Canada to prepare a pilot survey on compensation in private establishments with at least 50 employees, the federal public sector, and the broader public sector in Ontario. [\[106\]](#) The pilot expected to survey a sample of about 2,900 organizations, with 1,650 in the private sector and 800 in the non-federal public sector. The collection method involved personal interviews using a questionnaire for nearly 90% of the respondents, and the remaining, more distant, organizations were surveyed using paper-assisted telephone interviews.

It is too early to confirm how well the survey worked. However, this experience is encouraging in several ways. The approach was developed by Statistics Canada in active consultation with both Treasury Board and bargaining agent representatives. Anecdotally, it appears that those involved participated on a very professional basis. The cut-off of 50 employees was reasonable. Both unionized and non-unionized employers were included and the sampling method should result in representative results. Interviews in person or by telephone should result in reliable and consistent reporting.

On the other hand, the process has been excruciatingly long. From the start of joint work on the pilot until the first results are received will be at least three or four years. It is sensible and necessary to take the time to invest in sound methodology and confidence building in such an area. However, to be useful in the long run, it will be necessary for faster turnaround. It may also be feared that either the management or the union side may reject the process if the initial results are not to their liking.

With these remarks, we conclude our review of general and group-specific compensation-comparability studies, especially in relation to matters of salary and wages.

7. Comparing Pensions

Pensions and other benefits added at least 39% to the cost of the salaries paid to federal public servants in 2002–03. Within the benefits area, the pension plan—also known as superannuation—is by far the largest component, both in terms of value to employees and cost to the employer. [\[107\]](#)

There are several pension plans covering federal public sector employees. The Public Service Pension Plan applies to the core public service and most separate employers. There are also the Canadian Forces Pension Plan, the Royal Canadian Mounted Police Pension Plan, and pension plans for federally appointed judges and for Members of Parliament.^[108] While the first three plans are very similar in benefits and financing arrangements, there are important differences. In this section we focus mainly on the Public Service Pension Plan, with references where appropriate to the other plans.

Overview of the Canadian pension environment

To put the federal Public Service Pension Plan and its comparability to other such plans in context, we begin with a thumbnail sketch of the overall pension environment in Canada.^[109] The Canadian retirement income system is generally described as comprising three pillars:

- government pension programs, mainly Old Age Security as well as the Canada and Quebec Pension Plans;
- employer-sponsored pension plans, and
- individual tax-sheltered retirement investments.

The first and third pillars are available to all Canadians.

Old Age Security

Old Age Security is payable to most Canadian residents aged 65 and over who have lived in Canada for at least ten years after reaching age 18. For the period from July to September 2004, benefits amounted to a maximum of \$467 per month, with a supplement of up to \$555 per month for low-income seniors. Benefits in 2003 were clawed back through the tax system when a recipient's income rose above \$57,000, until they were fully repaid at \$92,400.

Canada/Quebec Pension Plan

Almost all working Canadians are required to contribute to the Canada or Quebec Pension Plan depending on their province of residence. As of 2003, the first \$3,500 of earnings was exempted and employee contributions were 4.95% of pay between \$3,500 and \$39,900 of income. Employers match the employee's contribution. Benefits are based on past earnings and number of years as a contributor. The maximums in 2004 were \$814 per month for retirees, and \$993 per month for those who have been determined to be disabled.

Registered Retirement Savings Plan

The main tax-sheltered vehicle for individual retirement savings is the Registered Retirement Savings Plan. According to the *Income Tax Act*, Canadians could contribute up to \$14,500 per year in 2003. The principal and interest are exempt from income tax until benefits are paid out as income.

Employer/Union-sponsored retirement plans

The second pillar, employer- or union-sponsored retirement plans, include registered pension plans (RPPs), group registered retirement savings plans (group RRSPs), and deferred profit-sharing plans (DPSPs). Obviously access to such plans requires employment with an employer or membership in a union that has decided to sponsor such a plan or plans.

At the beginning of 2003, 5.5 million paid workers participated in 14,376 registered pension plans. This was the fifth consecutive year of growth in the number of workers covered, much of it attributable to increasing participation by women in the labour force, especially in the public sector. Overall, the proportion of paid workers in Canada covered by an RPP was about 40% in 2002, down from about 45% in 1992.^[110]

RPPs may involve contributions from both the employer and the employee (known as contributory plans), or from the employer alone (non-contributory). Overall in 2002, about 58% of plans, covering about 73% of members, were contributory. Virtually all the non-contributory plans were in the private sector, where about 49% of RPP members were covered by such plans. This proportion had declined somewhat from around 53% in the early and mid 1990s.

For 2002 as a whole, the total employer and employee contributions for registered retirement plans amounted to \$23.5 billion. At about 14% (or nearly \$3.1 billion in constant 2002 dollars) more than the previous year, this was the largest total and the largest annual increase since 1991. Employer contributions rose by 18% to \$15.6 billion, while employee contributions rose by 5% to \$7.9 billion.

Comparing public and private pension plans

As illustrated in Figure 1036, the gap between private and public sector membership has widened in recent years. After a substantial decline in public sector membership in the mid 1990s, the number of RPP members in the public sector grew by 5% between January 1998 and January 2002, to reach 2.5 million members. This was almost equal to the level of late 1994, before major workforce downsizing. On the other hand, after increasing sharply between 1998 and 2001, private sector RPP membership stabilized during 2001 at a level of about 2.9 million workers.

Public sector plans are generally much larger than those in the private sector. Although only 9% of RPPs are in the public sector, in January 2002 these accounted for close to half (46%) of all RPP members.

The most important distinction relating to RPPs is between defined contribution (DC) plans and defined benefit (DB) plans.

The pattern of participation in DB and DC plans differs between the public and the private sectors.

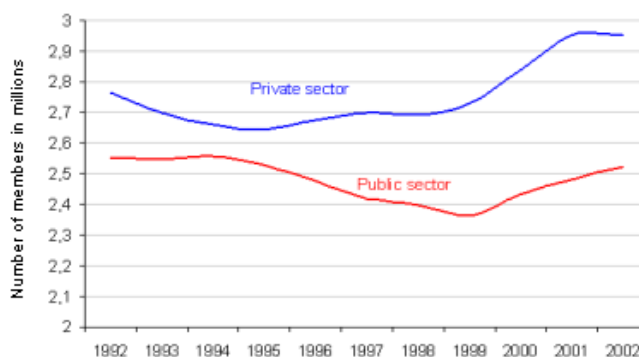
Both types of registered plans declined considerably in number from 1992 to 2002, as illustrated in Figure 1037.

In view of the relatively steady level of overall RPP membership, it is evident that the reduction in the number of active plans affected mainly smaller plans.

Figure 1036

Employee coverage by Registered Pension Plans in the public and private sectors, 1992–2002

[Display full size graphic](#)

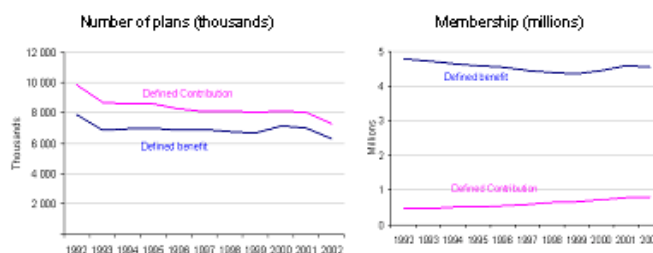


Source: Statistics Canada/Pension Plans in Canada 2002

Figure 1037

Registered Pension Plan numbers and membership in Canada, 1992 to 2002

[Display full size graphic](#)



Defined benefit RPPs

Defined benefit (DB) plans provide pension benefits according to a formula specified in the plan text. Employer contributions are generally not set in advance, but are calculated on the basis of actuarial valuations. That is, they are a function of the cost of providing the promised benefit, reduced by the amount of employee contributions, if any.

In recent years, defined benefit plans have remained dominant in terms of the number of employees covered.

- 82% of all registered pension plan members participated in DB plans, down from 90% in 1992.
- DB plans decreased from 7,870 in 1992 to 6,777 in 2003.

- DB plan members stood at 4.5 million, down 5% from the 1992 membership of 4.78 million, but higher than the 1999 low point of 4.35 million.

Although plans covering 500 or fewer employees accounted for over 87% of DB plans in 2002, over half of members were in schemes that covered 30,000 or more employees. In effect, as shown in Table 1038, DB membership is dominated by large plans, notably by the federal and provincial governments, teachers' plans and municipal plans.

At the beginning of 2000, 69% of public sector members were covered by one of 13 public sector DB plans with at least 30,000 members.

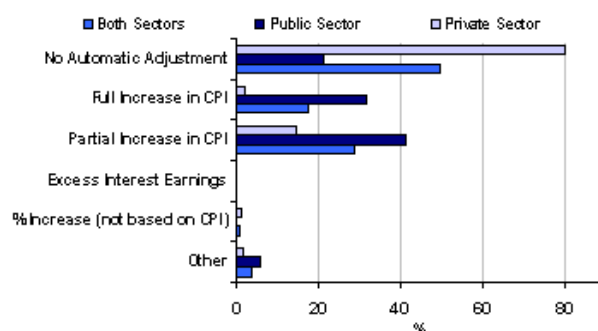
Automatic adjustment of DB pension benefits to compensate for inflation is prevalent in the public sector but uncommon in the private sector. In 2002, as illustrated below in Figure 1039, just over half of public sector plans, covering nearly 79% of members, benefit from automatic indexing. Over 30% of public sector members were fully compensated for changes in the Consumer Price Index (CPI) and a further 41% were partially compensated. In the private sector, more than 80% had no automatic right to an adjustment relating to change in the CPI. Just over two percent of private sector members enjoyed full CPI indexation.

Table 1038				
Number of RPPs and membership by plan size, 2002				
	Plans		Members	
	Number	%	Number	%
0-9	2,435	38.7	4,624	0.1
10 - 49	1,050	16.7	28,457	0.6
50 - 99	667	10.6	48,001	1.1
100 - 499	1,345	21.4	312,403	6.9
500 - 999	354	5.6	250,267	5.5
1,000 - 4,999	335	5.3	691,330	15.2
5,000 - 9,999	46	0.7	321,709	7.1
10,000 - 29,000	34	0.5	592,297	13.1
30,000+	23	0.4	2,285,853	50.4
Total	6,289	100.0	4,534,941	100.0

Figure 1039

Percentage Distribution of Registered Pension Plan members (DB plans only) by Policy on Adjustment of Pension Benefits to Inflation and by Sector, 2002

[Display full size graphic](#)



Defined contribution RPPs

In the case of contributory DC plans, the employer and the employees are committed to contributing a specific percentage of earnings or a specific amount per hour or per year of service. Pension benefits vary according to the amount of contributions accumulated and the return on the investment of these funds. Profit sharing plans are similarly a type of money-purchase plan, except that the contributions are expressed as a percentage of profits.

- As of January 2003, 83% of DC plan members were working in the private sector.
- DC plans declined by about 16%, from 8,713 to 7,347 during the decade since January 1993.

The number of employees covered by DC plans has grown steadily, from about 469,100 in 1992 to 830,000 in 2002, an increase of 77%.

In 2002, about 60% of DC plan members participated in plans covering fewer than 1,000 members. Over 98% of DC plans covered fewer than 1,000 members as shown in Table 1040.

Table 1040

Number of RPPs and membership by plan size, 2002

Size of establishment (number of employees)	RPPs #	%	Members #	%
0-9	1,814	24.8	8,342	1.0
10 - 49	3,142	43.0	78,112	9.8
50 - 99	995	13.6	68,966	8.7
100 - 499	1,109	15.2	224,266	28.2
500 - 999	139	1.9	96,782	12.2
1,000 - 4,999	103	1.4	209,859	26.4
5,000 - 9,999	2	0.0	11,480	1.4
10,000 - 29,000	6	0.1	98,281	12.3
30,000+	0	0.0	0	0.0
Total	7,310	100.0	796,088	100.0

Public and private sector RPPs

Contribution rates by employees differ significantly between the public and the private sectors. As Table 1041 shows, nearly two thirds of public employees participating in an RPP contribute at least 7% of earnings above

the Canada and Quebec Pension Plans' Year's Maximum Pensionable Earnings (YMPE), and fewer than 3% contribute less than 5%. By contrast, in the private sector, more than 40% of employees covered contribute less than 5% of earnings; fewer than 2% contribute more than 7%.^[111]

The public and private sectors both exhibit a tendency toward lower contribution rates in recent years. For the public sector since the mid 1990s, about 10% of members have shifted from contributing more than 7% of earnings to contributing between 5% and 6.9%. In the private sector there has been a movement in the same direction, during the same period, of about 7% of members shifting from contributing between 5% and 6.9% of earnings to contributing below 5%.

Table 1041

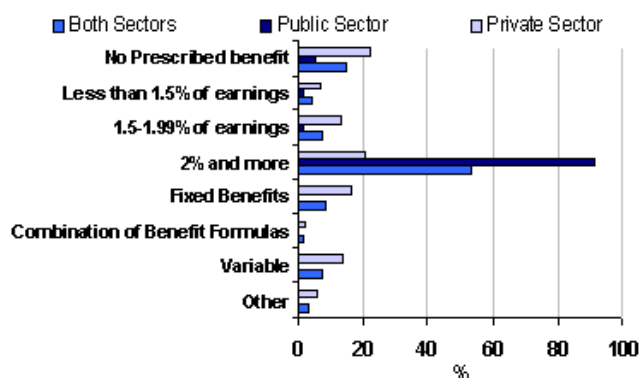
Employee contribution rates (above YMPE) in contributory plans by sector, 1992 to 2002

	Public			Private			ALL		
	<5%	5,0-6,9%	>7%	<5%	5,0-6,9%	>7%	<5%	5,0-6,9%	>7%
1992	0.8	26.6	72.6	34.4	64.6	1.0	10.3	37.4	52.3
1993	0.9	24.5	74.6	32.8	65.7	1.4	10.1	36.3	53.6
1994	1.4	21.0	77.6	35.3	63.6	1.0	11.0	33.0	56.0
1995	1.5	20.5	78.0	36.2	62.4	1.4	11.2	32.2	56.7
1996	1.6	21.1	77.3	35.3	63.3	1.4	11.3	33.3	55.4
1997	2.6	19.7	77.8	35.9	62.7	1.3	12.3	32.3	55.3
1998	2.1	21.3	76.6	36.7	61.7	1.6	12.3	33.3	54.4
1999	2.2	29.8	68.0	37.4	60.9	1.7	12.9	39.3	47.7
2000	2.3	33.0	64.7	38.7	59.6	1.7	14.0	41.5	44.5
2001	2.5	31.7	65.8	40.8	57.6	1.5	14.9	40.1	45.0
2002	2.7	31.4	65.9	41.8	56.3	1.8	15.2	39.3	45.4

Figure 1042

Percentage distribution of Registered Pension Plan members by benefit formula and sector, January 2002

[Display full size graphic](#)



Presumably corresponding to the higher employee contribution rates in the public sector compared with the private sector, the benefit rates are generally higher in the public sector, as set out in Figure 1042. Moreover, there is an observable pattern in benefit rates for public sector plans, whereas no such pattern could be determined for the private sector. For example, in the public sector in 2002, over 90% could expect a pension amounting to 2% or more of their eligible earnings per year of service. Conversely, only about 20% of RPP plan members in the private sector could expect benefits at that level. The proportions of private sector members with no fixed benefit, a benefit below 2%, 2% or more, a fixed monthly benefit, or some other formula were each in the range of 10% to 25% of members.

Overall observations on pension plan comparability

This concludes our overview of the Canadian pension environment. The broad points of greatest relevance to our study are summarized below.

Public employees much more likely to have registered pension plans

Only about two in five paid workers in Canada were covered by a registered pension plan in 2003. Within this 40% of the Canadian workforce, about 85% participated in a DB plan in 2002. Nevertheless, the number of workers covered by DC plans has been growing more rapidly.

In the public sector, coverage by registered pension plans was over 90%.

Public sector, large plans/private sector, small plans

Large plans, covering 30,000 or more employees, are predominant in the public sector, whereas smaller plans were more common in the private sector. This reflects the size difference of public and private sector organizations.

Public sector employees contribute more to registered plans

Two thirds of employees in the public sector contributed at least 7% of their earnings in 2002 to their registered pension plan. By contrast, over 40% of private sector workers covered by such plans contributed less than 5% of earnings.

Public plans have higher benefits, inflation protection

Consistent with higher contribution rates, benefit rates were higher in the public sector. Over 90% in that sector were entitled to pensions worth 2% or more per year of service. Only about 20% of registered pension plan members in the private sector could expect benefits at that level.

Four fifths of plan members in the public sector enjoyed automatic adjustments covering all or part of inflation. The opposite was true in the private sector where 80% had no automatic right to such adjustment.

These findings, derived from surveys conducted by Statistics Canada, offer a context for weighing the relative value of federal public service pensions. [\[112\]](#) We now address more specifically the Public Service Pension Plan and how it compares with other major public and private sector registered pension plans.

Comparing the federal Public Service Pension Plan to other major public and private plans

As part of the 40% of paid workers in Canada who participate in a registered pension plan, federal public servants are placed more advantageously than those Canadians who must rely only on general government pension plans such as the CPP, QPP and OAS, as well as tax-sheltered savings through such vehicles as RRSPs. On the other hand, pension contributions for the federal public service were relatively large in 2002–03 at 7.5% on earnings above the CPP/QPP Year's Maximum Pensionable Earnings and 4% below that level. This section aims to assemble available information that will allow us to position the federal Public Service Pension Plan more rigorously in comparison with other plans.

There is, unfortunately, no recent definitive study that weighs the relative benefits and costs of various plans according to a widely accepted method. In particular, the universe of plans to be compared varies from study to study, based on the availability of plan details to the agency conducting the analysis. Moreover, the importance we should attach to certain plan features and the best method of assessing their value, are at least partly subjective. There are, however, some studies completed over the past several years that have compared the federal public service plan with provincial plans and major private sector employers' plans. When taken together, these studies do permit us to form a reasonable comparative view, using annual employer contributions and combined employer/employee paid value as overall standards of comparison.

In preparing this section, we have relied mainly on the four studies described below.

Towers Perrin, 1997^[113]

This was undertaken in the context of downsizing the public service pursuant to Program Review. One aspect of this was transferring federal employees to provincial governments. This study looked at comparing estimated cost among the pension plans covering provincial civil servants.

Buck Consultants, 2001^[114]

This study was carried out to compare the federal Public Service Pension Plan with the estimated benefits of DC plans.

Buck Consultants, 2002

The second study by Buck Consultants, a slide presentation prepared for the Public Service Pension Advisory Committee, a union-management committee appointed by the President of the Treasury Board to advise on pension policy, compared the Public Service Pension Plan with eight provincial plans.^[115]

Towers Perrin, 2004^[116]

This study compared federal Public Service Pension Plan benefits to a peer group of other plans included in Towers Perrin's proprietary database.

Our review of the available information will cover:

- the basic pension formula,
- the arrangements for integration with the Canada and Quebec Pension Plans,
- ancillary benefits such as early retirement including bridge benefits,
- the availability and level of survivor benefits, and
- indexation to compensate for inflation.

We will then look at the level of employee contributions, the cost to the employer, and the total value of the pension plan.

Finally, we will present a perspective on the overall comparability of the Public Service Pension Plan with pension plans sponsored by other large employers.

Basic pension benefits

Typically, benefits are calculated as follows:

Annual benefit-accrual rate x Years of service x Average earnings

For the federal public service, the annual benefit accrual rate is normally 2%.^[117] Such plans are often referred to as 2% integrated plans. According to Statistics Canada, in 2000 over 90% of public sector pensions provided benefits based on at least 2% of eligible average earnings per year of service. The corresponding proportion in the private sector was about 20%.

Current data from Towers Perrin, which reports on the benefit accrual rate for 67 major private and public pension plans in Canada with employee contributions, found that in 75% of the cases, 2% was the benefit-accrual rate on earnings above the Year's Maximum Pensionable Earnings (YMPE) covered by CPP/QPP. The only other substantial level was 1.6% to 1.9%, which applied to 14 cases (21%).^[118]

The other factor determined by employer policy is average earnings. According to the 1997 Towers Perrin study, all provinces but Prince Edward Island and the Quebec Pension Plan for Management used an average of the best five years method to calculate earnings for pension purposes.^[119]

As an overall assessment of the basic pension benefit, the 2002 Buck Consultants study analyzed the position of the Public Service Pension Plan by quartile versus eight provincial plans and 101 final-average plans. They looked at the benefit levels associated with various combinations of age-at-joining and salary. The federal plan ranked at the border of the second and the third quartiles on the benefit value at ages 55 or 60 for the basic pension.

Integration with the Canada/Quebec pension plans

An employer's policy on how to integrate its pension plan with the CPP/QPP is important in determining total pension benefits. Most registered pension plans, including the Public Service plan, use a lower benefit rate per year of service for income below the CPP/QPP's YMPE than they do above that income level.

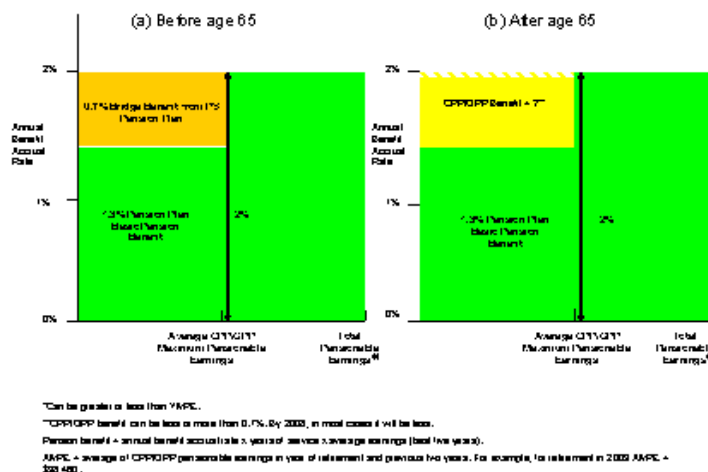
Starting at age 65, the public service pension is reduced to take account of the retiree's expected CPP/QPP benefits. However, the combined benefit from the public service pension plan and CPP/QPP will not necessarily compensate for that reduction.

In general, the accrual of CPP/QPP benefits can differ significantly from regular registered pension plans. For example, CPP/QPP has been phasing in an increasingly long working period to achieve maximum benefits. Set at 31 years in 2003, it is slated to rise to 40 years by 2012. This compares with the 30-to-35-year period typical of those retiring under the Public Service Pension Plan. Also, CPP/QPP treats leave without pay and overtime differently from the federal pension plan in calculating pension entitlement. Figure 1043 illustrates the combination of the Public Service Pension Plan and the CPP/QPP in determining an employee's total pension benefit.

Figure 1043

Interaction of the Public Service Pension Plan and the CPP/QPP in determining an employee's total pension benefit, before and after age 65

[Display full size graphic](#)



The Public Service Pension Plan effectively uses a benefit rate of 1.3% per year of service below the YMPE. Beginning in 2008 or earlier, benefits from CPP/QPP, combined with the public service pension, will typically be less than 2% per year of service. To reduce or eliminate such a gap, it would be advantageous to employees for the accrual rate below the YMPE to be greater than 1.3%, thus leaving a smaller space for CPP/QPP to fill.

Table 1044 shows the range of benefit accrual rates below the YMPE in a group of 32 private sector employer plans covering at least 1,000 employees.^[120] In this sample, 18 out of 32 of the plans provide for a benefit rate per year of service above the 1.3% accrual rate used by the Public Service Pension Plan, and 9 plans provide for 1.5% or above.

Table 1044 Benefit accrual formula below the CPP/QPP YMPE for a sample of large private employers	
Accrual rate – Below YMPE	Number of plans
1.00% – 1.09%	1
1.20% – 1.29%	4
1.30%	9
1.31% – 1.39%	4
1.40%	5

1.41% – 1.49%	0
1.50% – 1.59%	2
1.60% – 1.69%	1
1.70% – 1.79%	3
1.80% – 1.89%	0
1.90% – 1.99%	0
2.00%	3
Total	32

Early retirement and bridging

Among the most important benefits that are normally described as ancillary to the basic pension is the provision for access to early retirement. The Public Service Pension Plan permits an unreduced pension at age 55 for those with 30 years of service, or at age 60 with at least two years of service. Until age 65, the plan provides a benefit equivalent to 2% per year of service above and below the YMPE. Employees may retire as early as age 50 with an annual allowance, which is a reduced pension based on their age or years of service.

The 2004 Towers Perrin report assesses the Public Service Pension Plan as having

... generous early retirement provisions by virtue of these features: (i) a normal retirement date of age 60 (when age 65 is commonly used), and a bridge benefit before age 65 with no reduction (when many companies do not offer a bridge benefit).

Using the Towers Perrin database^[121] for comparative purposes, an examination of 33 comparable contributory 2% private sector plans covering 1,000 or more employees indicates that there is a wide range of formulas in use among other employers. Twenty-one percent permit retirement only at age 65 and six percent at age 62, while at least one plan permits retirement at age 55 after 25 years of service.

According to the 2002 Buck Consultants study, the federal Public Service Pension Plan ranks very favourably among large employer plans. It falls into the first or second quartile for early retirement benefits, depending on the scenario analyzed for age at joining and salary.

Survivor benefits

The Public Service Pension Plan provides for survivor benefits for both a surviving spouse and dependent children. A federal plan member's surviving spouse receives a benefit equal to 1% per year of the deceased pensioner's years of service, multiplied by the best five years' average earnings. An important nuance is that the survivor benefit is not reduced to take account of integration with the CPP/QPP.

For dependent children, 20% of the spousal amount is payable for each child to a maximum of 80%. If there is no spouse, the dependent children receive twice as large an amount. For employees who die with no survivors, the Plan provides to the employee's estate whichever is greater—a return of contributions with interest or five years of the benefit the employee would have received if he or she had been eligible to retire.

Data from the current Towers Perrin database confirms what one would expect given a minimum legislative requirement for post-retirement survivor benefits, of 60% of the basic pensioner benefit for all provinces except for Manitoba, which is 66.7%. In a sample of 33 contributory 2% private sector plans covering at least 1,000 employees, 80% of the plans have survivor benefits in the range of 60% to 66.7% of the basic pensioner benefit or better. Several plans maintain the full pensioner benefit for a fixed period of five or ten years—in some cases, even paying this amount into the estate of a surviving spouse who dies during this transition period—with the reduced amount paid for the rest of the surviving spouse's life.

The most common provision is that the estate would receive the regular pension benefit for any portion of a guaranteed benefit period remaining after the pensioner's death, most often set at five or ten years. Where there is no spouse, in six of 33 plans (18%) there is no further benefit to the pensioner's estate.

According to the 2002 Buck Consultants comparison of the Public Service Pension Plan with eight provincial and 101 other final-average^[122] plans, the federal plan falls into the first quartile for the value of the survivor benefit.^[123]

Indexation

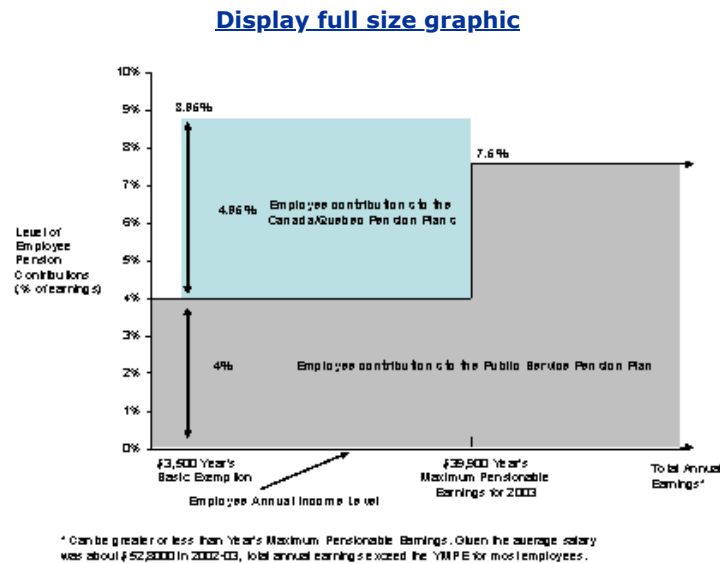
The Public Service Pension Plan provides for 100% automatic full indexation of all benefits each year to compensate for inflation as measured by the Consumer Price Index (CPI).

Complete inflation protection of this type is uncommon. In the Towers Perrin current database comparison, only five of 33 (15%) plans provide 100% CPI indexation. The most frequent policies reported in the database were irregular patterns in eight plans (24%), and 40% to 66.7% of CPI in seven plans (21%). In the 2002 Buck Consultants comparison, the federal plan was approximately at the 70% position, that is, right on the line that divides the bottom of the first from the top of the second quartiles in comparison with the eight provincial plans, but solidly into the first quartile when compared with the eight provincial and the other 101 final-value plans.

Employee contributions

For the Public Service Pension Plan, in 2002–03 employees contributed 4% of earnings below the CPP/QPP YMPE, and 7.5% on earnings above that level, for a maximum of 35 years. This pattern is illustrated in Figure 1045.

Figure 1045
Level of employee contributions in 2002–03 to the Public Service Pension Plan and to the CPP/QPP according to the employee's annual earnings



Among DB contributory plans in Canada generally in 2002, two thirds of public sector plan members contributed 7% or more of earnings, and one third paid between 5% of earnings and 6.9%. In the private sector, over 40% paid less than 5% of earnings and 56% paid between 5% and 6.9%.

Data from the current Towers Perrin database relating to plans like the Public Service Pension Plan that have a 2% accrual rate per year of service, indicate that average contribution rates for various types of private and public sector plans are as set out in Table 1046. This sample shows distinctly lower employee contribution rates on average than in the federal public sector, with 3.8% below the YMPE and 5.4% above.

Table 1046			
Employee/employer contribution rates and cost-sharing ratios for major provincial government pension plans in 2003			
	Average contribution rate		Numbers of Plans
	Below YMPE	Above YMPE	

All sectors	4.2%	5.8%	44
Private Sector Only	3.8%	5.4%	35
Public Sector Only	5.8%	7.3%	9
Private Plans with over 1000 employees	4%	5.5%	28
Private Plans with under 1000 employees	3.2%	4.8%	7
Federal Public Service	4%	7.5%	

Public sector plans in the sample are very similar to the federal public service above the YMPE at 7.3% but considerably higher below the YMPE at 5%. Table 1047 gives specific information on employee contributions for major provincial pension plans as of December 2003. [\[124\]](#) Compared with the federal Public Service Pension Plan, all of these plans require substantially larger employee contributions below the Canada/Quebec Pension Plans' YMPE, and several are higher as well above the YMPE. The larger contributions below the YMPE are especially significant, since about two thirds of the whole federal public service salary mass falls in this area. [\[125\]](#)

Employer cost and cost-sharing ratios

We now turn to employer cost and the ratio of cost sharing between the employer and employee with various registered pension plans. The most important point about employer contributions in the context of DB pension plans is that the employer must assume responsibility for the difference between what the employees contribute by formula and the actuarial estimate of what is needed to cover the prescribed benefits earned by employees through their service. Accordingly, the cost can fluctuate significantly, particularly in relation to changes in actuarial assumptions arising from forecasted changes in such major economic variables as real interest rates or annual changes in real earnings.

At the Canada-wide level, total employer contributions to registered pension plans in relation to current service amounted to \$14.8 billion at the beginning of 2002. [\[126\]](#) Employees contributed about \$7.3 billion. The macro employer-employee pension cost-sharing ratio was then about 51%/49%.

For the public sector alone, the employer current service contribution was about \$6.7 billion, and the employee contribution \$4.9 billion, for a cost-sharing ratio of 58%/42%.

The federal government's employer pension contribution in 2002–2003 for current service totalled about \$2.7 billion, or 18% of the total employer contribution in Canada for registered pension plans. The federal Public Service Pension Plan employer/employee cost-sharing ratio in recent years has been in the order of 72%/28%.

It should be noted that a small part of this amount (approximately \$250 million) does not represent actual governmental contributions, but rather is an estimate of the government's share of pension costs recorded in internal government pension accounts. These amounts are referred to as contributions for simplicity of comparisons, although they do not represent actual disbursements.

In the 2002 Buck Consultants study, the Public Service Pension Plan ranks in the first quartile [\[127\]](#) for employer cost for contributory plans under all of the age-at-entry and salary scenarios examined, in relation to a reference set of eight provincial and 101 other final-value pension plans. The data in Table 1047 shows that most provincial plans are funded on the basis of matching pension costs between the employer and the employees. Only British Columbia, the Alberta management pension plan, New Brunswick, and the Ontario hospital plans have the employer assuming substantially more than half the costs, with no share greater than 58%.

Table 1047						
Average employee and employer contribution rates for selected public sector 2% Registered Pension Plans						
	Regular employee contribution rate (current service)			Regular employer contribution rate (current service)		
	Below	Between YBE and	Above	Below	Above	

	YBE◇ %	YMPE◇◇ %	YMPE %	YMPE %	YMPE %	
British Columbia	5.50	5.50	7.00	6.50	8.00	55 / 45
Alberta						
Employees	6.17	6.17	8.81	Matching		50 / 50
Management	9.50	9.50	9.50	13.10	13.10	58 / 42
Saskatchewan						
Public Service*	5.75	5.75	5.75	Matching		50 / 50
Manitoba	6.00	6.00	7.00	As required		47 / 53
Ontario						
Public Service**	6.40	6.40	8.00	Matching		50 / 50
Municipal Employees***	7.30	7.30	9.80	Matching		50 / 50
Hospitals	6.90	6.90	9.20	1.26 times employee rate		56 / 44
Quebec						
Civil Service	7.25	5.45	7.25	Matching		50 / 50
New Brunswick	5.80	5.80	7.50	7.30	9.49	57 / 43
Nova Scotia	5.40	5.40	7.00	Matching		50 / 50
Prince Edward Island	8.75	6.95	8.75	Matching****		50 / 50
Newfoundland and Labrador	8.60	6.80	8.60	Matching		50 / 50
Federal Public Service	4.00	4.00	7.50			72 / 28

Notes: ◇YBE is the "Year's Basic Exemption" under the Canada/Quebec Pension Plans. Below this level of earnings, (\$3,500 in 2003) no contributions are levied in relation to CPP/QPP.

◇◇YMPE is the "Year's Maximum Pensionable Earnings" under the Canada/Quebec Pension Plans. It is the maximum level of earnings (\$39,900 in 2003) on which contributions are collected or benefits paid.

* 90% covered by a defined contribution plan.

** Effective 2005.

*** For retirement at age 60.

**** Plus special annual lump sum to 2004.

Total value and overall ranking

The total value of a pension plan is a measure of the overall benefits available to an employee through that plan. As we have seen in looking at the various basic and ancillary benefits of the Public Service Pension Plan, some features are less generous than other major plans, some more valuable, and others are fairly comparable. Total value aims to aggregate the component benefits to permit a summary assessment.

The most recent study specifically on the relative value of the federal public service plan is a 2004 Towers Perrin study, based on that company's proprietary Benefits Data Bank Benva®. This study positioned the Public Service Pension Plan vis-à-vis the pension plans sponsored by 14 major private and public employers in Canada. Overall, the study found:

- The federal Public Service Pension Plan had a total employer cost of 8.0% of the related salary mass. When employee contributions were included the total provided value was 13.1%. This put the plan fourth among 15 major employer plans.
- Employer-provided value was judged to be lower in view of the high employee contribution of 5.1% compared with the study group average of 3.0%.
- Excluding savings plans from consideration and comparing only DB and DC pension plans, the Government of Canada plan ranked third for employer-provided value and second for the total value including employee contributions.
- When comparing against DB plans only, the Government of Canada plan ranked at the 87th percentile for employer provided value and at the 96th percentile for the total value including employee contributions.
- In a separate, larger study by Towers Perrin, at 8% of base pay the Government of Canada's employer-provided pension and savings benefits placed the plan at the 73rd percentile in a 123-company study group for employer-provided value. The federal Plan ranked at the 84th percentile when employee contributions were included.

A 2002 Buck Consultants study found the total value of the Public Service Pension Plan to be placed well up in the first quartile in comparison with eight provincial^[128] and 101 other final-average pension plans. In comparing the federal plan with eight provincial plans, this study found the federal plan to rank between second and fourth on total value, depending on the age-at-entry and salary scenario considered. Relative to all 110 plans examined in the study, the Public Service Pension Plan ranks between fourth and tenth. In a comparison with both the provincial and the 101 other final-average plans, earlier age at entry (with retirement at age 55) put the federal plan at an even higher ranking.

Estimates of relative pension plan costs

The Treasury Board Secretariat Pensions and Benefits Sector (TBS/PBS) has made its own estimate of the cost of the Public Service Pension Plan as a percentage of the relevant pensionable earnings. Using different demographic and economic assumptions from those in the 2004 Towers Perrin study, TBS/PBS estimated the federal pension plan cost for current service at 17.3% of payroll.^[129] We introduce the different estimate by PBS in order to report on two additional perspectives: the relative cost of the principal federal public sector pension plans, and the relative cost of the key components of the pension plan.

Until now, we have limited our analysis to the main Public Service Pension Plan. Table 1048 compares the estimated cost of the five major federal pension plans and illustrates the point that the other smaller pension plans are more generous in that a larger share of costs is borne by the employer. Presumably these plans, if examined separately, would rank even more favourably in comparison with other major employers' pension plans in Canada.

Amounts recorded as contributions to the PSSA, CFSA and RCMP Funds are paid out of the Consolidated Revenue Fund and invested externally. The Government's contribution approximates the cost of current service recorded for accounting purposes against its annual surplus. Amounts recorded as contributions to the Members of Parliament Retiring Allowances Account and the Members of Parliament Retirement Compensation Arrangement Account also approximate the cost to the government for current services, but although they are referred to as such, they are not contributions in the true sense of the word. As with the pre-2000 service portion of the PSSA, CFSA and RCMPSA recorded in Superannuation Accounts, the MP plan is essentially unfunded since these accounts are maintained internally in the Accounts of Canada. For the *Judges Act* Plan, no pension account is maintained in the Accounts of Canada and the expenditure is first recorded at the time the benefits are paid out of the Consolidated Revenue Fund. Nonetheless, irrespective of their funding or "notional funding" mechanism, the government records pension costs and liabilities for all these plans on a full accrual basis of accounting.

Table 1048				
Comparison of contributions made under the major federal public sector pension plans for 2002–03				

Major pensions plans	PSSA*	CFSA*	RCMPSA*	MPRAA**	Judges Act
Estimated Pensionable Payroll (\$M)	14,373	3,216	1,151	53	221
Contributions (\$M) :					
Employee	738	157	64	4	12
Employer	1,868	552	191	20	53
Total	2,607	709	255	24	64
Contributions as a % of Payroll					
Employee	5.1%	4.9%	5.6%	7.4%	5.3%
Employer	13.0%	17.2%	16.6%	38.1%	23.8%
Total	18.1%	22.0%	22.1%	45.4%	29.1%
Share of cost					
Employee	28.3%	22.2%	25.2%	16.2%	18.2%
Employer	71.7%	77.8%	74.8%	83.8%	81.8%
<p>* Includes only contributions made to their respective Pension Funds</p> <p>** None of the plans include RCA except the MPRAA</p> <p>Note: Several explanatory points must be noted regarding sources for Table 1048. Contributions are from the 2002–2003 Public Accounts, except for the <i>Judges Act</i> amount, which is from the 2001 Office of the Superintendent of Financial Institutions actuarial report on the Pension Plan for Federally Appointed Judges. For the pensionable payroll data, we used the Treasury Board Secretariat's own database for the Public Service Superannuation Plan – excluding Crown Corporations, internal estimates from National Defence and the RCMP for the Canadian Forces Superannuation Plan and for the Royal Canadian Mounted Police Superannuation Plan respectively, and once again the 2001 OSFI actuarial report in regard to the Federally Appointed Judges Pension Plan, and a similar OSFI report for the Members of Parliament Plan.</p>					

Also instructive is looking at the relative estimated cost of various components of the Public Service Pension Plan excluding the Retirement Compensation Arrangement Account (RCA). The estimated costs of these various features of the plan were provided by the Office of the Superintendent of Financial Institutions and may be broken out as follows:

Component	Cost as a percentage of pensionable earnings
Normal retirement and withdrawal	7.5%
Indexing of benefits to inflation	5.0%
Early retirement (1.3% per year of service to age 65)	2.3%
Bridging (0.7% per year of service to age 65)	1.2%
Survivor benefits	0.8%
Disability benefits	0.5%

Total	17.3%
Note: This figure is slightly less than the amount appearing in Table 1048 above because of the inclusion of some payments for past service in the other table.	

It is evident that the main cost drivers for the federal Public Service Pension Plan—other than the basic benefit—are indexation and early retirement/bridging. We do not have data that would permit comparison of the costs of these plan components with other major plans. However, the 2004 Towers Perrin study identified the federal Pension Plan's early retirement provisions, especially the bridge benefit before age 65, and post-retirement automatic full indexation of benefits as relatively rare with other employers and therefore key factors in the conclusion that "the Government of Canada's defined benefits total provided value is relatively 'generous.'"

Another perspective on comparability was offered by the 2001 Buck Consultants study. This focussed on calculating the value of the Public Service Pension Plan as a multiple of final pay for various scenarios of age at entry and salary. The process was to value first the lifetime pension payable at age 65, and then adding successively the value of:

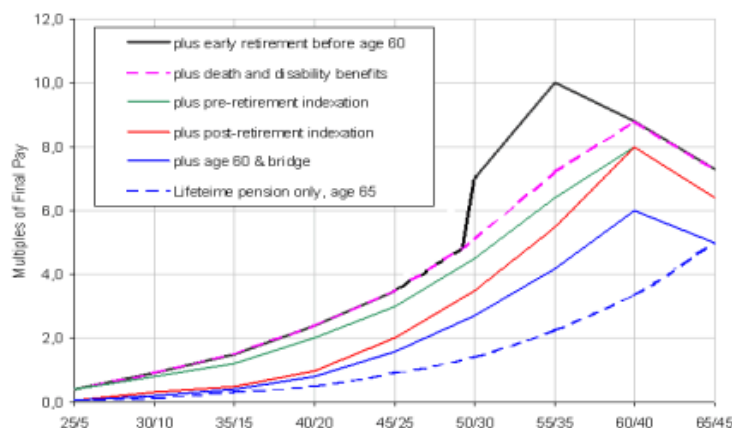
- unreduced lifetime and bridge pensions from age 60;
- post-retirement indexation at full CPI increases;
- pre-retirement indexation at full CPI increases;
- death and disability benefits; and
- early retirement provisions before age 60.

Figure 1049 gives an example of the Buck Consultants analysis. Similar graphs are presented in the report for other combinations of age at entry, current pay and years of service.

Figure 1049

Public Service Superannuation Act value accumulation based on multiples of final salary at age 25, with 5 years' service and current pay of \$38,000

[Display full size graphic](#)



Buck Associates summarized their assessment of the results obtained as follows: [\[130\]](#)

- The total retirement savings are quite significant, exceeding 11 times final salary for long service members with high salaries, and reach their peak at the time of entitlement to an unreduced immediate pension.
- The value of ancillary benefits (subsidized early retirement, bridge pension, indexation, ...) may represent up to four times the value of the lifetime pension payable from age 65, or 80% of the total value.
- The total retirement savings do not vary much by sex, mainly because generous death benefits are provided.
- The age and service profile has ... a major impact. For example, the retirement savings at age 55 for a member with 35 years of pensionable service are about twice those of a member with 25 years of pensionable service.

These findings coincide with those reported earlier on the importance of the ancillary benefits under the Public Service Pension Plan, especially early retirement, including the option of a bridge pension, and indexation. This study does not offer a specific comparison to other pension plans. However, it does include a comparison of the

federal DB plan with the DC alternative, under various scenarios. They refer to the PSSA/RCA which stands for *Public Service Superannuation Act* and Retirement Compensation Arrangements Account. Together these cover the main pension entitlements of federal public servants. Their assessment:

- The DC Plan is able to beat the PSSA/RCA only at lower ages and by small amounts, while the PSSA/RCA has a strong advantage at later ages.
- The DC Plan values are obviously quite sensitive to [changes in the future rate of return assumptions] but, even with high real rate of return assumptions (e.g. 8.25% return vs. 3% inflation), the DC Plan only rarely surpasses the PSSA/RCA.

Concluding remarks on pension comparability

From this section it is evident that the federal Public Service Pension Plan compares favourably to major public and private pension plans in Canada. While employee contributions are generally higher than for employees enrolled in major private sector plans, the federal plan benefits are also better than all but a handful of private plans. This is true especially in regard to such ancillary benefits as early retirement and bridging provisions before age 65, and full indexation to compensate for inflation. In comparison with major public sector plans, the federal Public Service Pension Plan delivers comparable or better benefits, but with lower employee contributions, especially below the income cut-off for coverage by the Canada and Quebec Pension Plans. Overall, the federal Public Service Pension Plan can reasonably be considered to be in the top 10% of all registered pension plans in Canada in terms of its value to employees. It can also reasonably be considered to be in the top 10% in terms of cost to the employer. The current service benefits under the PSSA and the other federal plans are costing TB in real dollars expressed as a percentage of payroll, much more than those earned under the vast majority of other defined benefits plans in the county.

8. Comparability of Other Benefits

In this chapter we will summarize available information on benefits other than pensions in comparison with what is provided by other major public and private employers. As with pensions, there are unfortunately no recent definitive studies in relation either to particular benefits, or to the ensemble of non-pension benefits. We look first at the Public Service Health Care Plan (PSHCP), then more briefly at the dental plan, the life and disability insurance plans, severance pay and leave entitlements.

Before proceeding, we must emphasize that real comparability is about the full suite of compensation elements enjoyed by one group of employees versus another. This chapter decomposes various important benefits to understand how employers differ in designing these plans.

Public Service Health Care Plan

We have two documents to assist us in positioning the benefits available under the Public Service Health Care Plan (PSHCP). The first, the Mercer Benchmarking Study was commissioned by the union-management-pensioner PSHCP Trust,^[131] which was established in 2000 to manage the Plan on behalf of the stakeholders and to oversee the work of Sun Life in administering the Plan benefits. Table 1050 below summarizes the findings of the Mercer study. The second document is a set of prevalence tables produced by Watson Wyatt annually based on information obtained from a range of Canadian employers.^[132]

The Mercer study reported on 25 employers, covering 380,000 employees in the private and public sectors. About one third of the employers were from the public sector and all but one, a not-for-profit organization, were from the private sector. A few general points of note:

- Half of the organizations surveyed offered flexible benefits for current employees and some made this choice available to pensioners. The PSHCP makes only one fixed set of benefits available for all members.
- A majority of organizations provide a prescription drug card for employees. The PSHCP requires the employee to pay for drugs themselves, and then seek reimbursement subsequently.
- The PSHCP has annual deductibles of \$60 for an individual and \$100 for a family. For traditional plans, with no flexibility to select coverage options, only four of 17 had deductibles at or below these levels.

Table 1050

Comparative summary table on health care plan benefits

Provision	PSHCP Design	PSHCP Competitive		Comments
Definition of spouse	Common law spouse, 12 months	√	*	Competitive definition
Definition of child	Foster children, adopted children, step children	√	*	Fewer plans cover foster children
Waiting period	1st of month after DOH	- to √	*	59% of plans commence coverage on date of hire
Cost sharing				
• Actives	100% employer paid except Level II and III Hospital	√	*	Many traditional plans 100% employer paid; required contribution under PSHCP for Level II and III Hospital is small portion of premium cost.
• Retirees	88% single, 79% family for Level I	√	*	Most retiree plans have cost sharing element; PSHCP cost sharing more competitive at lower levels of Hospital coverage.
• Deductibles	\$60 single, \$100 family	—	*	Many traditional plans have no deductible and where provided is less than PSHCP level.
Reimbursement levels				
• Drugs active	80%	- to √	*	Many traditional plans at 100% but 80% coinsurance more prevalent under flex plans
• Drugs retiree	80%	√	*	80% typical reimbursement level for retirees
• Hospital	100%	√	*	Majority of plans reimburse at same level as PSHCP
• Paramedical active	80%	- to √	*	59% of traditional plans have higher coinsurance than PSHCP (90% or 100%)
• Paramedical retiree	80%	√	*	80% coinsurance more common under retiree plans
• Out of country emergency	100%	√	*	100% reimbursement most prevalent
• Vision active	80%	-	*	Most plans offer 100% reimbursement level
Drug coverage				
Definition of drugs	Legally requiring prescription	√	*	Most plans cover drugs legally requiring a prescription; a few have other formularies
• Drug cards	Not provided	-	*	76% of plans surveyed provided a drug card
• Limits on specific drugs	covered	√ to +	*	a number of plans do not provide coverage for lifestyle drugs

Hospital				
Hospital room-active	\$60, \$100, \$150	-	*	76% of active plans and 69% of retiree plans offer unlimited semi-private room
Hospital room-retiree	\$60, \$100, \$150	- to √	*	coverage levels can be inequitable across provinces
Convalescent hospital active	\$60, \$100, \$150	√	*	76% of traditional plans have this coverage
Convalescent hospital retiree	\$60, \$100, \$150	√ to +	*	fewer retiree plans offer this coverage
Chronic care hospital	Not covered	√	*	coverage varies and is often not provided
Paramedical coverage				
• Practitioners included	Standard listing	√	*	competitive for active employees and retirees
• Maximums				
- physiotherapist	\$400 and over \$800	- to √	*	PSHCP less competitive at lower end of coverage
- psychologist	\$800/year	√ to +	*	more than 50% of traditional plans had lower limit than PSCHP
- chiropractor	\$400/year	√	*	PSHCP more competitive for retiree coverage as only 30% of retiree plans had greater coverage level
- other paramedical	\$240/year	-	*	limit of \$240 is less competitive than comparator coverage
Private duty nursing -active	\$12,000/year	-	*	70% of traditional plans have higher coverage level
Private duty nursing -retirees	\$12,000/year	√	*	Competitive coverage for retirees
Out of country emergency	\$100,000 40 days per trip	-	*	PSHCP has lower maximum and day limits
Hearing Aids	\$400/5 years	- to √	*	most plans provide limits at \$500 and over
Orthotics	1 pair/year	√	*	coverage level competitive
Orthopaedic shoes	\$120/year	-	*	low \$ reimbursement under PSHCP plan
Diabetic supplies	covered	√	*	most active plans cover these devices
Vision				

Vision glasses and contacts	\$160/24 months	-	*	usually covered at \$200 - \$300 per 24 months
Laser eye surgery	Not covered	-	*	more plans offering this coverage to same level as eyeglasses/contacts
Lifetime maximum	none	✓	*	lifetime maximums not common feature
Extension of coverage	Provided	✓	*	71 % of traditional active plans extend coverage
Provincial Medicare Subsidy	Yes	✓	*	57% of plans provide medicare subsidy
✓ means PSHCP coverage is competitive. - means PSHCP coverage less than competitive. + means PSHCP coverage more than competitive.				

The PSHCP only reimburses 80% of eligible expenses. For drugs, 12 of 17 traditional plans provided higher reimbursement. The most common policy, in 60% of plans, reimburses at 100%. The pattern for paramedical services was similar.

To focus our description of specific benefits, we review in turn the largest PSHCP cost components in 2002: drugs, health practitioners, hospital room coverage and vision care.

Drugs

Drugs are an area of rapidly increasing costs, representing around 63% of PSHCP costs in 2002. About one third of the plans surveyed required the use of a generic substitution for a prescribed drug or the use of a formulary. [133] The PSHCP was relatively more generous in relation to smoking cessation, fertility and anti-obesity drugs, in that about 40% of plans simply did not cover these categories, whereas the PSHCP did. Like the PSHCP, most of the survey plans did not reimburse for the erectile dysfunction drug, Viagra. [134] Mercer observes that the 80% reimbursement rate for drugs is relatively low for active employees, particularly for traditional plans, but competitive for retirees. On the other hand, several survey plans levied a per-prescription deductible, ranging from \$0.35 to \$9.00, but the PSHCP had no such charge.

Health practitioners

Health practitioners refers generally to qualified service providers in such areas as physiotherapy, chiropractic, massage therapy or psychological treatment. Acupuncture is not covered by the PSHCP, although it was accepted by several survey plans. The PSHCP plan sets separate maximum annual billings for each category of service. At the same time, the PSHCP has no combined annual ceiling. This protects plan members but also prevents tradeoffs between expenditure categories. The PSHCP spending limits for the various services were as good or better than most survey plans in psychology but in most areas the PSHCP coverage maximum was lower than for most survey plans. For retirees, the PSHCP compares more favourably, with several plans offering no coverage of this type for retirees.

Hospital room coverage

Hospital room coverage is offered under the PSHCP at three levels. The first is automatic and fully funded by the employer. Participating employees pay the additional premium cost for the two higher levels, which aim at subsidizing the cost of semi-private and private rooms. A majority of survey plans for both active employees and retirees provide unlimited support for semi-private hospital accommodation, whereas the PSHCP limits such support to \$60 per day at level I and \$100 at level II.

Vision care

On vision care, the PSHCP reimburses up to \$160 (i.e. 80% of \$200) every two years. Most survey plans offered greater coverage, generally in the range of \$200 to \$300 every two years.

In the Mercer survey, employers paid the full cost of health care premiums for three quarters of the 17 traditional plans examined. While the PSHCP requires an employee contribution for the upper two levels of hospital coverage, this is a small proportion of the total plan costs. For retirees, the PSHCP is competitive with survey plans for level I hospital coverage, but less so for the higher two levels. Almost half of retiree survey plans were fully employer-paid, and 23% were fully paid by the employee.

Beyond the comparative details, the best way to integrate this analysis is by comparing actual per employee/retiree costs for different employers. Such costs reflect of course, not only differences in the plans, but also such differences in the workforce as age and gender and the healthiness of the workplace.

We have a limited set of data on such costs for a sample of 10 major public and private employers.^[135] For the four years from 2000 to 2003 inclusive, the average per capita costs for these 10 companies was \$823. Coincidentally, the PSHCP average per capita for the same time period was almost exactly the same. However, the sample had four plans with much lower and four with substantially higher per capita costs. The full range was from \$495 per capita to \$1,243. The lower group spent between \$495 and \$586, whereas the higher group paid between \$1,024 and \$1,243. PSHCP's per capita cost increase averaged 8.5% over the three-year period 2000-01 to 2002-03. Plan costs for the other employers were rising in the same period more quickly, at 12.2% per year.

In conclusion, the 2003 Mercer survey report for the Public Service Health Care Plan Trust observed:

Overall, the health benefits provided for active employees by the PSHCP are competitive compared to the organizations surveyed. There are just a few areas where the PSHCP could be considered to be somewhat less competitive.^[136] These areas included the absence of a drug card, reimbursement and deductible levels, hospital room coverage, limits on many paramedical specialists, vision care limits, as well as private duty nursing and out-of-country coverage.

Unlike the PSHCP, few employers provide the same level of coverage to retired employees as to active employees, resulting in the PSHCP providing very competitive coverage for retirees, in the scope of coverage offered and the cost sharing of the coverage for level I hospital, in particular.

Public Service Dental Care Plan

In the area of dental protection, we also have two sources of information on the comparability of the federal public service plan^[137] and what is provided by other major employers in Canada. The first is a 2004 benchmarking study conducted by Mercer Human Resources Consulting^[138] for the Treasury Board Secretariat. This study drew on Mercer databases covering over 90 employers, and the Web site for the government of British Columbia. The second is information extracted from the Towers Perrin database on benefits provided by 191 employers with at least 1,000 employees.^[139]

Key points for comparison are summarized below. The first comments in each case are from the Mercer study. Where appropriate we add further detail from the Towers Perrin database.

Waiting period

At three months, the Treasury Board plan exceeded the most prevalent standard of beginning of coverage on the date of hiring.

Cost sharing

Treasury Board was among the 80% of sample employers that pay 100% of dental plan costs. In the Towers Perrin sample, about 40% of employers required employee contributions to their dental plan.

Deductibles

With annual deductibles of \$25 for a single employee and \$50 for a family, the Treasury Board plan was distinct from the over 80% of sample employers that had no deductible.

Reimbursement

For diagnostic and preventative services, the Treasury Board reimbursement rate of 90% was exceeded only by about one third of sample employers. In the Towers Perrin database, 55% of employers were identified as reimbursing 100% in this area.

For major restorative services such as dentures or crowns, the Treasury Board's 50% reimbursement rate was as good or better than the practices of a majority of sample employers.

For orthodontics, only about 20% of sample employers offered a reimbursement rate better than the Treasury Board's 50%. In the Towers Perrin database the proportion of employers offering a higher reimbursement in the orthodontics area was even smaller at about 11%.

Maximum reimbursement levels

With an annual maximum of \$1,400 in 2003 for total claims in relation to basic and major services, the Treasury Board plan was less generous than the plans offered by a majority of sample employers. For orthodontics, the public service lifetime maximum of \$2,500 was better than three quarters of the sample employers' policies.

Frequency of recall examinations

Fewer than 10% of employers offered more frequent recall examinations than the once-every-nine-months standard in the Treasury Board plan.

Timeliness of dental fee guide

Most employers applied the current dental fee guide whereas the Treasury Board lags one year in updating its approved rates. However, in practice, it appears that dentists generally bill federal public servants based on the lagged rates.

Retiree coverage

For two thirds of the plans included in the Towers Perrin database of 192 organizations with at least 1,000 employees, all dental coverage ends at age 65, whereas federal pensioners have the option to maintain their dental coverage indefinitely.

Overall, Mercer concluded that, "there are areas where Treasury Board is less competitive, such as the waiting period, deductible, and the combined maximum for basic and major dental services." However, Treasury Board is more competitive in the lifetime maximum for orthodontics.

Life and disability insurance plans

Life insurance

On life insurance, Mercer's comparative analysis yielded these points:

Starting date

Like three quarters of the sample employers, the Treasury Board life insurance plan applies from the date of hiring.

Cost sharing

On cost sharing, the Treasury Board's 17% share of the cost of basic life insurance is well below that of nearly all the sample employers. In fact, 85% of employers in the sample covered 100% of their plan's cost. In the Towers Perrin database of 193 plans covering at least 1,000 employees, about 70% were fully company paid.

Life insurance benefit level

At two times annual salary, the Treasury Board life insurance benefit level was as good or better than three quarters of the sample employers.

Treasury Board was among about one third of the sample employers that set no maximum life insurance benefit.

In summary, the terms of the Treasury Board life insurance benefit compare well with other employers, but the cost-sharing ratio is relatively unfavourable for employees.

Long-term disability insurance

Turning to long-term disability insurance, Mercer observed as follows.

Starting date

The Treasury Board enrolls employees on the date of hiring for long-term disability income protection, as do two thirds of the sample employers.

Cost sharing

Seventy percent of the sample employers covered the full cost of this form of insurance, whereas the Treasury Board only pays 85% of the cost.

Benefit level

At a benefit level equal to 70% of pre-disability salary, the Treasury Board plan is as good or better than more than half of the sample employers.

Maximum coverage

With no monthly maximum income support, the Treasury Board is very competitive; only 30% of sample employers are as generous.

All-source maximum

Mercer states that: "the maximum income from all sources during disability varied from 75% to 100% of pre-disability earnings, with 85% the limit most often seen." It is difficult to assess policy in this area since it is intertwined with other issues such as taxability of benefits and indexation. The federal public service plan is integrated with other plans such as worker's compensation and the superannuation plan. However, other income may be allowed beyond the general benefit level of 70% of pre-disability earnings.

Cost of living

The Treasury Board long-term disability benefits are indexed to the cost of living to a maximum annual increase of 3%. This is as good or better than the plans sponsored by two thirds of the sample employers. In the Towers Perrin database of 193 organizations employing at least 1,000 workers, about half of the plans provided no such adjustments for inflation.

Waiting period

The Treasury Board plan had an elimination period of 13 weeks, which is the minimum period before an eligible employee can access benefits. This was the shortest period reported among the employers included in Mercer's sample.

Definition of disability

Consistent with most sample employers, the Treasury Board plan definition of disability is an inability to perform one's own occupation for two years, and thereafter, any occupation.

Overall, the Treasury Board long-term disability plan is competitive in comparison with Mercer's sample of major employers, particularly in regard to the benefit level, inflation protection and maximum coverage. Both of the insurance companies delivering the federal public service plans are of the view that these plans are not only competitive, but generous in comparison with other clients. The cost sharing for the employee is relatively less generous.

We have not included specific information about comparability in relation to the Treasury Board's short-term disability policy, since plans vary tremendously across organizations. For federal employees the main component of short-term protection is sick leave that can be accumulated from year to year. Advances can be authorized if necessary.

Severance pay

Federal public sector workers are generally eligible for severance pay when their employment ceases. This is equal to between one-half and a full week's pay per year of service, up to a maximum normally of 28 or 30 weeks. Although we have not identified any means of confirmation, we understand that a formal severance pay benefit is relatively rare among non-unionized employers

For unionized workers, we have been able to consult the database of collective agreements, covering at least 500 employees, that is maintained by the Labour Branch of Human Resources and Social Development Canada (HRSDC). In the unionized sector about half of all collective agreements include entitlement to a severance payment at the end of a worker's employment with the organization. These agreements cover about 62% (which equates to about 1.36 million workers) of those whose collective agreements are included in the HRSDC database. About 75% of provincial public servants enjoy such a benefit, whereas only about 20% of municipal workers do. Federal public servants constitute at least one quarter of all unionized Canadian workers eligible for severance pay.

Among those entitled to severance, about 90% receive a payment which increases according to the employee's years of service. The remainder receive a lump sum amount.

Leave entitlements

Essentially, federal public service leave entitlements are these:

- 11 statutory holidays are recognized;
- new employees are entitled to 15 days annual vacation leave, an entitlement that increases with years of service to a maximum of 30 days after 28 years—for most employees;
- sick leave accumulates at 15 days per year, less the amount used;
- employees may access up to 5 days of family-related leave; as well most unionized employees may take one day of personal leave and one day for voluntary service each year; and
- maternity and parental leave is granted in line with entitlements under the *Employment Insurance Act*.

We were able to get some comparative information regarding the leave policies of other major employers. On vacation leave, the 2004 Mercer Benchmarking study reported on vacation practices in the finance and insurance sector. For salaried employees, the average initial entitlement was 11.5 days; after 20 years the average was 24.8 days.

We were also able to consult the Towers Perrin database of about 290 employers. During the first year of employment, vacation entitlement was 13 days or less for over half of the organizations surveyed. About 5% had more than 15 days. At the other end of the entitlement spectrum, the number of years of service required for 30 days' leave ranged from about 7% of organizations requiring 20 or fewer years, to 31% with 21 to 25 years' service, to 43% that do not provide that length of vacation leave.

On the right to carry over vacation leave, the federal public service is in line with the two thirds of employers included in the 2004 Mercer Benchmarking study most of whom set a maximum number of days that may be carried over. Where the federal public service goes further than two thirds of employers surveyed, however, is in permitting employees to cash out unused vacation days.

The federal public service does not permit newly recruited employees to bring their level of leave entitlement with them. According to Mercer, over one third of surveyed employers do permit this for executives and managers, although this drops to 12% for regular employees. In the Towers Perrin database about one quarter of employers permit employees to maintain the level of annual leave entitlement they earned through service with earlier employers.

The only other area of leave on which we have comparative data is maternity and parental leave. From the 2004 Mercer benchmarking study, we learned that in the financial and insurance sector about three quarters of employers top up Employment Insurance payments for maternity leave, although half impose a minimum service requirement averaging 36 weeks to be eligible. However, only about 12% provide a similar top up for parental leave under the *Employment Insurance Act*. Not-for-profit and public sector organizations in the sample generally provided a top up for both maternity and parental leave, but with an average minimum prior service requirement of about 41 weeks. The federal public service, on the other hand, tops up both maternity and parental leave to 93% of regular earnings, for a combined maximum duration of a year, with no prior service requirement.

From the information presented here we conclude that the federal public service is generally more generous in its policies on annual leave and on maternity and parental leave than most employers surveyed.

9. Conclusions on Comparability

This section of Volume 1 has assembled and reviewed a wide range of evidence and analysis relating to the broad question of how compensation in the federal public service relates to that provided for similar work in the private or the broader public sector in Canada. Now we need to pull the threads together and propose an overall assessment.

Limitations and considerations

Limits on the time and resources for this study prevented us from undertaking our own surveys or other research. Accordingly, we have restricted ourselves to examining existing studies or databases. Each of these sources has important limitations. Nevertheless, by examining them together, we may seek to formulate a balanced view on where the federal public service fits in comparison with other major employers in Canada.

A useful approach for undertaking this analysis would have been to build up a total compensation profile that would allow us to convert the various benefits and compensation arrangements provided by different employers to the common denominator of dollars and cents. Such a measure would facilitate comparison of quite different compensation packages.

We rejected this approach for two reasons, one practical and one conceptual. To begin with, in practice we simply do not have the data to create such a detailed comparison across employers. Nor would it be easy to collect such data in a readily convincing, reliably comparable manner.

Second and more importantly, such calculations require us to choose between comparing on the basis of employer cost or of estimated employee value. We have focused in this study on employer cost, mainly because it is both less ambiguous and easier to determine.^[140] Moreover, the value of any particular compensation arrangements can vary greatly across employee groups, or among individuals within a group, or even for the same individual as their personal circumstances change. For example, parents take quite a different view of survivor benefits or orthodontic coverage than most employees who are single. Thus, whichever evaluation method we choose, the apparent precision of reducing disparate compensation elements to cash terms will necessarily result in a debatable interpretation.

So we are left with the need to weigh federal public service compensation in comparison with what is provided by other employers on the basis of an overall judgement informed by the variety of perspectives examined in this chapter.

Putting the federal public service in context

From the period immediately following the First World War, when Parliament first legislated to establish a federal public service recruited on the basis of merit, the essential story has changed little. Successive policy declarations about the intent underlying federal public service compensation have aimed at maintaining comparability with the private sector and the broader public sector. However, time after time comparability has given way in the actual determination of salaries and benefits in the public service to more pragmatic concerns such as respecting internal relativities between groups, concluding a collective agreement, showing an example as an enlightened employer, or pointing the way on controlling spending or inflation.

In the wider context of the Canadian economy and labour market as a whole since 1990, several points stand out:

- *Employment*—Between 1990 and 2003, private sector employment has increased by nearly 23%, whereas total federal public sector employment^[141] fell by about 10%. As a proportion of total Canadian employment the federal public sector declined from about 2.7% in 1990 to around 2.0% in 2003.
- *Total Wage Bill*—Reflecting in part the increased employment, the private sector total wage bill (salary mass) grew since 1990 by nearly 70%. Compared with 1990, the federal public service wage bill in 2003 was a little over 30% larger.
- *Average Salaries*—Average Weekly and Average Hourly Earnings are the main private sector wage indicators we identified, along with the year-over-year wage increases included in private sector collective agreements. The first two indicators changed little between 1990 and 2003. The year-over-year negotiated wage change was about 8% higher over the 13 years. Federal public sector average salaries grew by about 16% over the same period. All these increases are expressed in constant dollars; that is, with the effect of inflation removed.

What is most striking about the federal public sector in comparison with the Canadian private sector is not the experience over these 13 years, but the trend since the end of Program Review in 1997–98. The rate of increase in each of the areas noted, but especially in average salaries, has been notably faster over the past five to six years than for the economy as a whole, or the private sector specifically.

Comparing rates of increase begs the question of whether the starting point was comparable.^[142] The only information we found on the comparability of the average level of federal public service salaries vis-à-vis those in the private sector at the beginning of the 1990s was a 1992 Treasury Board study that calculated, based on Pay Research Bureau data, that "on a national basis, average salaries in the federal public service were 8.3% behind those of the private sector."^[143] Coincidentally, this is almost exactly the percentage by which the cumulative increase in average salaries in the federal public sector exceeded private sector increases, as measured by the private sector year-over-year negotiated wage increases, between 1990 and 2003.

Salary comparability

The studies we reviewed compared the value of federal public service salaries and benefits directly or indirectly with the Canadian private sector and the broader public sector. Two such studies, a report prepared by the Canadian Federation of Independent Business (CFIB) in 2003, and an analysis commissioned by the Treasury

Board Secretariat (in 2003 as well) from Professor Morley Gunderson at the University of Toronto, report that there was a substantial wage premium in favour of the federal public service in comparison with the private sector. More importantly, these studies reported that this premium had increased in recent years.

Our conclusion is that due to methodological issues, the reported wage premiums are questionable, although the upward trend line in the relative position of federal public service remuneration coincides with our own analysis and other reports such as the 2003 compensation report of the Institut de la statistique du Québec. Our assessment suggests that a large part of the premium reported by the CFIB study may have resulted from methodological issues, most notably the inadvertent inclusion in public service income of one-time retroactive pay equity payments made in 2000, and the use of median instead of average income data.

In the case of the Gunderson study, we noted that the reported wage premium diminished as an increasing number of occupations were distinguished in the econometric model used for the analysis. Moving from 10 to 47 occupations lowered the federal public sector salary difference versus the private sector from 16.2% to 12.4%. Such a gap is still significant, of course. However, when we expanded our review to include the results of the annual remuneration survey conducted by the Institut de la statistique du Québec, we noted the finding that detailed job matching largely eliminated the difference between federal public sector salaries and private sector salaries in Quebec.

Our consideration of these macro studies led us to conclude that the evidence of a substantial general wage premium in favour of the federal public service is weak. These studies try to roll up too much disparate information, leading to a level of abstraction or artificiality that provides an unconvincing basis for measuring comparability. For example, the danger of comparing quite distinct groups of workers is high.

Nevertheless, such studies have the value of raising issues for investigation at a more detailed level. In particular, the unanimous report of a rate of increase in federal public sector remuneration that exceeds the general trend in the rest of the Canadian labour market warrants follow up. This study was in part motivated by the need to understand better, whether, to what extent, and if so why, comparatively rapid growth in federal public service salaries may have occurred.

This critique of macro studies implies that targeted analyses of remuneration for specific occupations would be more informative and reliable. While this is compelling in theory, our review of several such studies indicates shortcomings that compromise their utility. Most importantly, there are no established standards nor agreed methodology to discipline such work. The fact that most are undertaken in the period leading up to collective bargaining does not help their credibility. Even those that appear rigorous can sidestep important issues. For example, the 2003 joint Public Service Alliance of Canada/Treasury Board Secretariat study on remuneration for trades-related specialties largely ignored regional differences in such pay, even though the existence of local pay scales is a well established characteristic of the remuneration of such occupations.

If we are to have a robust and well-informed basis for deciding on federal public service compensation, we will need detailed information on the going rate in the external labour market. In late 2003 Parliament approved the *Public Service Modernization Act*, which provides for the establishment of a compensation research function within the new Public Service Labour Relations Board. Careful adherence to consistent and rigorous standards of objectivity, as well regularly scheduled cyclical reporting according to a predictable schedule, will be essential.

Weighing all of the available information, our summary assessment is this:

At most, there was in 2003 a small general premium for federal public service salaries over those paid for similar work in the Canadian private sector. However, if the faster growth in average salaries noted in recent years in the federal public sector persists, federal salaries on average will surpass those in the private sector very soon, by an increasing proportion.

Pay equity comparability

We have only incomplete and difficult-to-interpret information on how the federal public sector experience with pay equity compares with that of other major public and private employers in Canada. It would be a substantial research task, well beyond the resources of this review, to assemble and assess comprehensive data. This section therefore limits itself to giving some anecdotal evidence, which at least gives some flavour of the experience elsewhere.

Provincial legislation

The pay equity legislation adopted across Canada by different jurisdictions has been varied. Six provinces—Manitoba, New Brunswick, Prince Edward Island, Nova Scotia, Ontario and Quebec—adopted versions of a proactive^[144] approach, with the latter two jurisdictions being the primary examples. The remaining four provinces have used human rights or labour standards legislation.

Ontario

Ontario was the first jurisdiction to enact proactive legislation that applied to both the public and the private sectors. According to Morley Gunderson, who has written extensively in this area, "Pay equity in Ontario can be ranked as the most advanced in the world."^[145] The Ontario model is driven by joint pay equity committees that develop and implement pay equity plans with each bargaining agent. The criteria for determining gender predominance are flexible, including reference to historical incumbency and traditional work stereotypes. Various wage adjustment methodologies are permitted, including a proxy method that allows female-predominant groups without an evident male comparator to compare themselves to appropriate groups in another establishment.

The Ontario legislation limits the dollar value of pay equity adjustments to no more than 1% of payroll per year. It recognizes exceptions in assessing wage disparities such as skills shortages and union bargaining strength. Pay equity is deemed to have been achieved when a female-predominant job class is paid the same as the lowest paid male-predominant job class performing work of equal value. Perceived shortcomings of the Ontario experience include a low compliance rate, particularly among small employers, and the absence of legislative provisions relating to the maintenance of pay equity once it has been implemented.

Quebec

Quebec included pay equity in its *Charter of Human Rights* in 1975 and modelled its 1996 pay equity legislation on Ontario's experience. Quebec's law includes a wider set of acceptable wage adjustment methodologies and the possibility of adopting a sectoral or industry-wide plan. Maintenance is to be addressed when a collective agreement is renewed. The Pay Equity Commission has the power to initiate investigations. A provision to accept pay relativity plans already in force before the legislation was passed was ruled unconstitutional.

Like Ontario, Quebec is believed to have a relatively low compliance rate, and because most employers are still at the stage of introducing pay equity, few need to apply the maintenance provisions.

Implementation of pay equity by other employers

We were unable to find any systematic assessment of how pay equity has been implemented by other major employers in Canada, nor what salary increases have resulted. Some information was reported in Chapter Four of the final report of the Pay Equity Review Task Force chaired by Professor Beth Bilson.^[146] In exploring the impact of proactive approaches to implementing pay equity, the Bilson Task Force report gave some figures on wage increases resulting from applying the principle of equal pay for work of equal value. In Manitoba, for example, whose 1985 legislation was described as a model, the percentage of payroll devoted to implementing pay equity ranged from about 2% with the province's Crown corporations to 3.3% for the civil service.

Under the Ontario *Pay Equity Act*, salary adjustments for organizations with 500 or more employees were reported as being 0.6% of payroll in the private sector and 2.2% in the public sector.^[147] In the Ontario public service itself, the initial adjustment introduced over the two-year period from 1990 to 1991 resulted in a payroll increase of about \$120 million in a public service numbering about 80,000 at the time.^[148] Subsequent complaints and adjustments added about \$9 million to this total. Ongoing costs have been merged into the pay of female job classes and, more than a decade later cannot be accurately determined.

In Quebec, the total public sector investment in pay equity between 2000 and 2005 has been estimated at about \$8 billion. This sum covers the entire public and para-public sector, which amounts to some 500,000 employees. The annual expenditure in 2000 was estimated at more than \$530 million, an amount that increased to about \$785 million by 2005 as a result of further settlements.^[149]

Two other points of information on provincial government expenditures in this area relate to Saskatchewan and British Columbia. In 2003, \$65 million was reported to be going to 25,000 health care workers in Saskatchewan. In British Columbia, over 40,000 health care workers received about \$100 million in retroactive pay equity adjustments in the fall of 2000.^[150]

This data, incomplete as it is, nevertheless suggests a few points of comparison in relating the federal public service to the wider Canadian experience of pay equity:

- The federal public service investments in pay equity appear to be as large or larger than those implemented in other jurisdictions.
- The percentage of payroll added to the wage bill in other jurisdictions seems to be similar to the federal government experience.

More broadly, it appears as yet undetermined what impact pay equity has had on the compensation of female workers in Canada. As Morley Gunderson observed in 2002:

Unfortunately, we know remarkably little about the overall effectiveness of initiatives like Ontario's pay equity programs. We know that Ontario is a leader in the world in the area of pay equity, and we know that this system has turned out to be complex, but we have remarkably little evidence on the bottom-line question—Has pay equity been successful in closing the wage gap or in achieving other social objectives? [\[151\]](#)

Pension and benefits comparability

After salaries, pensions are both the largest element of the compensation package for federal public service workers and the largest cost to the employer.

Federal public servants are among two fifths (40%) of paid workers in Canada covered by an employer- or union-sponsored registered pension plan. Other workers generally rely on sources such as private registered retirement savings plans, group RSPs, personal investments, RRSPs or on the CPP/QPP and the OAS. These vehicles are available to all Canadians, including federal public servants.

The federal public service pension plan is among the best in Canada

In a 2004 study by Towers Perrin, among defined benefit plans, the Government of Canada plan ranked at the 87th percentile for employer value and at the 96th percentile for total value when employee contributions were included. Particularly significant in differentiating the federal plan from others are the early retirement and bridging provisions and the full inflation indexation policy. Other federal pension plans such as those for the Canadian Forces, the Royal Canadian Mounted Police, parliamentarians, and federally appointed judges provide even greater value to their members.

Similar to other public sector plans, the federal public service pension plan in 2003 required a relatively substantial employee contribution: 4% of earnings for that part of salary below the amount covered by the CPP/QPP's YMPE, and 7.5% above that income level. However, these contributions were less than what provincial public service plans required. This was true for all provincial plans at the income levels below the maximum covered by CPP/QPP, and for many of those plans for higher income levels as well. Overall, federal public servants contributed no more than 28% of the current service cost of their pensions, a level that is significantly below the 40% to 50% shares for most other public sector plans in Canada.

The story on non-pension benefits is more mixed, as summarized below.

Public Service Health Care Plan is competitive but lags in some areas

In general, Mercer Human Resources Consulting found the PSHCP to be competitive with the coverage provided by other large public and private employers in Canada. However, some features were relatively less generous in relation to active employees, including the levels of deductibles and reimbursement, hospital room coverage, the absence of a drug card, limits on many paramedical specialists, vision care, private duty nurses and out-of-country coverage.

Based on a small sample of other employers' actual per capita costs, the PSHCP fell in the middle range at \$823 per member annually. The full range was from \$495 per capita to \$1,243.

Few employers provide the same level of coverage to retirees as to active employees. The PSHCP is very competitive with respect to coverage provided to retirees.

The Public Service Dental Care Plan is also competitive, but with lags in some areas

Again, the federal plan is broadly speaking competitive, but lags the most generous employers in some areas such as the maximum level of reimbursement in a year and the deductible levels. On the other hand, the PSDCP is more generous on lifetime orthodontics reimbursement levels and coverage for retirees.

The life and disability insurance plans both lags and exceeds others

As was the case in the previous areas, the federal policies both lag and exceed what other employers offer. For the most part, other employers cover plan costs fully or to a greater extent than does the Treasury Board. On the other hand, indexation of long-term disability pensions, up to an annual limit of 3%, is better than for most employers.

Severance pay is a public sector phenomenon

Severance pay is mainly a public sector phenomenon. Within the public sector, the federal public service provides a benefit that grows with an employee's years of service, as do most other employers offering this benefit. We were unable to obtain specific details on how the amount of the federal public service benefit compared to that of other employers.

Leave entitlements are generous

For a given number of years of service, the federal public service offers more vacation leave than most major employers, according to Towers Perrin database information. The federal public service is particularly generous in the duration of up to a year of maternity leave and parental top-up of Employment Insurance benefits to 93% of regular income.

Overall conclusion—Federal compensation compares favourably with other sectors

Putting all the pieces together, we can only conclude that the general situation of federal public servants compares favourably with that of workers in the private sector and the broader public sector in Canada.

Some reports in 2003^[152] asserted that there is a substantial general premium whereby federal public sector salaries exceed on average those paid for similar work in the private sector. In our view, the case is unproven. The more we compare salaries for specific jobs, the smaller any such premium becomes. In fact, the 2003 report of the Quebec Institut de la statistique, which used a job matching methodology, found that federal public service salaries were generally in line with those in the Quebec private sector, which is itself similar within 5.5% to the Canadian private sector average.

Nevertheless, all the general studies examined in this review, as well as our own analysis of federal public service compensation, point to a rate of increase in salaries in the federal public service since 1998 that exceeds what was experienced in the private sector on average. If there was at most a small premium overall as of 2002–2003, a continuation of the relatively faster rate of growth in federal public service salaries will certainly create one of significant size.

Of course any such general view masks important distinctions. On salaries, we know for example, that executives above the first level receive lower total compensation than counterparts in the private sector for the same level of responsibility. The evidence also indicates that trades-oriented employees were paid less than private sector equivalents. On the other hand, administrative support staff such as clerks and secretaries generally earned more than those performing similar duties in the private sector.

It is generally believed that the relatively higher salaries for administrative support occupations are a result of pay equity. Certainly the federal government has paid large amounts to settle complaints relating to the principle of equal pay for work of equal value. And the ongoing share of the wage bill relating to pay equity is in the range of 2% to 3% overall. However, the basic pattern of the public service paying more than other employers in the lower ranks, less at the highest levels, and in the middle it depends has persisted for decades. This was the story behind the Beatty Commission in 1930 and the Gordon Commission in 1946. Both focused on the need to improve the compensation and career prospects for scientific and administrative (executive in today's parlance) employees in the public service. The Glassco Commission report characterized this pattern thus:

Wage and salary rates for the lower grade positions in the civil service are in general equal to, or better than, those for comparable jobs in private industry. Some disparities appear in salary rates for jobs above these levels, most markedly in senior administrative and professional posts, where the government is at a marked disadvantage in competition with private industry.^[153]

It is evident that the non-salary components of federal compensation compare very strongly with what is provided in the Canadian private sector. Despite the fact that we were unable to assemble the data necessary to compare total compensation by assigning a dollar value to all of the various elements for a range of comparable employers, the accumulation of specific comparisons leads unavoidably to that view.

Specifically, the federal public service pension plans were in the top 10% in Canada in terms of overall value. The early retirement and indexing provisions were especially advantageous. The health and dental plans were not the most generous in Canada, but they did provide solid protection. They also were available to retired public servants in a way that goes beyond what most private sector employers provide their retirees. Similar comments apply to the public service life and disability insurance, although federal public servants paid more of the cost in these areas than employees in most major private companies. Severance pay was mainly a public sector benefit, and the federal public service policy was generous. Leave entitlements in the federal public service compared well with what was offered on average in the private sector.

Overall then, employees in the lower ranks enjoy very advantageous compensation, combining salaries that are ahead of the private sector, and an excellent pension plan, with solid benefits. For middle level public servants, even if salaries are more likely to be in line with private sector counterparts, when the public service pension plan and benefits are taken into account, their overall compensation is very good. For top officials, whose salaries lag what private sector executives enjoy, the pension plan and the suite of benefits, which are provided both during the years of active employment and during retirement, combine into an attractive package. The more senior the official, however, the less this is true, and the greater the chance that these individuals will find

satisfaction in other factors such as the value of public service, the breadth and intensity of the challenges offered, and the opportunity to influence the future of the country.

SECTION FOUR
RECOMMENDATIONS

10. Context for Recommendations

In this concluding section, we position the findings of this Report in a broader policy context and present specific recommendations for managing federal public sector compensation more deliberately and effectively.

The essential message is that because compensation is a substantial share of federal government discretionary spending (over one third of program spending), and because the components of compensation are closely interrelated, this whole area should be managed in a coherent and strategic manner in support of ensuring that we have the Public Service we need. Work in preparing this Report has underlined how piecemeal our current management regime remains, despite recent efforts to promote greater coherence. Even the data needed to answer basic questions in this field are subject to confused definitions and inconsistent reporting. Given the magnitude of the sums involved, there must be clear reporting and accountability for federal government compensation costs. Sound public management demands it.

In the years ahead, compensation must continue to be driven primarily by the principles of external comparability and internal consistency–fairness both to employees and taxpayers. We must apply these principles to ensure that we can meet our future business needs and operational realities. Our compensation arrangements must be generous enough to attract, retain and motivate the talent we need, and modest enough to ensure fiscal prudence, all the while reflecting our collective commitment to remaining a socially responsible employer. Such a balance can never be easy and will always require us to make choices. Better information and more systematic management will permit us to juggle these trade-offs in the best way possible.

This chapter summarizes the factors driving increases in compensation costs between 1997–98 and 2002–03, and briefly describes some key trends likely to affect the nature of the Public Service in the next decade or two. An appreciation of both perspectives is essential to shaping future compensation policy. In the following chapters of this section, we then work through 17 sets of recommendations (77 proposals in total) organized into five themes:

- 1. Transparency and accountability;
- 2. Coherent management of compensation;
- 3. Substantive compensation issues relating to salaries;
- 4. Substantive compensation issues relating to pensions and other benefits; and
- 5. Possible areas for updating the legislative framework.

We also provide, in Chapter 15, an outline for a possible implementation plan. Chapter 16 contains our concluding thoughts.

Factors shaping the recommendations

Compensation Cost Drivers

In formulating our recommendations, we have been guided first by our assessment of the main factors driving compensation expenditure increases, particularly since the end in 1997–98 of the freezes and downsizing associated with Program Review. Broadly speaking, as summarized in the appendix to the Overview of this Report, salaries drove two thirds of the approximately \$8 billion increase in total federal public sector compensation between 1997–98 and 2002–03. Table 1051 summarizes the main drivers of change during this period.

Table 1051

Major drivers of federal public sector compensation cost increases since the end of Program Review, 1997–98 to 2002–03

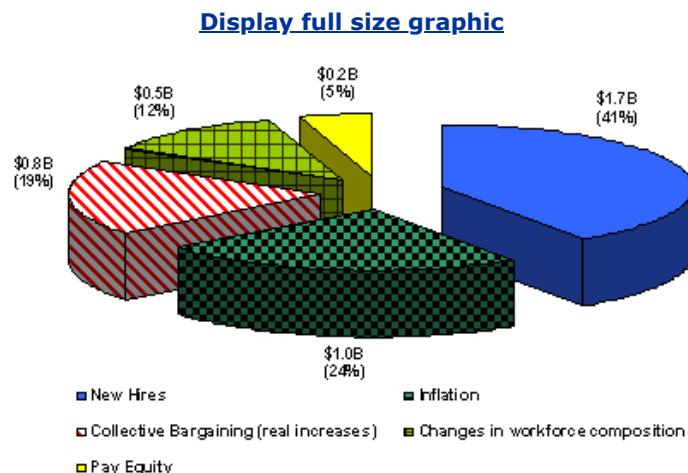
Cost Drivers	Expenditures	Difference
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	(\$billions)		(\$billions)	%
	1997-98	2002-03		
Salaries	12.0	17.2	5.2	66
Pension Contributions	1.3	2.5	1.2	15
Payroll Deductions	0.4	0.9	0.5	6
Health and Dental	0.7	1.1	0.4	5
Allowances	0.4	0.8	0.4	5
Other (Net)	0.9	1.1	0.2	3
Total*	15.7	23.6	7.9	100

* Note that the totals are somewhat smaller than reported elsewhere in this report. They exclude compensation costs for what we have dubbed the "other" domain (e.g. federally appointed judges, parliamentarians) as well as such amounts as retroactive payments or payments of non-pension benefits for public sector pensioners, for example. In other cases, we were unable to obtain the detail needed for analysis at this level. So we limited the analysis to the data reported in the appendix to the Overview of this Report.

Figure 1052

Main components of salary mass increases in the combined core public service and separate employer domains, 1997-98 to 2002-03



Within the salaries area, using the combination of the core public service and the separate employers as our analytical focus, increases can be attributed to five main factors, as illustrated in the pie chart in Figure 1052. First, at a cumulative level of 11.6% between 1997-98 and 2002-03, inflation alone would have increased the salary mass for this part of the federal public sector by \$1 billion, from \$8.2 billion to almost \$9.2 billion.

Second, beyond inflation, the largest factor was increases in the number of employees. About \$1.8 billion of the total \$4.2 billion increase in the salary mass for the combined core public service and the separate employers resulted from hiring more employees. Because the hiring was spread over the whole five years, it is hard to extract the inflation component. A reasonable estimate of the after-inflation contribution from new employees' salaries would be \$1.7 billion.

Third, we have increases in salaries resulting from collective bargaining outcomes that went beyond matching inflation. These raised the salary mass overall by the end of the five years by about \$0.8 billion, more or less

equally driven by economic increases in excess of actual inflation, and by increases resulting from changes to the pay structures of various groups.

Fourth, changes in the composition of the public service workforce contributed about \$0.5 billion to the cumulative increase in the salary mass. Finally, pay equity settlements explained about \$0.2 billion of the increase.

Beyond salaries, the only other really substantial cost driver for the overall federal public sector between 1997–98 and 2002–03 was increases in the employer share of contributions to cover the cost of pension entitlements for current service. This category amounted to \$1.2 billion, or 15% of the overall \$8 billion compensation cost increase to the federal Government.

On the other hand, some categories of compensation expenditures grew much faster in percentage terms. For example, performance pay tripled in total cost, albeit on a very small base. Payroll deductions more than doubled. Health and dental programs increased by about 50%, which was more than twice the rate of increase to the number of employees.

Some of these increases were a result of socio-economic pressures affecting all Canadian employers. Under this heading we would put inflation, of course, but also a substantial part of the changes in the composition of the workforce as the importance of knowledge to employers increased, as well as pay equity, increases in payroll deductions, and much of the increases in health and dental costs as employees aged on average, and drug costs soared. Also, some of the increased employer pension costs for current service were a result of lower real interest rates. In total, these components of compensation cost increases apparently amounted to in the order of \$3.5 billion of the total \$8 billion increase observed between 1997–98 and 2002–03.

That leaves a majority of the expenditure increases in components that were subject to control by the employer. The realities of collective bargaining, however, do put constraints on what an employer can accomplish in controlling compensation costs. On the basis of this analysis, we have put an emphasis in our recommendations on several measures to bring greater discipline to the management of employment and salary increases in particular, beginning with transparency, and complemented by more coherent management of such growth.

In addition to weighing the relative factors driving past cost changes, we have looked to the future, asking regularly whether the existing compensation arrangements will equip the federal public service to attract and retain the expertise and leadership it will need to meet Canadians' expectations over the coming generation. Thus, we have proposed various reviews of the suitability of what has grown up since 1967 when collective bargaining was implemented in the federal Public Service.

The Future Public Service

While this Report cannot provide an in-depth analysis of how public administration will evolve over the coming years, we must acknowledge some of the trends likely to affect the future of the public service. Rising expectations of service quality and relentless pressures to reduce administrative costs will require governments of all stripes to reassess frequently their core functions and competencies, and to review how they carry out their responsibilities. The nature of those responsibilities is itself subject to renewal as public attitudes evolve, and the roles of the federal government shift in response. This ongoing rethinking of government can be expected to continue, and will lead to changes in the nature of work and the skill sets required of employees. By extension, it will be necessary to adjust the compensation regime in order to support these changes.

In the broader society, we can expect such trends as demographic and technological changes, emphasis on rights, globalization and interconnectedness to play key roles.

Demographic changes

Overall, the population will continue to age. Population and labour market growth will increasingly result from immigration. By 2020, such growth is predicted to be driven entirely by immigration. Ethnic and cultural diversity will increase.

Technological changes

Rapid advances in the ubiquity of information and its speed of dissemination will continue. Robots and automation will take over most goods production, with new services emerging to stimulate employment. The linking of biology and technology will change our thinking about life.

Emphasis on rights

More areas of policy will be driven by demands to recognize rights and by a desire for equality across groups. Both litigation and complex mediation will grow as ways to resolve conflicts.

Globalization

While some backlash to increasing global convergence can be expected, we can still anticipate that fashions, standards and news will be driven more and more by a shared consciousness that envelopes much of the globe.

Interconnectedness

Problems fit less and less well into the conceptual and institutional structures we have established to bring order and accountability to public administration. The result is an increasingly recognized need to deal with issues horizontally and across boundaries.

This list is fairly conventional. In effect it extrapolates the trends of the past 10 or 20 years. It takes no account of possible major discontinuities resulting from such threats as terrorism, war, extreme weather or pandemic. In any case, whether current trends accelerate or something unexpected asserts its primacy, the Government of Canada will be marked by an intensified need to anticipate, interpret and adapt to rapid and unpredictable change. It will need to absorb, understand and utilize increasingly vast and complex information. It must become better at reconfiguring itself in order to respond rapidly as demands shift.

Implications for our Future Management of People

Such phenomena suggest several implications for our management of people. In the future public service there will be a need to recognize the significance of skill sets, to balance the stream of permanent and temporary staff according to opportunities and priorities, to keep structures and people flexible, and to minimize hierarchies.

The significance of skill sets

There will be a growing need for specialized expertise. In recruiting, the federal public sector will need to access its full share of the most talented university graduates. In addition, we will need to attract more senior workers who have critical experience and knowledge outside government. These requirements will extend to virtually all areas of specialization.

An emphasis has to be placed on continuous learning. Existing public servants will need to invest a substantial part of their time in deepening their knowledge, whether in their original area of expertise or in new fields.

Balancing the streams of permanent and temporary staff

Preserving a substantial core of public servants who remain for all or nearly all of their career is essential to ensuring continuity of values and preserving corporate knowledge. However, innovation or new tasks will require a steady stream of new employees. We can expect a larger share of the public service to move in and out over the years in response to opportunities and priorities, perhaps several times in the course of a career.

Keeping structures flexible

The basic paradigm of the stable organization is a barrier to our ability to adapt to changing priorities. People need a defined home base, and an understood relationship to the organization. However, greatly increased structural flexibility will be essential if we are to meet the challenges we face in a timely way. Under pressure of necessity, the existing rules are interpreted flexibly, but the underlying norm of stability is increasingly an obstacle to effectiveness, and employee expectations in this regard become a source of unnecessary frustration.

Flexibility in assignments

As with structures, flexibility is also key with individuals. More and more often we need to assemble and disassemble different groupings of people for particular purposes. The existing classification systems presume that jobs are relatively fixed, and that individuals can be slotted in a stable way into such roles. More and more, such concepts are an impediment to delivering on the constantly evolving business of government.

Balancing the ratio of specialists and generalists is another key way to maintain employee flexibility. While expert knowledge is crucial, so also will be our capacity to synthesize information across disciplines in novel ways. This will increase the importance of generalist skills, not as a substitute for subject-specific expertise but as a complement to it. The need to translate knowledge across sectors will be at a premium.

Minimizing hierarchies

We will need to ensure less hierarchy in the federal public service. A corollary of the trends described so far is the need to connect the experts more directly to the decision makers. As the time to react shrinks, intermediaries must be few. And their role would be more to translate across specialties than to interpose multiple levels of approval. Executives and managers will need to be as highly skilled in the fine arts of diplomacy and persuasion, relationship management, inter-organizational team- and consensus- building, as

well as project and performance management, as the substantive experts must be steeped in their specialized domains.

It is important to emphasize that these trends apply significantly to all branches and levels of the public service. Terms such as knowledge worker are often understood as applying only to highly educated specialists. In fact, the knowledge content of all work is increasing dramatically. Work in the trades, for example, demands greater ability to use electronic devices and to install or repair a wide variety of customized equipment, as well as specialized and often lengthy training. Clerical and secretarial work more frequently involves coordinating services in support of constantly reconfiguring work teams and mastering complex software. So while the extent and nature of the trends described above will vary across different groups of public servants, virtually no part of the federal public sector—like the larger Canadian society and economy—will be exempt from their effects on the workplace and the nature of work.

As a final observation, we may speculate on the future size of the federal public sector. We reported in Chapter 5 how the federal public sector has shrunk as a proportion of the Canadian labour force over the past decade or so. While there was fairly rapid growth, especially in the core public service, in the years between 1997–98 and 2002–03, this followed on dramatic reductions in the earlier part of the 1990s. Looking ahead, the most likely scenario is for the total size of the federal public sector to remain at about its current level, and therefore its share of the total Canadian labour force to decline further. Some service functions, for example, in the area of Employment Insurance processing, will be delivered electronically, with resulting staff reductions. Other functions may be privatized or shifted to other governments. On the other hand, we can expect some core federal functions such as the Canadian Forces to grow, and new programs of various kinds to require additional staff.

The phenomena sketched in this section will no doubt require responses in the areas of compensation policy and practice. As we present in the rest of this section our recommendations on how to strengthen the management of federal public sector compensation, as far as possible we used the expected trends we have highlighted here as reference points in shaping our thinking.

11. Recommendations on Transparency and Accountability

At present, there is little overall understanding of federal compensation. In effect, the facts are lodged in hard-to-access and internally inconsistent databases that are maintained in diverse parts of the Public Service. It is true that the Public Accounts do report a total amount spent on Personnel (standard object 01). For 2002–03 this was given as \$25.1 billion. ^[154] This compares closely with our reported total for 2002–03 of about \$24.8 billion. However, there are few supporting details reported in either the Public Accounts or other regular government reports. Neither is there any report that sets out how these expenditures have changed from year to year, or what forces have driven the changes.

The result is that the context for discussions about federal compensation issues is fuzzy at best. In fact, there is little public discussion. The main exception occurs during periodic public service strikes, when the media rely mainly on the bargaining positions publicized by the union leading that particular strike. Unions naturally reference whatever information best supports their demands. The federal government for its part tends to be slow to offer its arguments. And like the union, the government puts out the data that most favours its position in the current negotiation. The media is left to try to make sense out of all this, since they generally do not have access to broader data that would allow them to formulate their own interpretations.

From time to time other stories emerge, nearly always without any broader perspective being offered. We hear criticisms of performance pay for executives, for example, but little about how their pay compares to the private sector nor the role pay-at-risk plays in that comparability. Unions naturally complain that their economic increases are low, but we seldom hear about other contract terms affecting wages, nor the overall trend in average salaries actually paid to employees. We hear that federal public servants enjoy on average a premium versus private sector employees, but not much is said about the limitations of studies based on macro data such as the Census or the Labour Force Survey.

If it were only the media and the public lacking a broad understanding of federal compensation, that would be a significant concern. But in fact, the government itself does not maintain a systematic overview of the levels and trends of the various components of federal compensation. As far as we can determine, this study is the first comprehensive compilation and description of the subject, at least since the Glassco Report in the early 1960s, more than 40 years ago.

The existing situation appears to result from several factors. First, as we have learned in preparing the present Report, it is inherently difficult to access the information necessary to create a comprehensive view at a meaningful level of detail.

Second, much of the analytical capacity in place within the federal government was dismantled during Program Review in the early and mid 1990s. The Pay Research Bureau (a part of the Public Service Staff Relations Board) was abolished in 1992, partly as a cost-saving measure, and partly because the employer apparently viewed the Bureau's surveys as skewed. Interestingly, the bargaining agents may have had their own reservations about the Bureau's product, albeit from a different perspective. In the Treasury Board Secretariat, the six-year suspension of collective bargaining and arbitration led to the departure of key experts, as well as the reallocation of people remaining to more urgent issues. The process of rebuilding this capacity is well launched but far from complete.^[155]

Finally, it is difficult to escape the impression that tacitly the parties have found it congenial for compensation to remain an arcane area. In such an environment of limited public scrutiny, deals can be struck more easily and difficult conflicts minimized.

Annual Report on Compensation

Good information is the foundation of sound management. Accordingly, the single most effective step toward better management of federal compensation would be to collect, analyse and publicize the most important data routinely. An annual report on federal compensation would act as the most visible product, as well as the main driver, of an improved regime for transparency and accountability for federal compensation.

The annual report would update and track a set of key indicators, and report major changes in employment levels, collective agreements, and compensation policies and expenditures during the year. Ideally it would also provide a more in-depth analysis of the evolution of some special topic each year. The exact design of the annual report was beyond the capacity of this project but we can outline some guidelines for such a product.

The annual report will work best if it provides a succinct overview of the levels and trends in federal compensation, without becoming impenetrable in its detail and complexity. On the other hand, for those who do seek details, or whose interest is specialized, there should be easy access through the internet to more detailed data sources. The biggest conceptual challenge will be to select a limited but meaningful set of key indicators to track. These should be indicators in the true sense--that is, they should summarize important information in such a way that non-specialists can discern trends and emerging issues.

The scope of the annual report should be the same as for this Report: namely, the core public service--for which the Treasury Board is the employer--the separate employers, the Canadian Forces, the regular and civilian members of the RCMP, as well as special groups such as federally appointed judges, parliamentarians, employees of Parliament, ministerial staff, and students. We excluded federal business enterprises and other Crown corporations on the grounds that a relatively small portion of their personnel costs are financed through parliamentary appropriations, and they establish their own personnel policies. All forms of compensation should be included, reported on the basis of cost to the employer, rather than value to the employee.^[156]

These key indicators would include total spending on salaries and total compensation, employee population, average salaries, changes in the composition of the workforce, reclassifications, performance pay, value of negotiated or managed salary increases, pension contributions, other paid compensation, insurance and health expenditures, and contributions to statutory programs.

Total spending on salaries and total compensation

These are the most aggregate measures of compensation trends. We note in Volume Two that salaries and wages in the federal public sector (excluding federal business enterprises and other Crown corporations) grew from \$12.5 billion in 1997-98 to \$17.9 billion in 2002-03, an increase of 43%. Total compensation grew faster, rising from \$16.6 billion in 1997-98 to \$24.8 billion in 2002-03, a growth of 49%. These amounts should be reported in both current and constant dollars.

Employee population

An important factor in interpreting changes in the salary mass and total compensation spending is change in the number of federal employees. In reporting on growth or decline in this indicator, the Annual Report should summarize the major sources of change. It should highlight both the aggregate of Treasury Board decisions to authorize hiring more staff--or reducing staff complements--and total changes arising from departmental decisions to reallocate from non-salary to salary budgets. In this way, the evolution of the size of the public service can be tracked and debated.

Average salaries

This is a particularly interesting indicator, although not without controversy. Average salary is a gross measure resulting from dividing the salary mass by the employee population. During the period from 1997–98 to 2002–03, average salaries rose considerably faster than inflation. Although this was partly a result of economic increases that exceeded the cumulative effect of inflation, it was also a result of additional changes in salary structures, e.g. the addition or deletion of salary increments within a particular pay band, as well as changes in the composition of the federal workforce.

This indicator could be criticized as overstating changes in federal salaries, because an important component in the recent growth in average salaries resulted from shifts in workforce composition. The fact remains, however, that tracking the average cost of public service salaries is intuitively important, and usefully consolidates the several effects of disparate influences, some of which may merit deeper scrutiny.

Changes in the composition of the workforce

As we describe in Chapter 4, the makeup of the federal public service changed markedly over the 1990s and the early 2000s. Relatively highly paid groups such as Computer Services (CS), Law (LA) and Economics, Sociology and Statistics (ES) more than doubled in size over slightly more than a decade. By contrast, more operational groups such as Secretarial, Stenographic and Typing (ST), General Services (GS), General Labour and Trades (GL), and Clerical and Regulatory (CR) have declined by substantial proportions—from 82% to 28%—over the same period. Tracking such changes is essential to understanding federal compensation.

Reclassifications

We noted earlier in this Report that there are sound reasons to reclassify positions. However, it is also important to keep an eye on trends in this area, and to conduct appropriate audits to ensure that the system is managed well. The incremental cost of reclassifications should be reported as well.

Performance pay

The total expenditure and per capita value of performance pay paid to eligible federal public employees should be summarized. The proportion receiving the normal amount (in the case of Executives at levels 1 to 3, for example, up to 7%), [\[157\]](#) and the proportion receiving more should also be reported.

Value of negotiated or managed salary increases

For most employees, collective agreements determine how their salaries will change. The Annual Report should aggregate the cumulative average salary increases arising from collective bargaining. This should include both the well-known economic increases, and the average value of other less publicized changes such as the addition or deletion of increments within a salary band. An appendix should provide this information for all collective agreements concluded within the year. The Annual Report should comment briefly on the rationale for changes that are outside the general pattern.

Pension contributions

The most significant area of compensation expenditure after salaries is pension contributions. The total amount contributed by the government and by the plan members should be reported for each part of the federal public sector, as well as the ratio of these contributions.

This information is currently reported in the Public Accounts and in the annual reports of the main pension plans, but its inclusion in an overall Annual Report on Federal Public Sector Compensation would bring this important aspect of compensation into its proper context.

Other paid compensation

The Annual Report should summarize the value of such other paid compensation as allowances, overtime, severance pay, payments in lieu of leave, and pay equity payments. Any important changes in the level or nature of any of these components should be noted.

Insurance and health expenditures

Total expenditures in the areas of life insurance, disability insurance, and health and dental care plans should be reported. Because of its materiality, the per capita expenditure for the Public Service Health Care Plan (PSHCP) should be reported. Each year, details could be given on changes in one of the other plans, as well as more detail every few years on the components of PSHCP costs.

Contributions to statutory programs

Total spending in this area should be reported, along with the explanation of any material changes.

In accordance with the Government's general approach to financial reporting, the financial information in the proposed Annual Report should be presented on an accrual basis, with details on current expenditures as appropriate. This will facilitate meaningful comparisons between fiscal years.

The same information should be reported for groups whose salaries are determined without collective bargaining, including executives; Governor-in-Council appointees, including Crown corporation heads; other unrepresented employees such as Personnel Officers (PE); members of the Canadian Forces; regular and civilian members of the RCMP; federally appointed judges; and parliamentarians.

For employees, it would be useful to prepare a simplified version tailored to their own situation. Treasury Board Secretariat currently provides a very informative personalized annual report on their benefits. This could be augmented to report on the relevant employer contributions on employees' behalf, and on broader trends in federal compensation.

There is certainly a danger that the proposed annual report would invite selective reading and unjust attacks on federal public sector compensation levels and policies. All transparency entails the risk of misuse of the information provided. However, a full presentation that is updated annually is itself the best defence against unbalanced critiques. Accordingly, our first and most important recommendation is this:

Recommendation 1

1.1 The Treasury Board Secretariat should present to Parliament annually a report on federal compensation. The report should provide data on indicators such as those described in this section for the current year, and in historical perspective. The report itself should be brief and easy to read, with ample use of visual aids.

1.2 Appendices should provide more detailed information on collective bargaining outcomes for key groups, as well as decisions on compensation for unrepresented groups, and policy changes affecting compensation. It would be useful to include a more in-depth study of a particular topic each year. More detailed data for specific occupational and classification groups, as well as for individual separate employers should be accessible on line.

1.3 A summary of the report should be incorporated in the annual benefit reports provided to employees.

Possible budgetary framework

Aside from reporting on compensation outcomes, the Government should consider expressing a broad view in the federal budget on the Government's intended spending track on total compensation as an important contribution to public debate. ^[158] The expected increase or decrease in spending on compensation should be forecasted, as is done for other key spending categories. The amount presented should be the aggregate of increases expected because of changes in the level and composition of employment in the federal public sector, changes in salary levels for all purposes, and changes in spending on all other aspects of compensation from pensions to health insurance.

At present, the Government does establish a Compensation Reserve within the fiscal framework. ^[159] This Reserve does not provide for the additional costs of expanding the size of the federal public sector, only the cost of increased salaries or benefits. As statutory expenditures, pension costs are also managed separately from the Compensation Reserve. The amount included in the Reserve is kept secret on the grounds that negotiators should not show their hand in advance of concluding an agreement with the public sector unions. Even for unrepresented groups like the Canadian Forces or the regular and civilian members of the RCMP, it might be feared that it would distort the discussion between the Treasury Board Secretariat and the Department of National Defence and the RCMP for notional compensation allocations to be made public.

Of course, publishing details on expectations about negotiation outcomes would be foolish. What we suggest in this Report is a macro forecast of total changes in personnel spending, including the impact of changes in the number and types of people employed. While revealing such a forecast is not without risk, it has the following advantages:

- Implicitly, such an envelope emphasizes the point that there are trade-offs between hiring more people and paying the existing people more, as well as between salaries and other benefits.
- As such, setting forth what amounts to an intended compensation envelope will help to discipline the conversation about compensation.
- In order to establish and defend the forecast, the government will need to maintain a strategic capacity to manage compensation as a whole, as we propose later in this chapter.
- Most importantly, there will be a need for coherent coordination of the various processes that result in changes in compensation expenditures.

The proposed forecast can contribute to an ongoing system of transparency and accountability regarding the government's management of compensation but it should not be seen as a rigid straitjacket on sensible

management of changing conditions. The forecast can be compared to the results published in the Annual Report on Federal Compensation recommended in the previous section of this Chapter. There will normally be a sound rationale for the difference, for example, significantly different-than-expected inflation changes or labour market conditions, and this should be provided to the public. In effect, setting out a proposed compensation spending envelope and then reporting on the results obtained would create a planning and accountability cycle for federal public sector compensation.

As a result of this reasoning, we recommend:

Recommendation 2

2.1 The Department of Finance should consider including in the annual federal Budget an expected track for total spending on Personnel in the federal public sector, except for Crown corporations. This should aggregate planned spending changes for more or fewer employees, changes in average salaries from all causes, and changes in benefits of all kinds.

Managing compensation data

As a practical matter, the main obstacle to producing a reliable Annual Report is the unsatisfactory state of data relating to federal compensation. Several issues became evident during the course of this study: inconsistent definitions, incompatible data and reporting, and incompleteness.

Definitional problems abound. Most notably, we wrestled with four major issues, including establishing public sector domains, interpreting components of compensation, timeframes, and reporting periods.

Composition of federal public sector domains

In this Report, we have distinguished six domains:

1. the core public service domain, including the main departments and agencies as listed in Part I of Schedule I of the *Financial Administration Act*, for which the Treasury Board is the employer;
2. the separate employers, as listed in Part II of the FAA Schedule I;
3. the members of the Canadian Forces;
4. the regular and civilian members of the RCMP;
5. the federal business enterprises and other Crown corporations; and
6. a residual domain comprising federally appointed judges, parliamentarians, employees of Parliament, ministerial staff and students.

We chose these categories because they correspond to important distinctions in governance, and consequently in compensation policies and practices. We found, however, that the exact list of what organizations fell into which domain was hard to confirm.

Interpretation of compensation components

While this Report covers all components of federal compensation, from salaries to overtime, allowances, pension contributions, insurance plans, health plans, and leave entitlements, it is difficult to report consistently on this basis. Detail on some domains is available in the Public Accounts system or in reports derived from payroll information produced by Public Works and Government Services. For the Canadian Forces and the RCMP, internal reporting systems are the sources of important details. All of this is summarized in reports by Statistics Canada. However, terminology and interpretations are not reliably consistent across these sources.

Similar issues arise in the area of reporting on the level of federal employment.

Dealing with the issue of estimation

One of the simplest questions turns out to be hugely complex. How much was spent on a given component, or in relation to a particular group, in a specific period of time? Similarly difficult is the question: How many people were employed in a particular group or organization either over a set period, or at a given time? The fundamental problem is that the public service is in constant flux. People are hired and resign every day. Some work part time. Salaries or benefits are paid, and then periodically corrected at various times covering various periods. The general practice of paying salaries every two weeks means that pay periods seldom correspond exactly to reporting periods such as months or years.

These examples are sufficient to illustrate why every compensation and employment aggregate number is in fact an estimate, based on some particular method of approximating the actual total. For example, one way to estimate the employee population over a given period is to take the populations at various points and average them. Even this is harder than it seems, in that at any given point people with the legal status of employee may

fall into various categories such as working full time, working part time, on leave with pay, on sick leave, on leave without pay, and so on.

Such complexities require each number that must be estimated to be determined by a particular method of estimation. In this environment, what is most important is to define and apply consistently a reasonable estimation method.

Defining the reporting period

A final matter for standardization or at least greater clarity is that of reporting period. Some data is reported by fiscal year and some by calendar year. While differences between these time periods are normally small, and trends over time quite similar, [\[160\]](#) it would be less confusing to use one reporting period, likely the fiscal year since that is the basis of government accounting.

Need to clarify responsibility

To a large degree, the issue of incompatible data and reporting arises from fragmented responsibilities for managing aspects of the compensation system. In the absence of a culture of collaboration, definitional confusion flourishes. There are numerous circumstances where more than one organization reports on what appears to be the same topic, but with conflicting results. A notable case that arose during the preparation of this Report related to reclassifications in the core public service domain. The Public Service Commission maintained data on this, based on its staffing reports; as well, the Human Resources Management Modernization Branch of the Public Service Human Resources Management Agency assembled information from its records on position classifications. Initially, the results were wildly different, varying for 2002–03 from about 4,800 to around 8,800. After some difficult joint work to reconcile their figures, the two groups concurred in blessing a total of nearly 6,700, as we reported in Chapter 4. [\[161\]](#)

For all data elements of significance, it is critical to agree which organization is responsible to define the element, and to report consistently. Other organizations with an interest in a specific element should have a means to register their views with the lead agency, but should then incorporate the result in their own work.

In a real sense, incompleteness is also an issue rooted in definitional concerns. On various topics, we were unable to locate reliably similar data for different organizations.

In the absence of an agreed meaningful format for reporting on compensation levels, it is not surprising that some information was hard to locate. There are protocols governing the attribution of expenditures in the Public Accounts. However, these are designed with financial accounting in mind, rather than supporting an analysis and understanding of compensation issues. Once definitions are regularized to support the recommended Annual Report on Federal Compensation, the financial reporting systems feeding the Public Accounts would need to be aligned.

Reliable, consistent and complete data are indispensable to a realistic system of transparency and accountability in this as in any field. It is in the nature of complex data collection that we will always encounter errors and inconsistencies. What is essential is that we take responsible steps to minimize these risks, and provide a capacity for longitudinal tracking that can highlight issues of potential concern. Consequently, our third set of recommendations addresses this area:

Recommendation 3

3.1 The Treasury Board Secretariat should define in detail each data element required for inclusion in the Annual Report on Federal Compensation. For elements that must be created through estimation, the definition should specify the method to be used. For all elements, the data sources should be stated. The definitions should be publicly available on the Secretariat's Web site and updated as necessary.

3.2 In preparing and revising these compensation data element definitions, the Treasury Board Secretariat should consult with all groups with a professional interest, including within the Treasury Board portfolio, the Public Service Human Resources Management Agency and the Office of the Comptroller General, as well as Statistics Canada, Finance Canada, Public Works and Government Services, the Public Service Commission, the separate employers, the Canadian Forces, the RCMP, the Public Service Labour Relations Board, the public service unions and interested academics. Where there is no consensus, the Treasury Board Secretariat should make an appropriate determination.

3.3 The Treasury Board should authorize the investments in systems and analytical capacity necessary to implement a consistent approach to estimating and reporting compensation data elements. In view of the size of this area of federal spending (about \$25 billion in 2002–03), and its annual growth, appropriate [\[162\]](#) investments in understanding where our compensation dollars go, and how spending in this area evolves will almost certainly pay for themselves many times over.

Reporting on comparability

Positioning federal compensation within the larger Canadian labour market is not an easy topic, as should be evident from a review of Chapter 6 of this Volume. Despite the conceptual and practical challenges of assessing comparability, however, no system of transparency and accountability for federal compensation can be credible without addressing this perspective directly.

The *Public Service Modernization Act*, passed in November 2003,^[163] provides for a compensation research and analysis service to be created within the new Public Service Labour Relations Board (PSLRB). This service will "conduct compensation surveys, compile, analyze and make the information available to the parties,"^[164] and in specific circumstances to the public, and conduct market-based compensation research." An Advisory Board will assist the PSLRB Chairperson in shaping the standards and analytical methods of the new service.

Logically, the new PSLRB service should be the main public source of comparability information relating to the core public service and unionized separate employers. Getting to the stage where this service functions satisfactorily, however, will not be easy.

The most difficult issue will be to find survey and analytical methods that are credible to both the federal employers and federal public service unions, as well as to external critics. Although it is usually said that the former Pay Research Bureau (PRB), which had a similar mandate, was abolished in 1992 for cost reduction reasons, oral history suggests that a lack of confidence in the objectivity of PRB's survey methods was at least as important in deciding to close the service. The PRB's policy to survey only large, unionized employers, for example, was viewed, by the employer at least, as skewing the results unduly.

Over the past several years, the Treasury Board Secretariat and the federal public service unions have worked together under the aegis of the Joint Compensation Advisory Committee of the National Joint Council to undertake a pilot project on comparability surveys. In this context, Statistics Canada was engaged to design a survey and to conduct pilot testing work in Ontario on behalf of the parties. Statistics Canada and the JCAC have started to analyze the initial results of this pilot survey with the objective of developing a methodology approved by all parties which could be used for national compensation surveys. The responsibility for pursuing this project has recently been transferred to the PSLRB. Until the project is completed, it is difficult to evaluate this experiment in collaboration. However, it is encouraging at least in that the parties were able to agree on an approach that satisfied Statistics Canada's professional standards for surveying.

Despite this positive start, no one should underestimate the difficulties of compiling comparability data routinely on a wide range of jobs across the whole country. The issues to resolve range from the political, such as deciding which categories of employers to select as comparators; to the methodological, such as how to select comparable jobs; to the practical, such as how to convince private sector employers to provide the needed data. None of these issues is easy. The challenges only multiply when the task is expanded--as it must be, if comparisons are to be truly useful--from comparing salaries and wages to a total compensation approach that would compare the full compensation package.

It is essential that federal employers^[165] bring their top leaders to the table for the decisions on the main policies and analytical methods of the new PSLRB compensation research service. Substantial analytical and conceptual energy needs to be applied to establishing a sound approach from the start. Tempting as it might seem to be to concede on disputed points in order to accelerate the process, it is better to struggle over concepts and methods at the beginning, rather than after the data has been compiled and reported. There may have been a tendency in the past to adopt an apparently pragmatic approach on various joint studies undertaken in regard to particular groups. As we described in Chapter 6, however, the resulting studies too often carried little credibility with the employer but appeared to have been endorsed by both parties. The resulting confusion is not conducive to effective negotiations.

That we can get where we need to go is beyond doubt, provided the parties focus the necessary attention and common sense. The example of the Institut de la Statistique du Québec (itself a descendant of sorts of the defunct federal Pay Research Bureau) shows that it is possible to create a credible and professional service. But getting both the government employer and unions to rely on the results has proven difficult for the *Institut* as well. It will be critical for the PSLRB to resist pressures from either party to "negotiate reality."

Based on the time required to develop and undertake the National Joint Council pilot surveys, we can expect it to take several years to phase in a suitable cycle of comparability reporting. In the meantime, there will be pressure to say something meaningful about how federal public sector compensation compares with that offered by other employers across the country. We can expect organizations such as the Canadian Federation of Independent Business to publish every five years their overview of compensation in the public sector versus the private sector, based on the quinquennial Census results. As we have shown in Chapter 6, such studies are so macro as to be of doubtful use, except to track apparent trends.

Rather than leave the field entirely to such private assessments, either the Treasury Board, or indeed the PSLRB, should consider publishing its own macro overview of comparability every two or three years, drawing on the data that is available. It could make sense for the Treasury Board, perhaps in partnership with the public service unions in the National Joint Council, to commission studies on aspects of comparability, for example in the areas of pensions, benefits and leave during the period before the PSLRB is ready to undertake them.

Our remarks here apply mainly to the core public service and the unionized separate employers. For non-unionized and unrepresented groups, it is important to conduct external comparative studies. The long-established comparative studies relating to executives should continue. However, it is timely to review the methodology to confirm its continuing soundness. In particular, care should be taken to see whether solid comparisons at levels above the first level of the Executive (EX) group would support salary increases for these employees. We comment further on executive compensation later in this section. Specialized non-unionized groups such as Personnel (PE) officers should be compared to the private sector on a regular cycle.

For other groups, it is equally important to publish comparability data. The existing RCMP Pay Council reports appear basically sound, although a methodology review would be sensible now that about a decade has passed since the first report. For the Canadian Forces, the existing total compensation comparison method with the core public service needs redesign. It is onerous without being convincing either for Canadian Forces management and members, or for the Treasury Board Secretariat. As we describe below in Recommendation 13.4, a Canadian Forces Compensation Advisory Committee could assist the Treasury Board in deciding on fair compensation for our Armed Forces. An early task of the new panel could be to recommend a streamlined and credible method for assessing the comparability of military pay to the core public service, since direct comparisons to the external labour market seem no more likely to be compelling now than they were in the past.

Before concluding with this topic, however, we need to consider two further dimensions of comparability that are both controversial and conceptually difficult to incorporate into an assessment of comparability. The first topic is relative job security. The general impression is that public servants are essentially set for life once they become indeterminate employees, but that private sector employees are subject to losing their job with little warning or recourse. Both aspects of this picture are exaggerated, but still apparently more true than not.

In the federal public service, the Program Review staff reductions in the mid 1990s led to many thousands of unplanned early retirements and other job losses. However, the approaches employed--the Early Retirement Incentive and the Early Departure Incentive described in Volume 2--to implement the job cuts were generous both in financial terms, and in permitting those who wanted to leave to substitute for those whose positions were being eliminated, but who wanted to stay. It is also true that it is relatively rare for public servants to be fired, with the greatest number of involuntary departures resulting from dismissal while on probation. [\[166\]](#)

In the private sector, job security varies from weak--merely the few weeks' notice of lay-off required by labour standards legislation--to strong, depending on the employer. Unionized employees usually have the greatest job security, and the best compensation in the case of lay-off. But even the best union contracts generally do permit lay-offs, and the media regularly report hundreds or even thousands losing their jobs as plants close.

The second topic is that of the relative attractiveness of public service jobs. In theory, this can be measured in two ways: how many people apply for job vacancies open to the general public, and the rate of voluntary departures. On both points the federal public service appears to fare very well compared to the private sector. Externally advertised positions in the federal public service often attract hundreds of applications, although the proportion that is qualified has not so far been documented systematically. The rate of attrition (not including retirements) was low at about 1.5% in 2002-03, for example. Voluntary departures from private employers are of course highly variable, but it has been suggested to be, in the aggregate, in the range of 10%-15%. [\[167\]](#)

Both relative job security and relative attractiveness of an employer have value to employees, even if they are difficult to quantify. At a minimum, the overall position of the federal public service in these two areas compared with the Canadian private sector and the broader public sector needs to be documented and reported. If the assessment presented here to the effect that the federal public service enjoys a relatively favourable position in these areas is accurate, this implies that federal salaries and benefits for the same work could reasonably be somewhat lower than in the private sector. This would of course be very difficult to negotiate thorough collective bargaining, but it needs at least to be discussed frankly and openly.

In summary, our recommendations on reporting in regard to comparability are these:

Recommendation 4

4.1 The Treasury Board Secretariat should participate actively with the public sector unions in supporting the Public Service Labour Relations Board to establish an authoritative compensation research function, as soon as practicable. The scope of reporting should include all aspects of compensation, not just salaries and wages.

4.2 The Treasury Board Secretariat, as well as the other partners, should take the time and care needed to think through and fully argue methodological issues at the outset, recognizing as well the need to learn from experience. The parties should take care to recommend well-qualified representatives, including independent experts, for appointment to the Advisory Board designed to assist in ensuring high quality research methodology is employed.

4.3 The leadership of the Public Service Labour Relations Board should consult fully with both employer and union representatives in establishing and managing the new compensation research function authorized by the new . Drawing on the experience of the Institut de la Statistique du Québec, however, as well as the Advisory Board provided for under the Act, the PSLRB should itself ensure the soundness of the comparison survey and reporting methods adopted.

4.4 Until the PSLRB is ready to publish sufficiently complete information on the comparability of federal compensation to the broader Canadian labour market, the Treasury Board Secretariat (if possible, in partnership with the public sector unions through the National Joint Council) should publish at least every three years appropriate macro perspectives on comparability.

4.5 For other federal employee groups that are non-unionized or unrepresented, comparability studies should be commissioned and published by the Treasury Board Secretariat on an appropriate cycle. For established reports of this type, such as those relating to public service executives or the regular and civilian members of the RCMP, the methodology for comparisons to the external labour market should be reviewed by objective third party compensation experts to ensure they remain sound and pertinent to current circumstances.

4.6 As a complement to documenting comparability of salaries and benefits, data on job security and the attractiveness of working for surveyed employers should be compiled and reported publicly.

This first set of four recommendations is both the most important and the most feasible to implement. Reporting annually on key trends in federal public sector compensation, ensuring that the underlying data reflects clear definitions and estimation methods, and providing analytically sound information on how the federal public sector compares with the larger Canadian labour market will provide everyone with the context needed to manage federal compensation properly. However, implementing our recommendations on transparency and accountability implies, indeed requires, changes to how we manage compensation in the federal public sector. Our next set of recommendations addresses this topic.

12. Coherent Management of Federal Compensation

Coherence in managing federal public sector compensation requires a clear compensation policy framework, careful management of changes in the size and composition of the public service, a more unified approach to negotiating the various elements of total compensation, a central analytical and strategic leadership capacity to oversee the application of the policy framework, and a more workable policy on relations among separate federal government employers. In essence, the government needs to see compensation as one subject, with each of the pieces influencing the others, and therefore demanding systematic management of the whole. This chapter explores each of these topics in turn.

A policy framework for federal compensation

For several years, the Treasury Board Secretariat has sought to introduce a policy on federal public sector compensation. There have, however, been understandable reasons for delay. In the immediate aftermath of Program Review in the late 1990s, the priority was to restore the analytical and negotiation capacity essential to renew the collective bargaining process after six years of statutory salary freezes and imposed terms. A draft policy was close to approval in 2000, but management changes led to rethinking. In 2003, the document, "Towards a Compensation Policy Framework for the Federal Public Service," was circulated by the Treasury Board Secretariat to key stakeholders for comment.^[168] Consultation meetings followed over the course of 2003 and early 2004, and adjustments were made to the text. The appointment of a new ministry in January 2006, combined with a desire to take account of the results of this Review, led to a decision to postpone consideration of the proposed policy.

Now is the time to adopt and publish the policy framework as proposed. The text is provided in Appendix B. In effect, this framework sets out the major considerations that must be weighed in deciding on compensation within the federal public sector. Like any employer, the federal government needs to shape its compensation in

ways that align with relevant external labour markets, that is fair internally between related groups of employees, that recognizes where appropriate individual and group performance, and that is affordable.

In addition, however, as a very large public institution with a national leadership role in both the economic and social spheres, the federal government must modify its normal interests as an employer in setting compensation levels by taking into account broader public policy objectives. Such objectives include: overall fiscal policy goals, including expectations about inflation; leadership in social policy such as promoting parental leave after childbirth or adoption by subsidizing the generally available Employment Insurance benefits; compliance with relevant laws (i.e., the *Canadian Human Rights Act* requirement for equal pay for work of equal value and for gender-neutral job evaluation); and responding to public expectations and pressures as it must in any other policy area.

It is sometimes stated that the federal government should simply pay what the private sector pays for the same work. The argument for this position is that private sector salaries and wages are subject to the discipline of the market. Pay too much, and your business may not last. Pay too little, and you will not be able to hire the right talent. Thus matching what the market pays in setting federal compensation is fair both to the taxpayer and to the employee.

This is powerful reasoning, but it presumes a simpler world than the one we live in. For one thing, the market does not often fix a precise salary level. Pay for substantially the same work can vary in the private sector according to the importance of that work in a particular employer's business, to the size of the employer's enterprise, to whether the business sector or the enterprise is unionized, to location, and many other factors. Secondly, many government jobs have few direct analogues in the private sector. Finally, policy and other considerations can drive the federal government away from the market norm.

The policy challenge, therefore, is to balance the government's interests as an employer and its responsibilities as a primary policy leader for the country as a whole. Doing this is clearly an art, not a science. No ready calculus or formula can prescribe how best to achieve the desired balance. The mantra of matching the external labour market will always be influential, but crafting a suitable balance among the various considerations will likely always be difficult.

This truth is reinforced by the reality that most salaries and other compensation terms are determined directly or indirectly through collective bargaining with the public service unions. And within this reality, the reference point for setting compensation levels in practice is whatever is agreed from time to time between the Treasury Board and its larger unions, particularly the Public Service Alliance of Canada (PSAC), and to a lesser degree the Professional Institute of the Public Service (PIPS). The likelihood exists in this context that bargaining power and short-term expediency will trump the other policy considerations in shaping outcomes.

In view of these facts, it may seem meaningless to adopt a policy framework for public service compensation. Multiple employer and public policy considerations jostle uncertainly for predominance, all of them vulnerable to the compromises necessary to conclude a collective agreement. On other occasions, an overriding policy objective like eliminating a large budgetary deficit may lead to imposing particular compensation levels, with little consideration of the impact of that decision on the other compensation principles.

However, over time we can see the various objectives waxing and waning in their influence. After salaries are frozen or increases imposed by legislation, for example, we observe a tendency for external comparability considerations to reassert themselves. If internal relativities become distorted, we can expect larger increases to go to the groups that have fallen behind.

Reporting regularly on key indicators that distil the various employer and public policy factors that must be weighed in managing compensation will assist in maintaining a sensible balance among the factors. There needs to be an ongoing conversation, both within the government and in the realm of public opinion, about which factors should prevail at a given time and why. The proposed compensation policy framework for the federal Public Service provides a sound context for orienting that conversation with relevant and reliable information.

[\[169\]](#)

The conversation must necessarily extend beyond the indicators themselves to the best way to interpret them. For example, if external labour market wages are higher for a given occupational group than in the federal public service, we must still assess the pertinence of this gap. If the federal government, notwithstanding lower salaries or benefits, is able to attract a sufficient pool of qualified candidates, then perhaps an increase is not warranted.

On the other hand, understanding of some considerations is notoriously dependent on one's perspective. A good example is affordability. Many see the federal Government's ability to pay as virtually unlimited. Arbitrators on occasion apparently adopt such a view. For fiscal managers, on the other hand, the term "affordability" is often code for the view that other expenditure areas are higher priorities. With this outlook, the burden of constraint needed to keep the whole budget within a particular level—currently, revenues at least equalling

expenditures—should fall more on compensation (expenditures on the internal government machinery) than on other areas, typically those benefiting citizens more directly. In our view, public discussion of the most pertinent indicators and their appropriate interpretation in a given historical situation will lead, especially with several years of sustained discussion, to a balanced and reasonable application of the factors.

Accordingly, our recommendations in regard to compensation policy are as follows:

Recommendation 5

5.1 The Treasury Board should approve the proposed compensation policy framework for the federal public service as the public expression of the considerations that should be balanced in determining the federal government's approach to compensation.

5.2 To facilitate an ongoing public conversation about the appropriate way to balance the factors affecting compensation, the Treasury Board Secretariat should publish annually a summary of the most pertinent indicators related to each factor. This would best form an appendix to the Treasury Board Secretariat's Report on Plans and Priorities that must be tabled in Parliament each year, normally in February or March.

This chapter has explained the complexity of the factors that must be built into a policy on federal public sector compensation. Although a policy framework does not tell anyone what is the best balance of factors in a given circumstance, it nevertheless can be expected to raise the level of both public debate and understanding. It is clear that responsible and intelligent application of the framework over time demands a sustained and comprehensive approach to managing the field. Before addressing this point, however, we argue for greater control on changes in the size and composition of federal public sector employment, and for finding ways to negotiate non-salary benefits at least partly as trade-offs against salary increases.

Managing changes in the size and composition of the federal public sector workforce

In Volume Two, we show that about 40% (an estimated \$1.8 billion out of \$4.2 billion in total) of the increase in the salary mass of the combined core public service and the separate employers between 1997–98 and 2002–03 can be attributed to increases in the number of employees following the end of Program Review. We also report that about one third of the increase in real average salary (i.e. excluding the effect of inflation) during this period resulted from change in the composition of the workforce. In effect, more highly remunerated groups such as Computer Systems (CS), Economics, Statistics and Sociology (ES), and Law (LA) grew rapidly, while lower paid groups such as Secretarial, Stenographic and Typing (ST), Clerical and Regulatory (CR) and General Labour and Trades (GL) declined.

Both these phenomena reflect real changes in society and policy. Treasury Board approved employment growth for a myriad of reasons, from the need to increase security in the aftermath of the events of September 11, 2001 in New York, to implementing new social programs. The changing composition of the public service emerged from such pressures as growing reliance on information technology and systems, an increased emphasis on policy analysis, and expanded litigation in areas like aboriginal law and Charter cases.

However, during the years immediately following Program Review, there was little central management or tracking of federal public service employment growth, or of changes in the composition of the workforce. To the extent that such decisions were subject to Treasury Board approval, the prevailing view was that these matters should be managed case by case. Salary budget increases required Treasury Board approval, but there was no consolidation of the results of these decisions in a way that could facilitate an overall judgement of their cumulative significance.

To the extent that departmental management could also take their own decisions in these areas, matters were left to their discretion. Approved funds could be transferred from non-salary to salary budgets, provided a mark-up of 20% (in effect a transfer price) was paid to cover associated benefit costs. Existing positions could be reclassified, provided the work challenge had increased sufficiently. New positions could be classified at higher levels than existing positions on the same basis. While the government's accounting systems faithfully recorded the increased costs associated with these normally local decisions, and ensured they could be absorbed within approved budgets, there was little review of the combined effect on compensation costs at either the departmental or government-wide level.

Prior to the early 1990s, there were central controls on the number of staff, as well as systematic monitoring of reclassifications. Staff levels were limited to a specified number of full-time-equivalents. ^[170] Reclassifications were controlled after the fact by cyclical audits by the Treasury Board Secretariat. It was frustration among deputy ministers with the rigidities of this system of controls that led to greater delegation to managers. They were permitted to manage within approved operating budgets that covered all salary and operating costs, and to transfer between non-salary and salary allocations, with the transfer price noted earlier.

The solution now is not to re-impose rigid controls. Immediately after the Martin Government took office in December 2003, controls were implemented on a transitional basis to allow the new ministers to assess the situation. These were removed over the following year as their inconsistency with the imperatives of implementing new policy initiatives became evident.

We propose a system of what could be called managed delegation. First, the Treasury Board would maintain an overview of changes in the size and composition of the federal public sector workforce. The key trends would be published as part of the annual report on federal compensation. At least annually, the Board ministers would review the overall trends. This review would provide a context for considering particular cases requesting approval for increased salary budgets, and also for deciding on reallocation strategies. In this way individual cases could still be assessed on their merits, but always with the bigger picture in mind.

Second, departments would continue to be able to transfer money from non-salary to salary budgets, but these transfers again would be tracked and reported at least annually to the Treasury Board. If the level of transfers were viewed as excessive, the Secretary of the Treasury Board would caution deputy ministers accordingly.

However, it appears that the transfer price of 20% on transfers from non-salary to salary budgets is much too low. Looking at the 2002–03 aggregate compensation figures set out in Volume Two, we note that on a salary mass for the core public service of \$9 billion, a further \$3.4 billion was spent on associated non-salary compensation costs, equivalent to 36.6% of the salary mass. Some of the amounts included in the \$3.4 billion, such as overtime, are already paid out of departmental budgets. And some amounts cover a larger set of employees than just the core public service. Taking account of these points, we suggest that a transfer price of around 30% is likely reasonable. [\[171\]](#)

The reason for raising this transfer price to correspond more realistically with the employer's non-salary costs of employing staff is straightforward. Setting an artificially low price encourages buying more than is warranted. A more accurate transfer price would put a natural brake on such transfers, and thus on the growth of the public service, without regulating them more formally.

Third, a systematic audit program relating to reclassification of existing positions, and the classification of new positions should be implemented by the Public Service Human Resources Management Agency, and the results reported annually to the Treasury Board and to Parliament. Since 2004, Treasury Board policy requires departments to post details of reclassification actions on the internet. This will no doubt encourage responsible use of the delegated power to classify positions. However, only a regular audit program can actually test whether the delegation is sensibly applied in a particular department. A start was made on such audits in 2003, as reported in Volume Two. More recently, the Public Service Human Resources Management Agency has developed a tool for assessing risk with small departments and agencies, and has begun applying it in selecting its audit priorities. We need now to move to a regular cycle of audits and reporting in this area covering all parts of the core public service. Separate employers need to undertake similar reviews to ensure the integrity of the classification system.

It deserves emphasis that the goal of such a process is not to prevent changes in the composition of the public service, which are inevitable given the evolution of the role of the federal government and the growing complexity of public policy and program delivery. The goal instead is to ensure that all reclassification decisions are well founded, and that the resulting increases in compensation costs are reasonable.

In summary, then, our recommendations in this area are these:

Recommendation 6

6.1 The Treasury Board Secretariat should maintain and consolidate detailed records of approved increases in salary budgets and their rationale.

6.2 Deputy ministers should retain the ability to transfer money from approved non-salary budgets to salaries. However, the transfer mark-up price should be raised from 20% to 30%, and that amount should be reviewed annually and adjusted to reflect the real cost of non-salary employee benefits, taking account of their actual accrual cost.

6.3 Deputy ministers should retain the authority to classify positions up to the EX 3 level, and for EX 4 or EX 5 positions within the existing departmental complement at those levels. The Public Service Human Resources Management Agency should expand to all parts of the core public service its risk-based approach to audits of departmental decisions on reclassification of existing positions and classification of new positions.

6.4 At least annually, an overview and analysis of trends in employment levels and the composition of the public service workforce, as well as the quality of departmental classification decisions, should be presented to the Treasury Board. The Annual Report on Federal Compensation should summarize the results for Parliament and the public.

Expanding the effective scope of negotiation

At present in the federal public service, the scope of collective bargaining is at once narrow and fragmented, putting upward pressure on overall compensation costs. This reality contrasts with the typical situation in the private sector and most of the public sector, where all matters for joint determination are resolved in a single collective agreement.

In practice, in the regular collective bargaining process, the federal Government negotiates with its unions almost exclusively on salary ranges, allowances and premiums, and leave entitlements. Other benefits such as life and disability insurance, as well as health and dental programs, are negotiated separately. Sometimes benefits are worked out with individual unions, such as with the Public Service Alliance of Canada on the dental plan. More often, these benefits are worked out with all or most of the public service unions through the National Joint Council. The Public Service Pension Plan is not subject to negotiation, since its terms are prescribed in a statute, the *Public Service Superannuation Act*.

The rationale for this fragmented approach to determining the overall level of public service compensation appears to be a desire both to control costs, and to provide a substantially common framework for employment in the federal public sector. By maintaining a largely unified approach to benefits, we save the administrative burden of managing differentiated products for different employees, who may in fact work in the same department or agency. By purchasing benefits on the same basis for large groups of employees, we can expect favourable bids from the administering agents. Such an outcome results from the ability to spread fixed overheads over a larger volume of business, and from the simple fact that claims experience becomes less volatile as the group insured increases in size. Offering most employees standard benefits makes it easier to move between organizations and occupational groups, as well as fostering a sense of identification with the public service as a whole.

These intended advantages come at a price, however. The main cost is simply that determining benefits through separate fragmented processes makes it impossible to negotiate tradeoffs among various forms of compensation. Perversely, whatever we may save in administrative overhead by retaining largely unified benefit plans, we can more than lose through the pressure to improve benefits at various tables in the interest of good labour-management relations, without being able to trade off such increases against salary adjustments.

For example, each time the dental or health plans come up for renewal, the expectation among the union negotiators is that there will be benefit increases above and beyond meeting the mainly automatic cost increases driven by rising practitioner fee schedules or drug prices. Such requests never take explicit account of recent salary or other increases that may have been negotiated through regular collective bargaining. In effect, at every negotiation table, the union side invites the government to offer something that will improve benefits for their members--and, incidentally, make the union leaders look good. Just matching rising costs, even when they are increasing much faster than inflation, most notably with drug prices, is seen as inadequate.

A more difficult example relates to the Public Service Pension Plan. Through the 1990s, as we demonstrate in Volume Two, the share of current service costs borne by the employer grew from the range of 50% to more than 70%. While the *Superannuation Act* has permitted the Treasury Board since 2004 to raise employee contributions over several years to cover something like 40% of the costs, concerns about how this would play in the context of normal collective bargaining delayed until the summer of 2005 the decision to raise employee contributions. As we report, the Public Service Pension Plan is among the best in Canada. It would have been appropriate for employee pension plan contributions to begin rising sooner towards covering closer to 40% of costs, as part of a broader rebalancing of public service compensation.

There are good reasons to keep the Public Service Pension Plan free from trendy or frequent changes that might result from including it in collective bargaining. Employees need to be able to count on a stable plan over many years, both during their working life and after retirement. However, this principle does not require sticking unreservedly to the policy of separating the terms of the pension plan from collective bargaining. In the late 1990s, the Treasury Board came close to an agreement with the public service unions to co-manage the plan, which would have entailed sharing responsibility for its funding and benefits over the long term. In the aftermath of the failure to conclude this agreement, since 2000 there has been a re-energized union-management Pension Advisory Board that has provided a forum to discuss pension policy issues.

While the fragmentation of the processes for determining federal compensation has apparently had the effect of pushing up employer costs overall, for employees the result has been excessive rigidity in the regime. For example, while the Public Service Health Care Plan is a decent middle-of-the-road plan, it is far from the best. It either excludes or limits access to various professional services that are increasingly important, from massage therapy to psychological services. There is no protection against the 20% employee co-payment becoming burdensome in cases of extremely expensive drugs that may be essential to preserving health. As long as the employer bears 100% of the costs for the plan, and cannot negotiate trade-offs against salary increases or other benefits, the likelihood of more than marginal changes in the plan is modest.

Nor should we be too enamoured with the virtues of every employee enjoying the same benefits. The nature of families in Canadian society is changing, as well as the preferences of individuals. Greater differentiation of benefits would likely suit the diversity of employees better. The need to attract employees into the public service at various stages of their careers, while still offering a career option for what will likely remain a majority of the public service, implies a strategic reason to facilitate differentiation in benefits.

Considerable care would be required, beyond the capacity of this Review, to work through how best to formulate a more comprehensive approach to collective bargaining in the federal public service. Keeping administrative overheads low is a worthy goal. Retaining a common minimum level of federal public service protections is also likely useful in encouraging a shared identity as federal public servants. However, modern information technology opens new possibilities for cost-effective differentiation both among groups and for individuals. Bargaining, in effect, the full compensation package is more realistic, more likely to keep overall costs under control, and more responsible for both the federal government and employee unions. Determining the best approach would merit a substantial study in its own right.

A related issue in considering expansion of the scope of collective bargaining would be its impact on the role of the National Joint Council (NJC). As noted earlier, some benefits such as the health and dental plans are negotiated currently under the aegis of that labour-management forum. Although a broader scope for normal bargaining would reduce the role of the NJC, it would retain important functions as a place for broader dialogue between federal employers and unions on a multilateral basis, and as the sponsor of various specialized directives on such subjects as travel, relocation, foreign service allowances, and isolated posts.

In summary, then, our recommendations in this area are these:

Recommendation 7

7.1 The Treasury Board President should commission a high-level Advisory Panel on the scope of federal public service collective bargaining. The Panel's mandate should be to recommend how best to expand the scope of normal collective bargaining to cover most or all of the elements of compensation, other than those relating to employer contributions to programs of general application such as Employment Insurance. The Panel should include former senior public servants, union leaders and external experts, and be chaired by an eminent Canadian well versed in public and private sector collective bargaining practices.

Central analytical and strategic leadership

Essential to responsible management of federal public service compensation is a central strategic capacity to conduct comprehensive analysis and provide coordinated direction and advice. Although the Treasury Board has the authority to oversee all aspects of compensation, there is no central bureaucratic capacity in place to support integrated governance of these responsibilities. Pieces of the pie fall under the responsibility of various organizations. For example:

Increases in departmental budgets to provide for additional staff to implement a new policy or to meet program integrity requirements are recommended by one of several Program groups within the Treasury Board Secretariat.

Collective bargaining mandates are set jointly by the Department of Finance and the Privy Council Office, on the advice of the Labour Relations and Compensation Operations Branch of the Treasury Board Secretariat, and approved by the President of the Treasury Board. The Labour Relations and Compensation Operations Branch is then responsible to negotiate the collective agreements, with varying degrees of oversight by other agencies.

Public Service pensions and benefit plans are managed by the Pensions and Benefits Sector of the Treasury Board Secretariat. Mandates for negotiating changes in employee benefits are normally recommended by the Treasury Board Secretary in consultation with the Department of Finance, and approved by the President of the Treasury Board.

Analytical services in support of these activities fall into the mandates of several parts of the Treasury Board Secretariat.

Policies governing the classification of positions are recommended to the Treasury Board by the Human Resources Management Modernization Branch of the Human Resources Management Agency.

Classification and compensation policies relating to public service executives are managed by the Leadership Network, a Branch of the Public Service Human Resources Management Agency, based on the recommendations of the Advisory Committee on Senior Level Retention and Compensation, composed of senior private sector leaders.

Finally, most **decisions on classification and many decisions on staffing levels** are in the hands of deputy ministers, and normally delegated to lower level managers.

As this Report has amply demonstrated, federal public sector compensation is an immensely complex subject, the various components of which are interdependent. Only by managing this field as a unified subject can we hope to balance the interests of taxpayers and employees in a way that serves well the business needs of the federal government to attract, retain and motivate its employees.

The best way to achieve the desired unity of approach is of course debatable. During the period from mid 2002 to late 2003, the Treasury Board Secretariat attempted to promote a common approach through a Compensation Council that brought together all the Assistant Secretaries and other senior Treasury Board officials with a substantial role in the compensation area. This initiative increased shared awareness of the interconnectedness of compensation issues but it failed to institutionalize a unified direction in the field. In theory at least, the Associate Secretary then responsible for the Treasury Board Secretariat's human resources management area (known then as the Human Resources Management Office, HRMO) could direct and harmonize most of the various policy and operational elements relating to compensation.^[172] The Associate Secretary in charge of the HRMO had no role, however, in shaping recommendations relating to changes in departments' salary budgets. The Treasury Board Secretary was of course responsible for both human resources and budgetary issues, but no incumbent of that exceptionally demanding deputy minister job could realistically be expected to ensure a unified approach across such diverse subjects, without dedicated, expert support.

With the creation in December 2003 of the Public Service Human Resources Management Agency of Canada (PSHRMAC), and related changes in the structure of the Treasury Board Secretariat, the cause of integrated compensation management was set back. Initially, this was a natural consequence of the inevitable shift of energy required to put the new machinery in place. In the longer term, the new structure left no one person with the overall means and authority to plan and execute an integrated approach to managing federal compensation. In July 2004 when PSHRMAC became part of the Treasury Board President's portfolio, it became theoretically possible—but impossible in practice—for the President of the Treasury Board himself to execute such an approach.

At this stage it would likely be counterproductive to reorganize to draw the compensation responsibilities of the Treasury Board into one place. For now, the minimum requirement would be to create a Compensation Planning and Coordination Secretariat—with the clear mandate to advise the Treasury Board Secretary and President on their overall responsibility to manage compensation issues holistically. This group would pull together and integrate analytical and strategic planning products and perspectives across the central agencies, particularly the Treasury Board Secretariat and the Public Service Human Resources Management Agency. For the new Secretariat to be truly effective, both the Department of Finance and the Privy Council Office would need to support its work. This goal would perhaps gain support if these agencies seconded key staff to the Secretariat and participated in setting its work priorities and directions.

To a significant degree, the need for the proposed Secretariat is inherent in our earlier recommendations, particularly those relating to the Annual Report on Federal Compensation and to expanding the effective scope of collective bargaining in the federal public service. The very task of creating an overview report, and even more importantly, the ability to answer questions about such a report will require an authoritative staff agency to support ministers and senior officials. Even more critical, reporting in a holistic manner will create a demand for coherent planning and management of the subjects on which the government will be reporting.

By emphasizing analysis and reporting as central to the role of the proposed Compensation Planning and Coordination Secretariat, we risk leaving the erroneous impression that this work could simply be assumed by an existing unit within the Treasury Board Secretariat. This would be a mistake. The Secretariat needs to operate, under the authority of the Secretary of the Treasury Board, to provide fearless and integrated advice on coherence and coordinated strategy within the area of compensation. As such, this Secretariat should not take responsibility for any of the pieces of the puzzle, but specifically for advising on the overall scene.

In addition to securing the support of the proposed Compensation Planning and Coordination Secretariat, it would be wise for the Secretary of the Treasury Board to create a deputy minister-level Compensation Council, including those with substantial responsibility or experience in this field, with whom the Secretary can consider and debate the main issues affecting compensation. The combination of a central strategic analytical unit with an advisory council of deputy ministers, all in support of the broad mandate of the President of the Treasury Board, and ultimately the Treasury Board itself, offers the best prospect of sound, coherent governance of compensation in the federal public sector.

In this area, then, we recommend as follows:

Recommendation 8

8.1 The Treasury Board Secretary should create a Compensation Planning and Coordination Secretariat with the mandate and capacity to conduct the necessary analysis and provide strategic advice on the overall management of federal public sector compensation. This Secretariat should report directly to the Secretary. It should be led at the Assistant Secretary level, and include seconded key staff from all of the central agencies

with a role in managing federal compensation (i.e. the relevant Treasury Board Secretariat Branches, the Public Service Human Resources Management Agency, the Department of Finance, and the Privy Council Office), in order to ensure easy communications among the players. The Secretariat itself, however, should not take responsibility for any of the substantive elements of compensation management, so that it can preserve a clear view of the whole scene.

8.2 The new Compensation Secretariat should be responsible for preparing the Annual Report on Federal Compensation proposed in Recommendation 1, and for preparing the compensation policy indicators report proposed in Recommendation 4 for inclusion in the Treasury Board Secretariat's Report on Plans and Priorities, relying on the data and analytical expertise available in various parts of the Treasury Board portfolio and elsewhere.

8.3 To complement the work of the Compensation Secretariat, the Treasury Board Secretary should chair a deputy minister-level Compensation Council comprised of the most senior representatives of those parts of the federal public service with substantial responsibilities in the compensation field. The Council would advise on the Compensation Secretariat's work plan and substantive products.

Separate employers and compensation management

We need to be clear on the place of separate employers in an effective regime for managing federal public sector compensation. The term "separate employers" has been employed in this Report to refer to those organizations listed in Part II of Schedule I to the *Financial Administration Act*. Most such employers have relatively few employees, and have long managed their compensation on their own, subject to direction on their negotiation mandates and approval of their collective agreements by the Treasury Board. In the late 1990s, three important separate employers were established: the Canadian Food Inspection Agency (CFIA), the Parks Canada Agency (PCA), and the mammoth Canada Customs and Revenue Agency (CCRA). CCRA was exempted by law from the need to obtain Treasury Board approval for its negotiation mandates or contracts, although the Agency was required to consult with the Treasury Board Secretariat.

The emergence of these new agencies over the past decade raises two issues for this Review: First, what effect has their creation had on compensation outcomes in the federal public sector? Second, how should separate employers relate to the compensation management regime recommended in this chapter?

On the first question, our experience so far is limited, but there is evidence that separate collective bargaining for CCRA and for the core public service—for which the Treasury Board is the employer—has resulted in some ratcheting of salary levels. This result may be difficult to avoid in view of these circumstances: use of virtually the same occupational group structures in CCRA and the core public service; representation of unionized CCRA staff by the two major unions certified to bargain for 80% of the core public service; material differences in the importance of certain groups of employees in CCRA versus the core public service; and differences in the timing and duration of collective agreements between the two employers.

The logic behind creating separate employers can be compelling. Where a substantial group of employees works for an agency with a focused mandate, it makes good sense to design human resources management policies and practices that support achieving the agency's business goals. Central to any such strategy is compensation. Paying more for staff critical to the agency's mission, designing occupational group structures to combine people whose work is similar, and classifying work according to its value to the agency, while respecting the principle of equal pay for work of equal value, can have a profoundly positive impact on an agency's performance. Conducting collective bargaining within the framework of an organization with a relatively clear mandate, with an occupational group structure tailored to the nature of the organization's workforce, is the best way to connect compensation to work rules and productivity, as we find in the best labour-management relationships in the private sector.

At present, however, the federal public sector may be positioned disadvantageously between two reasonable approaches. One approach is to differentiate human resources and compensation regimes to optimize agency performance. The other is to maintain a unified set of human resource policies and compensation arrangements in order to control costs and ensure a rough—at least apparent—equality of condition across diverse workplaces and missions.

In the late 1990s, the federal government started in earnest down the first trail, but found it difficult to make the changes in occupational group structure that would allow these agencies to capitalize fully on distinct human resources management regimes. These difficulties were partly external, for example, in the opposition of the public service unions and the apparent reluctance of the Public Service Staff Relations Board to support structural change. Internally, the inertia of established structures and practices proved hard to overcome. Also, the preoccupation at that time with preparing the ground for the expected introduction of universal classification standards covering all core public service employees may have made it seem unimportant to get the occupational group structure right.

The persistence of occupational group structures inherited from the core public service made ratcheting pressures unavoidable, to the extent that either large employer (CCRA or the Treasury Board) placed a significantly greater value on any set of employees than the other did. So when CCRA needed to improve auditors' pay to maintain their ability to attract and retain a critical skill set, they raised pay also for the Purchasing (PG) group, for example, whose members were rare in CCRA but happened for historical reasons to form part of the same occupational group as the auditors. For the core public service, auditors were few but purchasing officers relatively numerous, putting gratuitous upward salary pressure on the core public service. That pressure was resisted in direct bargaining, but few arbitrators could be expected to maintain such a difference within a bargaining group. In fact, in the 2005 arbitration relating to the AV bargaining group, which includes auditors and purchasing officers, an extra increment was awarded in addition to the going-rate economic increases.

Two courses are open in regard to the second question of how separate employers should relate to the compensation management regime advocated in this report: to move decisively forward with the separate employer model where there are agencies with sufficient size and business focus, or to move toward a coordinated bargaining approach among the existing separate employers. Either method can be expected to reduce the pressure for unwarranted salary ratcheting across agencies.

The first course would see the addition of several new separate employers, and concerted attention, including legislative action if necessary, to designing occupational group structures and bargaining units that make sense in business terms for each agency. Logical candidates for separate employer status could include most appropriately:

- the Canada Border Services Agency (CBSA);
- the Services Canada agency (SCA);
- Correctional Service Canada (CSC); and
- Statistics Canada (SC).

Other possibilities might include Foreign Affairs Canada (FAC), and the refocused Public Works and Government Services Canada (PWGSC).

Each of these organizations employs thousands of employees, and each has a well-focused mandate whose achievement could benefit from the design of human resources and compensation practices that are tailored to promote good performance in their distinctive fields.

Relative size is a crucial consideration in creating a competitive collective bargaining playing field. At present we have the core public service with over 180,000 employees, the Canada Revenue Agency^[173] with about 40,000 workers, three agencies with staff in the area of 5,000, and over a dozen small separate employers. Creation of the four agencies proposed above would yield entities with about 12,000 employees (CBSA), 22,000 staff (SCA), 14,000 (CSC) and 5,000 (Statistics Canada). These changes would reduce the core public service to only about 130,000 employees in size.

A larger number of separate employers of substantial size would create a more competitive environment for collective bargaining in the federal public sector. Combined with a tailoring of occupational groups and bargaining agents to the needs of each agency, we could expect ratcheting to emerge only in the case of genuine skill shortages that affected several agencies. We could expect the federal public sector agencies to resemble more employers in the broader labour market, where general shortages push labour costs up (or gluts constrain costs) for everyone, but generally different employers pay more or less for various skills depending on how important those capacities are to the business mission.

Expanding the number of separate employers would require the Treasury Board to strengthen its capacity to assess the proper level of operating resources to allocate to such organizations. A danger to mitigate would be the emergence of upward wage pressure merely as a result of one or more organizations enjoying a disproportionate capacity to spend on salaries.

In recent years, there has been an evident disinclination within the federal government to institute new separate employers. The view, apparently, is that it is preferable to maintain a large core public service in which mobility is easy. Or there may be a fear that the advocated budgetary discipline would prove difficult to maintain.

With this perspective in mind, the second or alternative course that would be preferable to the status quo involves moving more towards coordinated bargaining on the employer side in relation to occupational groups that are important to both CCRA and the core public service. The Public Service Alliance of Canada (PSAC) appears to favour such an approach for its part. For example, for the round of bargaining concluded in late 2004, all the various PSAC bargaining units arrived at the stage of acquiring a right to strike within a period of several weeks. Presumably this was intended to maximize pressure on the federal government. In response, in 2004, the government employers coordinated their bargaining more closely than in any round since the emergence of CCRA, CFIA and the Parks Canada Agency as separate employers.

An employer council approach could take a number of forms. It could be limited to informal coordination, much as occurred in 2004. Or it could take the form of common bargaining teams on both the union and employer sides for bargaining units that cover the same occupational groups. In either case, the goal would be to reduce the likelihood that accidents of collective bargaining timing and process would induce the federal government to bid up salaries to levels that are not sensible either in comparison with the external labour market, or as an expression of differences in a group's importance to distinct employers.

A coordinated approach need not be monolithic in its impact on wages and working conditions. Use of two-tier bargaining would permit separate federal employers to do together those tasks best shared, such as negotiating overall salary levels, while reserving to individual employers the negotiation of contract elements that are specific to their circumstances.

In considering this second course, we must acknowledge that the need for a coordinated bargaining approach would be reduced to the extent that the occupational group structures of the various employers could be tailored to their particular business needs. With different occupational group structures in place, there would be less room for direct comparisons between employers—across groups that may be equivalent more in theory than in their actual work, and therefore more opportunity to negotiate salaries and conditions of work that are well adapted to each employer's circumstances. Later in this section we emphasize the need for the core public service (for which the Treasury Board is the employer) to modernize its occupational group structure. Separate employers have an even greater need to address this issue. Although some structural changes have been introduced,^[174] their structures remain more or less what they inherited from the core public service, rather than anything designed specifically to meet their business needs.

In summary, then, we propose to handle the issue of how separate employers should manage compensation in light of our proposals in this Report as follows:

Recommendation 9

9.1 The federal Government should consider establishing further separate employers to improve organizational performance by aligning human resources management practices, including compensation, with each employer's business needs. Criteria for creating separate employers would include staff complements of at least 5,000 and a focused business mandate. Possible examples include the Canada Border Services Agency, Service Canada, Correctional Service Canada, and Statistics Canada.

9.2 In the meantime, or if the Government decides against setting up additional separate employers, the core public service and the principal separate employers should use a form of coordinated bargaining with the public service unions to reduce the risk of salary increases being driven by ratcheting within the federal public sector. Two-tier bargaining could be used to treat distinctly with overall salary levels and with compensation elements specific to a particular employer.

9.3 Federal separate employers should renew their efforts to set up occupational group structures that are well suited to their particular business missions.

Recommendations 5 to 9 set out proposals on how to strengthen the discipline applied to managing federal public sector compensation. With greater transparency and accountability in place, and stronger management coherence on the employer side, the most critical steps will have been taken towards ensuring that the whole area of compensation spending serves well the interests of both taxpayers and employees. However, there are several specific substantive issues that also deserve attention in improving how we manage federal public sector compensation. We summarize appropriate recommendations on these topics in the following two chapters.

13. Specific Substantive Compensation Issues Relating to Salaries

In addition to the broad reforms advocated in the previous two chapters, there are a dozen areas where we explore more specialized compensation issues in this chapter and the next. Change in these areas is less essential than in the areas of transparency and management. However, taken together, improvements in these more specific fields would also contribute substantially to creating a compensation regime that would favour the success of the public service in a changing world.

Occupational group structure

In the preceding chapter, we emphasized the desirability of each federal employer adopting an occupational group structure, and a corresponding bargaining unit structure, well adapted to the nature of the organization's mission. For illustration purposes, here we comment more specifically on this issue as it relates to the core public service. This of course comprises most of the main departments of government, with the Treasury Board as the formal employer, although day-to-day management of the workplace rests with deputy ministers and departmental managers.

Figure 1004 in Chapter 3 illustrates the current occupational group structure for the core public service. This structure was established in 1999^[175] as a consolidation into 29 groups of the more than 70 groups that had been set up when collective bargaining was introduced in the federal public service in 1967.

Under legislative amendments approved by Parliament in 1993, the government had the authority to determine how the workforce would be structured for classification and collective bargaining purposes.^[176] The context of the actual decision to proclaim a consolidated structure was the reintroduction of collective bargaining in 1997 after a hiatus of six years, as well as the expectation that a single, universal classification standard would be introduced soon. In this situation it was understandable that the government did not want to annoy the public sector unions by making group structure changes that would have cut across existing union boundaries. However, the new structure was a compromise at best, from the perspective of sound management of employees and compensation.

Among the unresolved issues carried over into, or exacerbated by the new structure, were these, affecting the specific groups noted.

The Program and Administrative Services (PA) group is amorphous to the point of rendering it unworkable. In labour relations terms, there cannot realistically be a true community of interest among parole officers employed in the Correctional Service, clerks involved in routine transactions, senior policy advisors in line departments, and managers of local offices employing hundreds of people.

Other notably heterogeneous occupational groups are the Health Sciences (SH) and the Technical Services (TC) groups. Sub-groups have limited affinities among themselves but strong links to other groups. For example, Technical Inspectors within the TC group relate best with various transportation regulatory jobs, while certain technologists in the TC group align more closely to the Applied Science group.

Other groups have a sound core but include smaller, largely unrelated occupations. A prime example is the Research (RE) group, which is dominated by research and defence scientists. There is little attention given in this group to the interests of mathematicians that generally work with members of the Economics and Social Science Services (EC) group, or to those of historical researchers.

The Computer Systems (CS) group, the fastest growing occupational group in recent years, in effect combines two distinct sets of employees: a high-end group that contributes critical knowledge in a world driven by information technology; and a more operational group that in many ways is similar to the administrative staff included in the PA group.

Conversely, changes in the larger economy would likely drive the creation of a new Information Management group that would consolidate jobs currently dispersed across several existing classification and occupational groups.

Some groups exist as separate entities only because they are represented by separate unions. Three groups, Ship Repair (East), Ship Repair (West), and Ship Repair Charge Hands, total no more than 1,400 employees with similar responsibilities serving one employing department, National Defence.

As we noted earlier in discussing separate employers, the Audit, Commerce and Purchasing (AV) group is purely a marriage of convenience, with external labour market comparators for auditors and purchasing officers having no linkage.

Further examples of structural illogic could be adduced. But these are enough to illustrate the point: the present occupational group structure works mainly because both managers and employees are used to it and work around it as necessary to carry out the government's business.

It is unreasonable to accept that such illogic is cast in stone simply because it exists or because some unions would oppose constructing groups with a tangible community of interest if that resulted in a loss of members. Only by taking on the task of redesigning the groups can we expect to bring together employees who can see the common interests they share with those in the same group, and to establish meaningful comparisons with the external labour market.

Reforming the occupational group structure is a necessary consequence as well of the 2002 Treasury Board decision to discontinue work on a single universal classification standard. If all federal public service jobs were to

be assessed according to a single standard, it would matter little how they were structured by occupation.^[177] Since we are continuing to recognize occupations in pay determination--and to ensure that group classification standards minimize gender bias, and that overall each employer provides equal pay for work of equal value--it is important that the occupational group structure make evident good sense.

Actually determining the best way to redesign our occupational group structure is beyond the competence and resources of this Review. So this task is one that will need to be undertaken as a follow up. In principle, this is not an excessively difficult assignment. However, it could easily bog down in conflicts between and within unions, and of course between the unions and the employer. The public service unions can be expected to be reluctant to deal with this challenge since it calls into question the distribution of union membership--and therefore of dues revenue and relative size--and perhaps even the existence of some smaller unions.

The best approach will combine expert external advice, frank mediated conversations between the employer and the unions, a decision by the employer on the most sensible occupational group structure, and an adjudication by the new Public Service Labour Relations Board regarding the bargaining units that make most sense in light of the new occupational group structure. Other federal employers whose occupational and bargaining structures are not attuned with their business needs could undertake a similar process. As a last resort only, if this approach does not yield a sensible result in a reasonable time of perhaps three years, the federal government could consider implementing a sound structure for occupational groups and bargaining units by legislation.

Ideally, the employer would undertake the necessary analysis and consultations, and decide on a new structure that would provide a solid framework for all aspects of people management. Under the *Public Service Labour Relations Act*^[178] the Treasury Board and the separate employers have this authority. This power is subject only to the authority of the Public Service Labour Relations Board (PSLRB) to determine the bargaining units for collective bargaining purposes. The expectation would be, however, that the PSLRB would accept a sensible occupational group structure proclaimed by the employer.

This work has proven difficult, primarily because of the inevitable controversies related to possible changes to union membership. It will require clear thinking, courage and determination. However, putting a solid structure in place is urgent, since it is essential to so much of the work relating to sound management of compensation in the federal public sector. Therefore if, for whatever reason, the Treasury Board or a separate employer feels unable to complete this work expeditiously, this matter should be referred to an expert panel that would be mandated to weigh the options and propose a realistic structure.

Specifically, then, we recommend as follows:

Recommendation 10

10.1 The Treasury Board,^[179] after consultation with the public service unions and appropriate external experts, should publish a proposed occupational and bargaining structure that appropriately combines employees with common interests and working conditions, and that will facilitate compensation comparisons with the external Canadian labour market. This work should be completed within 12 months.

10.2 Within six months of publishing this proposal, after an opportunity for public debate, the Governor-in-Council should proclaim a new occupational group structure for the core public service.

10.3 If, for whatever reason, the responsible Treasury Board portfolio officials cannot complete the project expeditiously, the President of the Treasury Board should consider establishing an expert panel to develop an independent proposal as the basis for the Governor-in-Council to proclaim a new occupational group structure.

10.4 The Public Service Labour Relations Board should determine the appropriate bargaining unit structure in relation to the new occupational group structure as soon as practicable thereafter.

10.5 As a last resort, if there is no other way to move within three years to an appropriate new structure, the government should consider using legislation to implement such a framework.

10.6 The other federal separate employers should proceed with parallel but distinct processes to adapt their occupational and bargaining group structures to the nature of their businesses, also within the next three years.

Classification reform

Classification standards and structures are important because they define the framework for determining salaries. They evaluate the relative value of a particular job, compared with other jobs. Collective bargaining or executive decisions then establish the pay rate for each level of each group. A sound compensation system thus depends on a sensible classification system.

As noted above, occupational groups were consolidated for collective bargaining purposes in 1999. However, for classification purposes, essentially the same 70 or so groups exist as were established when collective bargaining was introduced in 1967. Several of the related classification standards have been revised or updated from time to time. However, many are clearly dated, and the new occupational groups that combined previous occupational groups do not themselves have a classification standard.

Classification reform has proven elusive in the core public service for most of the past two decades. This resulted in large measure from the attempt to create a single universal classification standard that would permit evaluation of all public service work according to one gender-neutral scale of value. Such a standard would have supported the negotiation of a single pay line for all jobs in the core public service. As noted earlier, however, this goal was set aside in 2002, mainly in recognition of the great diversity of work in the federal public service, and of the need to maintain reasonable links to the external labour market. [\[180\]](#)

Since 2002, the approach has been to modernize classification standards group by group. In doing so, care is to be taken to ensure that the new standards do not discriminate between men and women. While classification standards remain a management prerogative and are not themselves subject to collective bargaining, the eventual pay lines do need to be negotiated. So in practice, revising a classification standard entails substantial dialogue with the relevant union throughout the process.

Intensive discussions on the Foreign Service (FS) standard with the Professional Association of Foreign Service Officers (PAFSO) and the main employing departments resulted in a new four-level structure and classification standard. A new standard has also been approved for the new Border Services (FB) group that was created as a result of the recently established Canada Border Services Agency, mainly from the former Canada Customs and Revenue Agency. New standards are being developed for the Economics and Social Science Services (EC), the Law (LA), the Computer Services (CS), the three Ship Repair (SR), and the Program Administration (PA) groups. Moreover, some long-standing issues, such as how to deal with the classification of fisheries officers, have been resolved within the existing standards.

Overall, this work has been slow and difficult. It is urgent that we carry on with modernizing our classification standards. However, logically, the work on modernizing the occupational group structure described in the previous section should take precedence. So the short-term priorities for classification reform should focus on those groups that are unlikely to change through a redesign of the occupational group structure. Once the new structure has been put in place, it will be important to decide on the best sequence and approach for modernizing the related classification standards.

In any scenario, however, the business of updating occupational group structures and classification standards will take many years to complete. Thus, the more immediate issue is what to do in the meantime. As part of this, we need to challenge the basic premise of what could be called the traditional approach to classification. In this approach, a complex standard awards precise numbers of points for specified degrees of certain factors considered to be important in evaluating a job. These points are added up, and the job is slotted into the classification level corresponding to that point total. There is an implication of almost scientific precision to the process. There is also present an idea that the demands on a job are stable and well defined. In the end, however, classification is really an overall judgement about whether at a given time a given job is bigger or smaller than reference positions whose classification is well established.

In the world of rapidly changing demands described in Chapter 10, the system of classification as we know it is increasingly anachronistic. The work entailed in writing lengthy job descriptions aimed at winning points against an often outdated classification standard, in debating the minutiae of the various elements, and in arriving at a conclusion, seems increasingly misdirected as organizations are called on to form and reform themselves to deal with fluid business priorities.

What we need is a simpler approach to classification and its administration. At the same time, the results must be capable of withstanding scrutiny. Among the tactics and tools that would assist in navigating between simplicity and accountability are these:

- reducing the length and complexity of job descriptions;
- extensive use of generic position descriptions;
- updating of key benchmark positions; and,
- greater use of rationales that relate the classification of new or revised descriptions to the benchmarks with less emphasis on detailed assessments of individual elements.

There is no useful reason for perpetuating 20-page or longer job descriptions. Such "novellas" usually accumulate verbiage in the hope of convincing classification raters that the position is really important. In fact, however, a few words are usually sufficient to describe genuinely important jobs. Lengthy descriptions are thus prima facie evidence of an inflated presentation. Limiting descriptions to something like five pages should be mandatory.

More and more, the distinctions between similar jobs are unimportant from the perspective of assessing their relative value. Duties often evolve with changing departmental priorities, so detailed cataloguing of the current situation risks rapid obsolescence. Accordingly, generic job descriptions for analogous jobs can contribute greatly to simplifying not only classification, but also staffing. Some organizations have adopted this approach to great effect. Statistics Canada, for example, uses about 200 job descriptions to cover over 5,000 employees.

A more radical approach that is often discussed is "appointment to level." This term refers to a system whereby employees would be classified on the basis of their skills, knowledge and performance. Such a philosophy is already in place for certain scientific research groups, where advancement depends on careful assessments of an employee's scientific merit. It also plays a role in developmental or training programs, for example for economists or management trainees, where advancement to a certain level depends on meeting defined criteria. It would be desirable to experiment more aggressively with the application of this approach to other groups, especially those where skills, knowledge and individual performance can be objectively assessed. No wholesale program of appointment to level should be attempted, however, since the track record of applying general solutions to classification issues in the public service offers ample grounds for caution. More generally, nevertheless, generic job descriptions offer an attractive and manageable middle ground between classification based on the requirements of a position, and classification dependent on an employee's merit.

An effective investment in rendering the existing classification standards more usable pending their modernization would be in updating key benchmarks. These would normally be the most common or typical positions covered by the occupational group. If the benchmark positions are carefully described, and the rationale for their classification level clearly enunciated, it becomes fairly easy to compare them to other positions. It is in this context that classification rationales could reasonably focus on an overall assessment vis-à-vis a benchmark, rather than a detailed element-by-element rationale.

In pursuing what might be called a pragmatic approach to managing classification, while the lengthy work of modernizing classification standards unfolds, it is critical to minimize gender bias. To achieve this in the short term, we must ensure that our means for applying the unreformed standards avoid gender bias as far as possible. Our current standards do not exhibit overt gender bias; such bias tends to be subtle and rooted in conscious or ingrained expectations about the relative importance of work traditionally associated with men and women. During the next several years, while the process of modernizing our classification standards according to the revised occupational group structure unfolds, the Public Service Human Resources Management Agency should provide accessible non-technical training and tools to assist managers and others to minimize such bias. Later in this chapter we offer pragmatic advice on the work we need to undertake now to identify and address cases where there may be salary differences between male- and female-dominated groups that cannot be explained by factors other than discrimination.

In summary, our recommendations on the issue of classification reform are these:

Recommendation 11

11.1 In parallel with the design of a new occupational group structure, the Treasury Board^[181] should determine, in consultation with the public service unions, the most appropriate approach and sequence for developing modern classification standards that reflect the current realities of public service work, and that minimize gender bias.

11.2 In the meantime, the Public Service Human Resources Management Agency should focus on supporting departments to simplify the management of classification by directing that job descriptions not exceed five pages, by encouraging the use of generic job descriptions, by updating the most suitable benchmark positions for the most numerous groups, and by providing guidance on how to use overall rationales for classifying positions by comparison with the benchmarks.

11.3 Consideration should be given to expanding the use of appointment to level for employees in groups or situations where their skills, knowledge, and performance can be assessed objectively in relation to well-defined standards.

11.4 As practicable, the Public Service Human Resources Management Agency, in consultation with the relevant public service unions, should give priority to completing the updating of the classification standards for priority occupational groups that are not likely to be changed as a result of the reform of the occupational group structure proposed in Recommendation 10.

11.5 Once the Treasury Board has decided on the occupational group structure for the core public service, the Public Service Human Resources Management Agency should publish its planned timetable for modernizing classification standards to correspond with the recommended occupational group structure, and report to Parliament annually through the Agency's Report on Plans and Priorities.

Aspects of general salary policy and management

There are several broad policy issues relating to pay that will not be resolved through the business of rethinking the occupational group structure and modernizing classification standards and practices. These issues include:

- Pay for performance
- Pay for knowledge
- Special pay for exceptional expertise
- Recruitment and retention (known as terminable) allowances
- Structure of pay bands
- Regional pay

We comment briefly on each in the following sections.

Pay for performance

Productivity improvement is a preoccupation of all modern enterprises, whether private or public. So the idea of linking some part of remuneration to performance is both logical and attractive from a management perspective. The dominant historical practice in Canadian federal public service compensation, however, has been to avoid an explicit link to performance in establishing pay. Yet it is plainly observable that some employees work harder and better than others, and could reasonably be thought to deserve higher pay as a result. The issue of whether and how to link pay to performance in the public service is especially pertinent as the pressure on the federal public service grows to innovate, to be flexible, to cope with increased workloads, to serve Canadians with distinction.

On the other hand, many employees and most unions oppose the adoption of any form of pay for performance. Among the critiques advanced is the idea that performance pay for individuals creates unhealthy tensions in the workplace, as destructive competition may emerge and some employees may be tempted to claim credit for what is in fact a group result. More fundamentally, there is mistrust of the objectivity and fairness of public service managers in assessing performance and awarding any pay for performance fairly.

The American government has decided to use the occasion of establishing the massive Department of Homeland Security (DHS) as the opportunity to reform its compensation philosophy and practices. The new department is mandated to implement a pay-for-performance program that will replace the long-established General Schedule with market-based pay bands, in which "employee pay progression is solely driven by performance and/or competency attainment—not longevity."^[182] This initiative is responding to recommendations presented in January 2003, in the wake of the events of September 11, 2001, by the bipartisan National Commission on the Public Service, chaired by Paul Volcker. The new system is to be fully implemented in the Department of Homeland Security by 2009. The expectation appears to be that it will be expanded eventually to most of the United States public service.

In assessing the Final DHS Human Capital Regulations, the General Accounting Office (GAO) stated that "while GAO strongly supports federal human capital reform, how it is done, when it is done, and the basis on which it is done can be the difference between success and failure."^[183] The GAO emphasized particularly the need for clear leadership of the initiative, for effective communications, and for building the details with rigour and credibility.

Perhaps these success criteria will be met in the atmosphere of crisis and reform that continues to pervade official Washington in the context of the War on Terror. But this is far from guaranteed. Under the existing General Schedule system, progression through the 10 steps of a given pay level was to be faster or slower based on performance. In practice, however, nearly all employees advance one step per year of service, whatever their performance. So the ideal of American public service managers defining performance levels clearly, and facing up to making and explaining judgements about the performance of individual employees has already failed in execution historically.

In the Canadian public service, our track record in defining and assessing performance is not encouraging. Volume Two of this Report does present the apparently successful example of the Translation (TR) group which receives extra pay based on exceptional productivity. However, as in the United States, the original idea that annual increments within the salary band for a particular classification level should be based on satisfactory performance has essentially never been applied. Even the number of new employees released while on probation is tiny, amounting to fewer than 100 per year since 1996–97.^[184] (Thirty-six indeterminate employees were rejected during probation in 2002–03, representing 0.7% of total external full-time indeterminate hires for the year.)

The record in the Executive category is more mixed. For several years, members of the Executive group have been eligible for at-risk pay of up to 10% (15% for the top two levels) of salary, based on their performance. As noted in Volume Two, at the EX 1 level, up to 7% of the possible at-risk pay merely brings an executive employee to the total compensation level equivalent to private sector pay for the same level of responsibility. In practice, however, deputy ministers have found it difficult to distinguish performance levels, especially at the less-than-fully satisfactory level. Such ratings are seen as personally demeaning, rather than a legitimate

message about performance issues in a particular year. In the past two or three years, under pressure from the Stephenson Committee^[185] and the Public Service Human Resources Management Agency, rating managers have apparently applied performance criteria somewhat more rigorously.

A further complication in regard to executive pay-at-risk is that the amounts to be earned are small relative to regular salary. For Executives, the most that can be earned is 10% (or 15% for those at the assistant deputy minister level). By contrast, performance pay in the private sector can be equivalent to several months' salary or more. This must be combined with the reality that senior executives in the private sector often have access to long-term incentives, normally in the form of a right to purchase company shares at a fixed price at certain times. This aspect of compensation is explicitly excluded in comparing federal public service executive compensation with that offered in the private sector. This is reasonable, since there clearly is no equivalent to share prices in the public sector. In effect, then, the federal public service pay-at-risk program may be more symbolic than substantive at the level of top public service managers. Executives certainly appreciate the program as a supplement to salaries that generally lag private sector counterparts, but the amounts available are not large enough, nor is the current program rigorously enough administered to serve as an important motivator.

Overall, the federal public sector has not developed a strong culture of defining performance expectations and assessing employees accordingly. Strengthening this culture is the place to start. It might be thought that introducing a pay-for-performance plan would drive the adoption of more rigorous practices in the areas of setting goals and performance standards, and evaluating results against these criteria. Experience suggests, however, that we cannot count on this happening.

At the same time, it would be instructive to experiment with performance pay plans in particular for groups or organizations where there is already a reasonable performance management culture, and where the employees--and where applicable, the union--are open to this prospect. Likely the best places to look would be specialized or professional groups where professional standards are well defined by external bodies and well understood within the field.

Looking to the future, then, sound management reasoning suggests two principles to follow:

1. We should focus first on strengthening our management of performance, so that we have the capacity to tie salaries to performance credibly.
2. We should undertake selective experiments in making greater use of pay for performance in federal public sector compensation.

Pay for knowledge

In this area as well, logic might favour rewarding knowledge in federal public sector compensation. After all, we continually emphasize the importance of knowledge work as playing a greater and greater role in the public service. This idea is implicit in the selection standards used for staffing various specialized jobs, which may require a particular academic or professional qualification, or the equivalent in experience. However, there is little current use in the federal public sector of explicit incremental remuneration to encourage or reward the acquisition or possession of specific knowledge.

An unhappy exception is the bilingualism bonus. This is an allowance of \$800 annually that is paid to non-executive employees who meet the bilingual standards required of their positions. The amount has remained fixed at \$800 since 1979. It was introduced originally as a pragmatic response to unrest among francophone employees who felt they should be rewarded for shouldering a large share of the responsibility to serve the public in English or French. While its real value has declined from year to year with inflation, its connection to building bilingual capacity is tenuous. Employees may qualify for the bonus, but do not necessarily use their second official language in practice. In effect, this allowance has become untouchable, even though its rationale is weak.

In fact, language is an area where pay for knowledge could be especially sensible. Some employees come to the public service already bilingual, or learn the other official language essentially on their own, with little or no formal instruction at public expense. Such employees save the public purse thousands of dollars of costs. Paying some kind of one-time or continuing bonus to such employees could encourage individual initiative to learn one of our official languages. More generally, knowledge of third languages can be of tremendous value in serving our increasingly multicultural nation, both here in Canada and at our missions abroad. Where such knowledge is clearly an asset in a particular job, it could make sense to provide an allowance to attract and retain people with appropriate capacity.

Another potentially fruitful application of pay for knowledge would relate to implementing a system of certifying management competencies at various levels. Completion of critical courses could be recognized either in faster advancement through a salary band, or through a one-time or ongoing allowance.^[186] A similar approach could

be employed for specialized groups to keep up with developments in their field, or to advance to higher qualifications that are important in the workplace.

There are of course difficulties in applying pay for knowledge. For example, management needs to ensure that the additional qualifications are in fact pertinent to the workplace. There need to be reliable means to verify that the knowledge has been acquired. And we would need to avoid the fossilized approach that has come to characterize the existing bilingualism bonus, adapting any system to changes in what knowledge is critical and can usefully be encouraged through the pay system.

Special pay for exceptional expertise

This topic is an extension of the theme of pay for knowledge. Increasingly, there is a need in the public service for high-level expertise in particular fields or disciplines. This tendency manifests itself both at the executive level and among the ranks of senior analysts or professionals with little or no management role.

At the executive level in recent years we have needed top talent in such areas as information and technology management, financial management and other specialties. Because of our policy to match private sector executive total compensation only at the EX 1 level, there is an increasing compensation gap at higher executive ranks. We refer here to total compensation, not just salaries. In some recent cases, it has proved impossible to attract people with the requisite experience at the compensation offered.

One approach is to bring top talent in temporarily through Interchange Canada. Essentially this involves an assignment, normally not exceeding three years, whereby an employee of another organization works for the federal government, but is compensated according to the rules of his or her home organization, with reimbursement to that employer from the federal government. The program requires the participant to return to his or her home organization at the end of the assignment. In this way, exceptional executives serving the government may earn substantially more than regular public servants in positions classified at the same level. [\[187\]](#) In 2005, the federal government launched the Prime Minister's Fellows Program to give new emphasis to the interchange idea. This built upon an earlier informal initiative referred to as the bridging program that facilitated several temporary assignments for senior public servants and private sector executives in each other's worlds.

While interchange programs are undoubtedly useful in accessing exceptional or highly specialized talent on a temporary basis, we can expect there to be cases where the federal government wants to attract such an employee on a more permanent basis. For example, the requirement may extend well beyond the normal three-year limit on an assignment. In other instances, interchange programs may not fit well since the person sought is self-employed and does not really have an employer to return to. Or seconding an expert from an external organization could create a real or perceived conflict of interest.

Accordingly, it would make sense to use, albeit judiciously and sparingly, the existing authority of the Treasury Board to authorize an executive to be paid more than the maximum established for the position to which he or she is appointed. [\[188\]](#) Such a practice would need strict controls in order to withstand the inevitable pressures to make increasingly frequent use of exceptions. Formal approval of particular cases would best lie with the Treasury Board itself, on the joint recommendation of the Deputy Minister of the sponsoring department, and the President of the Public Service Human Resources Management Agency for executive positions, or the Clerk of the Privy Council for deputy minister or other order-in-council positions. In effect, the policy would permit exceptionally the public service to close, or at least partly close the gap between public service compensation and what a prime candidate is earning already.

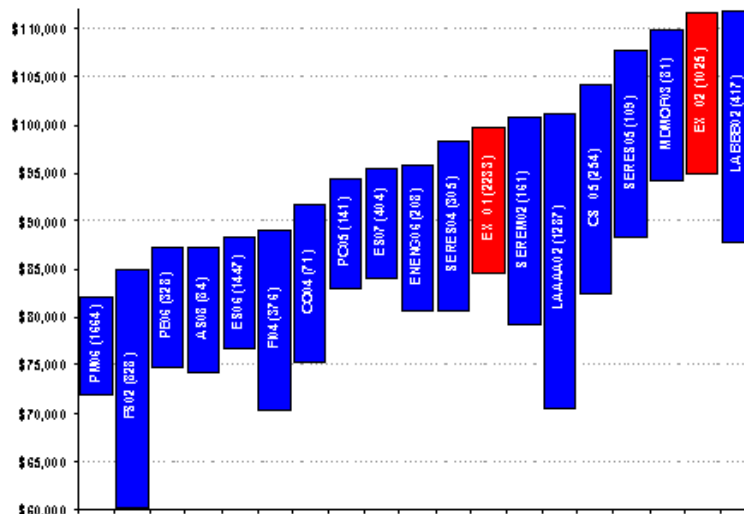
Experience suggests that the introduction of such flexibility risks abuse. Various devices to get around the intent of the proposed policy change can easily be imagined. For this reason, it is essential that any exceptions be well documented, be recommended by the highest officials personally, and be approved explicitly by the ministers of the Treasury Board. Such a practice would, of course, be subject to audit by the Auditor General.

An analogous issue relates to the juxtaposition between senior specialist and executive compensation in the public service. Some non-executive groups, such as the Economics, Sociology and Statistics (ES) group, overlap at the top (ES 7) level significantly with Executive (EX) group salaries. Figure 1053 shows how salaries for the top levels of several professional occupational groups corresponded with EX 1 and EX 2 salaries in March 2003.

Figure 1053

Illustration of salary band overlaps between the EX Group and Professional Groups, March 2003

[Display full size graphic](#)



From a traditional hierarchical perspective, having non-executives paid as much as or more than executives is offensive. However, in a world where knowledge and expertise is increasingly valuable, it could well make sense to pay specialists as much as or more than executives. In recent years, the number of EX positions has increased more quickly than the size of the public service as a whole. Determining the underlying reasons would require a specific study. However, one contributing factor is likely to be the need to pay more to highly skilled knowledge workers, even where the true executive content of a job may be modest. Building in more capacity to reward specialists without making them executives could prove advantageous. In fact, burdening top specialists with management duties can detract both from sound management and the supply of substantive expertise.

At a minimum, we cannot find an explicit rationale for the existing overlaps, either in regard to which groups have overlaps or to the extent of that overlap. The time has come to review this overlap issue systematically, likely in conjunction with the rethinking we propose later in this section concerning the extent of external comparability for executive compensation. Consideration should also be given to permitting individual cases of special pay for special expertise in cases below the executive level where interchange programs may not suit. Such cases would require the same strict controls as proposed above in relation to executives.

Recruitment and retention allowances

As we described primarily in Chapter 4 of this volume, recruitment and retention—or terminable—allowances were introduced over the past several years for various bargaining groups. These allowances provided additional compensation, in theory on a temporary basis, for groups experiencing unusually tough competition in the external labour market. Using temporary allowances addressed at least two issues from the employer's perspective. First, hot labour markets come and go as the economy waxes and wanes. Second, such allowances are a recognized exception in evaluating equal pay for work of equal value.

Like many temporary policies, however, there has been substantial pressure to make recruitment and retention allowances permanent and to roll them into the regular salary levels. In cases where the pay level for a particular group in the general labour market in fact advances relative to other groups on a sustained basis, absorbing terminable allowances into regular pay makes sense. However, in a case such as the Computer Systems (CS) group, where the overheated market of the late 1990s was succeeded by lay-offs and lower wages in the private economy in the early years of the new century, the federal government should in principle reduce or terminate the terminable allowance. At a minimum the government should constrain economic increases for the group until a reasonable parity is restored.

In practice, however, the federal government collective bargaining system makes such reductions or constraint virtually impossible to implement. The employees of such a bargaining unit, largely secure in their employment, and responsible for such critical functions as processing federal social benefit cheques, have no incentive to accept salary adjustments below the going rate for collective agreements. Unless the Government is willing to impose through legislation a collective agreement with a lower allowance, or to accept a strike in an area of great public sensitivity until the union is ready to settle on that basis, the terminable allowance is likely to persist indefinitely.

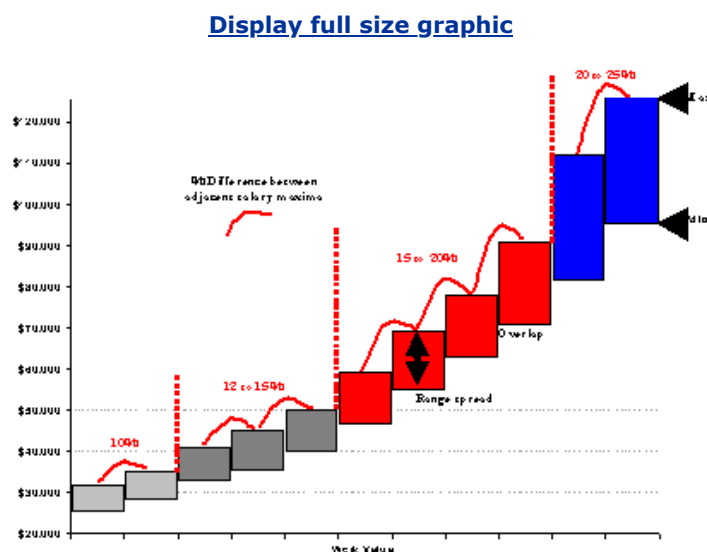
Accordingly, great care is needed before any terminable allowance is accepted. Under the present culture and practices of federal public service collective bargaining, such allowances are almost impossible to end once they are launched. A better approach is that of tracking the private sector more closely, based on a rigorous assessment of compensation in the broader Canadian labour market. Where there are rapid increases in hot

markets, perhaps it would be better to use one-time bonuses to recruit or retain essential staff until it is clear whether relative salary increases are themselves temporary or structural.

Structure of pay bands

A relatively arcane but still important aspect of pay management is the structure of pay bands. Ideally, the salary structure for an occupational group will offer a progression that provides incentives to move to the next level, without unduly large gaps between levels. Figure 1054 provides an illustration of what we might expect to find. In this picture, there is a reasonable difference between the maximum pay rates for successive classification levels, normally at least 10%. Second, we observe sufficient spread within a pay range to recognize growth and development. Note that the lower levels have fairly narrow bands, whereas the higher levels offer more room to progress within a given classification level. Third, note also that the pay bands overlap slightly, to allow smooth entry on promotion without excessive costs.

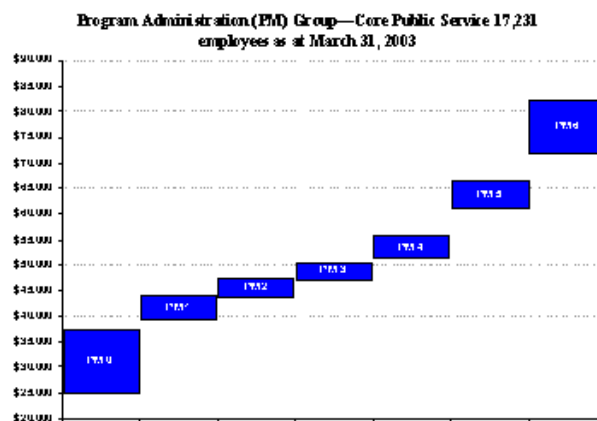
Figure 1054
Illustration of a rational salary structure



The pay bands for several federal public service occupational groups are quite different from what could be considered normal. For example, in the Program Administration (PM) classification group, there are large gaps in the pay bands between PM 4 and PM 5, and between PM 5 and PM 6. An opposite type of anomaly is illustrated by the Community Health Nursing subgroup. Top pay for the NUCHN 02 level is only slightly below the entry level for the NUCHN 06 level, suggesting that there are too many distinct levels. The Library Science classification group manages to display both problems: substantial overlap between the LS 3 and LS 4 levels, with gaps between LS 2 and LS 3, and between LS 4 and LS 5. These unusual pay band structures are illustrated in Figure 1055a, 1055b and 1055c.

Figure 1055a
Illustration of the salary structures for selected federal public service occupational groups

[Display full size graphic](#)

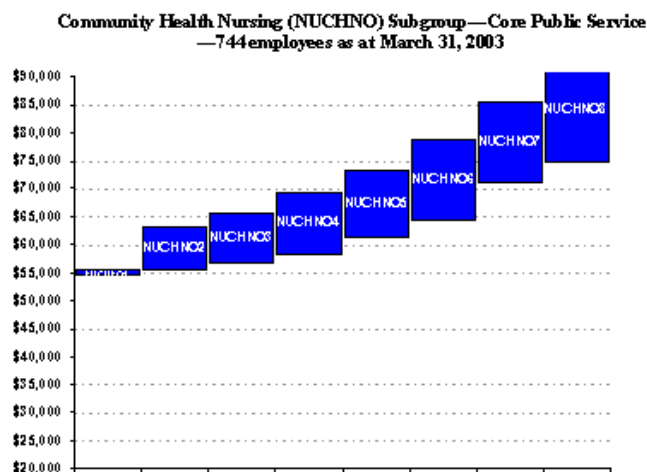


There does not appear to be a policy or management rationale for having such pay band structures. They are the result of numerous rounds of collective bargaining over the years. In practice, most collective agreements simply increase the existing structures by a certain percentage. It is possible that the current structures can be traced in some cases back to the introduction of collective bargaining in 1967, when the occupational groups now still in use were formed. In creating them, pre-existing departmental groups were consolidated. These initial structures may have been adjusted to minimize red-circling, that is, cases where an individual's salary is capped until future negotiated economic increases bring the group salary up to the individual's protected salary level. [\[189\]](#)

Figure 1055b

Illustration of the salary structures for selected federal public service occupational groups

[Display full size graphic](#)

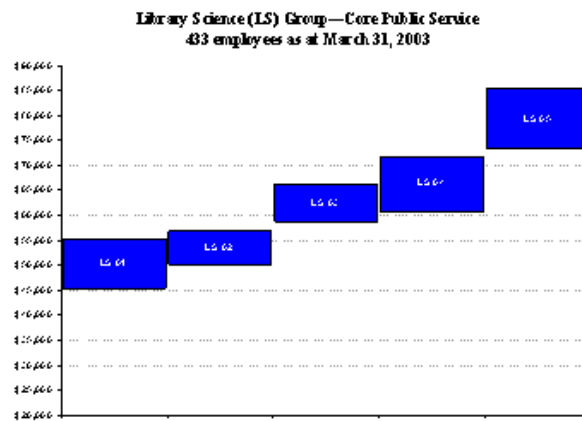


It might be argued that salary structures are not important, but they are. Gaps between levels affect how both employees and managers operate. For employees, insufficient differences in the salary maximums of two levels can reduce the incentive to accept greater responsibility. Excessive gaps, on the other hand can make managers reluctant to promote employees to the next level, preferring to hire someone whose salary is closer to the new level. This type of management response could push employees to move to another occupational group in order to advance. Such movement is not bad in itself, and may in fact be desirable. But it should result from a reasoned approach to career development, rather than a desire to get around something whose only explanation is an accumulation of past decisions.

Figure 1055c

Illustration of the salary structures for selected federal public service occupational groups

[Display full size graphic](#)



Another concern about irrational pay band structures is their relation to the definition of promotion. At present, a move between groups is not a promotion unless the maximum salary level for the new group and level is at least 4% greater than for the employee's existing position. Poorly structured salary bands render the application of this policy more arbitrary than desirable.

Reshaping the federal public service pay bands towards greater resemblance to the norm illustrated in Figure 1054 will be difficult. Unions will be comfortable with such changes as long as all adjustments are upwards. Such an approach would likely prove costly. This reality no doubt explains why there has been little action to remedy the existing anomalies. In the medium term, reluctance to address this issue is likely wise. Over several decades, however, failure to introduce a sensible pay band structure is worrisome. It implies that the compensation system is so rigid that desirable improvements cannot be implemented. This issue should be tackled as part of the modernization of classification standards that we propose in an earlier section of this chapter.

Regional pay

Controversy has long marked the issue of whether regional differences in external salary levels should be taken into account in setting pay levels in the federal public service. Some commentators urge that the principle of comparability with the external labour market requires the federal government to vary its compensation according to the location of a job. Failing to do so, these observers argue, distorts the local labour market by forcing private sector or other non-federal employers to offer higher than needed wages, or to accept less qualified staff. If higher-than-necessary wages are offered, economic theory suggests that as a consequence fewer jobs will be created or sustained.

The counterarguments are also forceful. First, opponents of regional pay argue that there should be the same pay for equivalent work for the same national employer, wherever the job is located. The implication is that paying less in some locations is demeaning to those who work there, and unfair. For unions, such differences are also undesirable because they foster dissension among members. Second, as a national employer the federal government moves its employees from one location to another, whether temporarily or permanently, fairly frequently. Regional pay policies could discourage employees from accepting operationally desirable moves.

In principle, the soundest policy is likely that which guided federal compensation in the decades before the introduction of collective bargaining in 1967. There were in fact two broad categories of employees: those who were seen to be recruited nationally, and those who were recruited locally. The first group were paid the same rates across the country, and the second the prevailing rates for their region. For example, if in recruiting auditors we want to hire the best available specialists from across Canada, we need to offer national pay rates. In hiring an administrative assistant, however, we would normally look to a more local pool of candidates, so local rates would likely suffice to attract qualified candidates.

The real problem with regional pay is not theory, but rather the difficulty of applying it fairly and credibly in practice. While the distinctions espoused in the pre-1967 era were compelling, their application was not. In fact, employees hired under the national rubric sometimes ended up carrying out duties similar to those undertaken by the prevailing rate employees. At the same time, the latter group included tradesmen and marine workers, but not administrative staff that would also usually be hired locally.

Defining meaningful geographic zones for each of dozens of professions, gathering reliable local labour market data on a timely basis, and adjusting pay rates accordingly would be a complex and difficult enterprise. Such an approach could be expected to engender persistent complaints and appeals, particularly if adjustments lagged labour market changes to any substantial extent. This kind of nuanced management of imprecise distinctions is simply not something the federal public service has historically handled well.

The existing situation regarding regional pay in the federal public service is unsustainable. A few regional distinctions have survived the determined opposition of the public service unions, but most make little sense. As we pointed out in Chapter 4, successive rounds of collective bargaining have collapsed 16 zones for trades-related groups as recently as 1989, to three in the 2001 settlement. The three zones are so large and diverse as to be meaningless for the purpose of tracking local labour market pay differences. In the 2004 round of bargaining, the three zones were maintained; however, this was in the context of comparatively larger increases for trades-related employees because of general evidence that they lagged private sector analogues. We can expect the union to target the remaining zones more forcefully in the next round of bargaining.

On balance, our conclusion is that the federal employer should seek to restore a rational regional pay policy for any group that meets these criteria:

- Nearly all hiring is local and there is no need to recruit nationally to attract an adequate number of qualified candidates.
- There are substantial differences in salary levels for the same work across the country.
- Data on these differences can be collected in a credible way, and at a reasonable cost.
- Mobility between regions of federal employees in the group is negligible.

In designing a modernized occupational and bargaining group structure for the core public service, consideration should also be given to the issue of whether applying regional pay would make sense for particular groups, according to the criteria stated. [\[190\]](#)

Cost-of-living allowances

Sometimes the issue of regional pay is confused with the related phenomenon of differences in the cost of living across Canada. There is no doubt that it costs more for housing, transportation and parking, for example, in such cities as Toronto, Vancouver, Calgary and Ottawa than in smaller centres. In effect, national pay rates mean federal employees in the latter locations can enjoy a higher standard of living than their colleagues in the major cities.

It would be possible to set a national pay rate, and then provide for a variable allowance based on the local cost of living relative to a national average. The Canadian Forces in fact has such an allowance in the Post Living Differential, implemented in 2000–01. In February 2003, the value of this allowance varied from zero in Kingston, for example, to as much as \$1,138 per month in certain parts of Toronto. The United States Civil Service also includes a locality pay component in its General Schedule pay ranges. Extra payments are provided where non-federal pay exceeds federal pay by more than 5%. Different rates are set for 32 geographic areas, including a "rest-of-U.S." area. In 2003, this locality adjustment was 21.08% over base pay for federal employees living in San Francisco, the highest cost area in the United States. The national average for locality pay was approximately 15% over base pay. [\[191\]](#)

The feasibility of moving to such a regime in the federal public sector generally would depend on how the national rate was set. At present, Ottawa-Gatineau appears to be the implicit reference labour market for most groups. This makes sense in that the largest proportion of the public service works in the National Capital Region (NCR). On the other hand, the public service is such a prominent employer in the NCR that the external labour market may not be sufficiently influential in shaping the NCR labour market. The most prominent private sector component of the labour market, the high technology sector, is itself a relatively well-paid industry that is unrepresentative of the overall Canadian private sector.

Our conclusion is that the cost-of-living differential issue is important but not urgent at present. In the absence of significant inflationary pressures, employees are not constantly reminded of these differences. Once some of the more pressing pay management and compensation issues covered in this chapter have been resolved, it would make sense to examine the desirability and feasibility of introducing a system of national rates with regional supplements based on substantial cost of living differentials.

In summary, then, our recommendations in the area of general salary policy and management are these:

Recommendation 12

12.1 On pay for performance, we should focus first on strengthening our culture and capacity for performance management, including developing mature skills in defining organization objectives and standards, setting individual goals, assessing performance, giving feedback, and taking necessary action.

12.2 Deputy ministers should propose to the Treasury Board selective experiments in making greater use of pay for performance in cases where the organizational capacity and culture are suitable and credible with both managers and employees.

12.3 The Treasury Board should similarly work with willing departments and the appropriate unions to experiment also with one or more well-defined pilot projects to test the utility of pay for knowledge in such areas as language skills and advanced qualifications for specialized groups.

12.4 The Public Service Human Resources Management Agency should propose for Treasury Board approval ground rules for cases where the Treasury Board could authorize a higher maximum salary for specific executives or other employees bringing exceptional expertise to the public service, in situations where interchange programs are inappropriate as a means to access the required expertise.

12.5 As part of the review of executive salaries proposed later in this section, the overlap of top level specialist pay with Executive pay ranges should be reviewed and rationalized so that high level technical expertise can be appropriately remunerated without the need to resort to Executive classifications for jobs that focus mainly on advice and relatively little on executive management.

12.6 Recruitment and retention (terminable) allowances should generally be avoided. If there is clear evidence in the external labour market of a sustained relative salary level increase for a particular group, this should be included in public service salary levels. If rapid increases occur in a hot market externally, and there is doubt whether the change is temporary or structural, one-time bonuses should be used to recruit or retain essential staff in as targeted a manner as feasible.

12.7 As part of the process of modernizing classification standards recommended earlier in this section, the Treasury Board Secretariat and the Public Service Human Resources Management Agency should work together with the relevant unions to ensure that the structure of pay bands for these groups makes sense according to accepted salary administration norms.

12.8 In recommending on how best to modernize the public service's occupational and bargaining group structure, consideration should be given to the suitability of applying regional pay to some parts of the suggested new structure. Criteria for identifying such groups would include an emphasis on local hiring, substantial salary differences across the country, availability of credible data on these differences, and negligible geographic mobility in the group.

12.9 Once the more pressing pay management and compensation issues covered in this chapter have been resolved, the Treasury Board should examine the desirability and feasibility of introducing a system of national salary rates with regional supplements based on substantial cost of living differentials.

Pay determination for special groups

The government determines salary levels and other compensation for several groups in the federal public sector through various methods other than collective bargaining. The most important among these groups^[192] are these:

- executives and deputy ministers;
- heads of Crown corporations and others appointed by Order-in-Council;
- the Canadian Forces;
- regular and civilian members of the Royal Canadian Mounted Police;
- federally appointed judges; and
- parliamentarians.

Executives and Deputy Ministers

In Chapter 3 of Volume Two, we describe both current practice and the history in recent years of how salaries for Executives and Deputy Ministers have been determined. In essence, the Treasury Board sets these salaries on the basis of advice from an arm's length Advisory Committee on Senior Level Retention and Compensation. The Committee in turn relies on a comparison, updated each year by Hay Associates, of total compensation paid by a sample of the Canadian private sector and broader public sector organizations for jobs equivalent to those classified at the EX 1 level in the federal public service. The salary level is set to match total compensation, taking account of the relative value of benefits inside and outside the federal public service.^[193] Salaries for higher Executive and Deputy Minister classification levels are set as fixed multiples of the EX 1 level rate.

Successive Governments have decided to match the external labour market in the area of executive compensation at the EX 1 level, but not at higher levels. In fact, the equivalence is at best inexact in that there are both structural and policy-related lags at the EX 1 level. The structural lag results from the fact that salary levels set effective in April of a given year reflect data reported from the external labour market as of the previous September. Moreover, policy considerations led to decisions by the Treasury Board in two recent years to approve salary increases below the levels recommended.^[194]

At successively higher classification levels above EX 1, annual Hay Associate reports^[195] show a progressively larger lag between federal executive salaries and compensation versus their sample of comparable jobs in the Canadian private sector. For example, the March 2004 report (giving market data as of September 2003) showed actual salary and total compensation gaps^[196] as follows:

Classification Level	Base Salary Gap	Total Compensation Gap
EX 1 (893 points)	-4%	-3%
EX 2 (1134 points)	-12%	-15%
EX 3 (1447 points)	-22%	-35%
EX 4 (1847 points)	-34%	-48%
EX 5 (2207 points)	-47%	-71%
DM 2 (3455 points)	-80%	-101%

If the principle of comparability with the external labour market is to be fundamental to federal public service compensation policy, it would be logical to reduce the existing gap at the levels of Executives and Deputy Ministers. From the data set out above, it would be reasonable to focus especially on the Assistant Deputy Minister (EX 4 and 5) and Deputy Minister (for example, DM 2) levels in moving top federal public service salaries closer to their private sector counterparts.

In considering this issue, care would be needed to confirm that the method of comparing the level of responsibility is sound. For example, it is often argued that private sector executives are much more clearly accountable than senior public officials for defined outcomes such as profits or increases to share value, that they must raise the funds needed to operate, and that they enjoy little security of tenure (although severance packages can be generous). On the other hand, well-informed private sector leaders generally acknowledge that the complexity, volatility, and transparency of public sector management generally exceed anything encountered in the private sector. Careful reflection would be required to define how best to ensure federal public service executive compensation is compared accurately to that provided in the private sector.^[197]

Moving towards greater comparability for executives above the EX 1 level also implies greater rigour in defining what are executive positions in the public service. The essence of being an executive in the private sector is to be accountable for substantial results. In the federal public service in recent years, we have earlier observed on a tendency to classify high level technical or advisory positions within the EX group in order to attract suitably qualified candidates. The best way to deal with this issue, as we propose in Recommendation 12, is to provide more clearly for senior advisory or technical jobs to be paid at levels similar to lower level Executives, but without classifying them as Executives. The case for compensating public service leaders more comparably to their private sector counterparts would be more compelling to the extent that the EX group is limited to those with substantial management responsibilities.

A perennially sensitive point about remuneration for senior public servants is the comparison with the pay of Members of Parliament and ministers. There appears to have been an unwritten rule that deputy ministers should generally not be paid more than ministers. This is, of course, a purely political matter. If the Government wishes to adhere to such a view, then the existing system for setting Executive pay should probably be left unaltered. Strictly from a human resource management point of view, however, it would make sense to revise Executive--especially assistant deputy minister--and deputy minister salaries upward in order to correspond more closely with their private sector counterparts.

As an important corollary, the terms and conditions of Executive and Deputy Minister positions should provide clearly for termination, where an executive's performance has not met expectations for two years in a row.^[198] To prevent cases where poor relations between one Deputy Minister or other senior executive and an individual executive might lead to unfairness in a decision to terminate, such decisions should be subject to appeal to a panel of three deputy or assistant deputy ministers, depending on the level of the person affected. In effect we are advocating a policy of "real executive pay for real executives" for the federal public service. Overall, the combination of higher compensation with less secure tenure should yield a greater commitment to performance in the management of the public service. Strengthening this culture at the top levels of the public service could

be expected to permeate the broader institution as well. In this way, improved executive compensation could be expected to encourage a more results-oriented federal public service.

As part of any move to raise public service executive compensation, we would need to consider increasing the proportion of pay that is determined by performance during the year against agreed goals. At present, as we have noted earlier, maximum at-risk pay for Executives ranges from 10% at levels 1 to 3, and 15% at levels 4 and 5. For Deputy Ministers, the range is from 15% at level 1, to 20% at level 2 and 3, and 25% for level 4. At the EX 1 level, 7% is part of the total compensation equivalence with the private sector. So only up to 3% is a potential bonus, and relatively few managers earn this extra compensation. Because of the persistent public confusion over this subject, any increases to the performance pay regime should clearly distinguish re-earnable pay from bonuses for exceptional performance.

It could well be argued that most or all of the re-earnable portion of performance pay should be included in regular executive salaries. Performance pay would then be limited to a true bonus system, restricted to only the best performers—perhaps 20% of the group at most. Such a system would be more readily understood by the public and more easily defended. However, this approach would remove an element of accountability for performance among executives generally, an emerging culture that has made progress and has room to become still more rigorous. Backtracking in this way on performance pay for executives could also make it virtually impossible to contemplate expanding performance-based pay practices to other groups of employees.

Finally, implementing such a change would, in effect, reward more poorly performing executives, whose pay would increase as a result, whereas most of the better performers would see no improvement in their total pay. They could even experience an effective reduction, if only part of the re-earnable portion of performance pay were rolled into regular salaries, in order to create a larger pot for bonuses for the top 20% or so.

Heads of Crown corporations and others appointed by Order-in-Council

Compensation for the heads of Crown corporations and for others appointed by Order-in-Council is set in a manner similar to that used for Executive and Deputy Minister compensation. The Advisory Committee on Senior Level Retention and Compensation again recommends salary range and other compensation adjustments based on a parallel Hay Associates study of private sector and broader public sector counterparts.

In 2000, the Privy Council Office (which manages these appointments) completed a thorough review of the classification of the position descriptions for the heads of Crown corporations. This review updated compensation in this area to a significant degree. Then in 2005, the Committee on Senior Level Retention and Compensation, concerned about external comparability and internal equity, recommended that Crown corporation total compensation at the Group 1 level be matched to the median (50th percentile) of comparable positions in the private and public sectors.

As for the other Governor-in-Council positions, the review of their classification and compensation structure completed in 2002 generated substantial improvements in compensation. In 2005, the Committee on Senior Level Retention and Compensation recommended that the most populous level, GC-3, be matched in terms of total compensation with similar positions at the median in the private and broader public sectors in Canada.

The Government approved the 2005 recommendations, based on the Committee's assessment that they would re-establish internal relativities among the different types of senior level positions in the federal public sector, including Executives and Deputy Ministers.

If it is decided to move public service Executive and Deputy Minister salaries closer to those of their private sector counterparts, it would be appropriate to review further the salary levels of the heads of Crown corporations and others appointed by Order-in-Council, to preserve reasonable relativity within the federal public sector.

Canadian Forces

We explain in Volume Two the complex methods used to determine compensation for the Canadian Forces. Briefly, a comparison of total compensation is calculated separately for Non-commissioned Members (NCMs) and for General Service Officers (GSOs). The comparison matches a very specific set of compensation elements. Benchmark positions are used to determine a compensation difference with the core public service, known as the "warranted percentage increase." Additional amounts are paid for the military factor, a percentage in lieu of overtime, and an amount for acting pay. General Service Officer (GSO) compensation is set based on public service comparators using a modified version of the Hay Plan. Specialist officers such as legal officers, and medical/dental officers at the rank of captain and above, are benchmarked respectively to Department of Justice lawyers and to private sector physicians and dentists. Senior Officers are paid specified multiples of core public service Executive compensation.

Volume Two also gives some sense of the history of frustrations and misunderstandings that have marked the setting of military compensation levels over the years. In practice, the system for calculating the warranted percentage increase is so complicated and so little understood—or in fact trusted—that it is seldom accepted by the Treasury Board. Typically it falls to senior Canadian Forces and Treasury Board officials to work out an acceptable number based on considerations ranging from the tempo of military operations to the current state of core public service collective bargaining negotiations. From time to time, a more thorough revision of military compensation has been approved, for example in the late 1990s.

The existing approach can fairly be described as an inefficient and non-transparent combination of complexity and arbitrariness. Canada's military personnel are increasingly called upon to undertake life-threatening missions throughout the world. Respect for their difficult and often dangerous contribution to Canada suggests the need to adopt a more transparent and balanced method for determining remuneration for the Canadian Forces.

In countries such as Denmark, France, Ireland, the Netherlands, New Zealand, and the USA, it is reported that "the defence ministry is responsible for determining pay in the Armed Forces. In most cases these decisions must be ratified by a higher level of Government or by the Treasury."^[199] On the surface, the system in these countries appears similar to ours. There is, however, considerable variation in how each country's practices actually work.^[200]

Australia has the most independent institutional arrangement, in the form of a tribunal called the Defence Force Remuneration Tribunal. Established in 1984, the Australian Tribunal has a mandate to "inquire into and determine the salaries and relevant allowances to be paid to members of the Australian Defence Force (ADF)."^[201] While this is an interesting case, it would be unlikely to fit the Canadian scene. Australia has a long history of using quasi-judicial bodies to determine pay awards in the private sector, so extending the practice to the ADF would have been entirely consistent with general norms.^[202] In Canada, no group's remuneration is entirely independent of approval by the Government, so treating the Canadian Forces as beyond the control of the Treasury Board and Parliament seems a non-starter.^[203]

More in keeping with Canadian parliamentary and public service traditions and values, the United Kingdom has an independent Armed Forces Pay Review Body that advises the Prime Minister and the Secretary of State for Defence jointly on the remuneration and allowances for the Armed Forces. First established in 1971, since 1998 the Review Body's terms of reference direct it "to have regard to the following considerations" in reaching its recommendations:

- the need to recruit, retain and motivate suitably able and qualified people, taking account of the particular circumstances of Service life;
- Government policies for improving public services, including the requirement on the Ministry of Defence to meet the output targets for the delivery of departmental services;
- the funds available to the ministry of Defence as set out in the Government's expenditure limits; and
- the Government's inflation target.

The Review Body is also directed to "have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life."^[204]

Although we recognize that institutions cannot simply be imported from one political/bureaucratic context to another, a version of the UK Armed Forces Pay Review Body could serve us well in Canada. Here matters of remuneration are usually the responsibility of the Treasury Board, so a Canadian Forces Compensation Advisory Committee would best report jointly to the Minister of National Defence and the President of the Treasury Board. Members of the Committee should include persons of eminence in Canadian public life who would be expected to balance a deep concern for the effectiveness of the Canadian Forces and the well being of its members, with a prudent and frugal regard for the public purse. The expectation would be that well-supported recommendations would be implemented by the Government, although there would always be the option of altering what was proposed or of phasing in some elements.

An important difference between Canadian and British circumstances is how departments are financed. In the United Kingdom, each department must keep its spending within defined expenditure limits which presumably act as a constraint on what the UK Armed Forces Pay Review Body can recommend in terms of compensation increases. In Canada, the practice has been, in most cases, to fund compensation increases from the Treasury Board's reserves. It would be important to ensure that any Canadian Forces Compensation Advisory Committee is effectively required to weigh desirable increases against the need to ration public funds wisely, within appropriate fiscal limits.

The approach proposed here would serve several goals. First, by adopting a transparent process for determining military compensation, the Committee would reassure Canadian Forces members that remuneration decisions affecting them take full account of their circumstances and needs. Second, by emphasizing the unique

characteristics of military life and compensation, the Committee's work would make it easier to distinguish pay and benefit decisions affecting the Canadian Forces from those affecting other groups in the federal public sector. Finally, if completely implemented, this approach could expect to enjoy credibility with the general public and all-party support in Parliament.

Civilian and regular members of the Royal Canadian Mounted Police

Volume Two describes the creation of the RCMP Pay Council in the mid 1990s, with a mandate to develop an "orderly, independent, transparent and professional" approach to compensation in the Royal Canadian Mounted Police. Overall, the RCMP Pay Council has worked well over the past decade. By using a consistent methodology to compare total compensation for the RCMP with the principal provincial and municipal police forces across Canada, the Council has largely succeeded in determining the compensation increases approved by the Treasury Board in recent years.

However, in 2004, the system came under strain. For the first time in several years, the Treasury Board approved a lower rate of salary increase than the RCMP Pay Council had recommended, based on its annual survey. At the root of this were an unresolved policy difference, and an exceptionally large increase for the Toronto Police Force.

The RCMP has argued consistently that its members' compensation should track the average of the top three comparator police forces in Canada. The Treasury Board applied that approach in practice for some years, but declined to adopt it as a policy, precisely because the Secretariat was concerned that one or two exceptionally large pay increases, adopted more perhaps because of local politics than labour market considerations, could lead to an unreasonably large increase for the RCMP. Such an increase could also have a disruptive impact on other pay determination processes in the public service.

More importantly, as we saw in the previous section on military compensation, the UK Armed Forces Pay Review Body is required to take account not only of comparability, but also of such issues as productivity improvement, expenditure limits, and the Government's inflation target. The Treasury Board Secretariat has maintained as well that the relative ease or difficulty of recruiting and retaining RCMP members should be considered in determining pay levels for the federal police force.

In 2004, in fact, a Toronto-specific increase pushed the average of the top three forces well beyond what was on offer to the largest public service union in collective bargaining. The resulting decision to adopt a lower increase provoked bad feelings within the RCMP. [\[205\]](#)

In our view, the basic approach embodied in the RCMP Pay Council is appropriate and should be maintained. However, after nearly a decade in place it would be reasonable to review the experience, including how the total compensation comparisons are calculated, and how best to deal with unusually large increases affecting only one or two forces. The review should also consider how to make explicit the role of factors other than comparability (e.g. ease or difficulty in recruiting and retaining members) in assessing pay increases. Such a review could be expected to result in a renewed system that both the RCMP and the Treasury Board Secretariat could manage with confidence for many more years to come.

Federally appointed judges

Remuneration for federally appointed judges is set out in the *Judges Act*, as amended from time to time. A Commission is established every four years (hence the title Quadrennial Commission) to review the suitability of judicial compensation and to make recommendations for appropriate changes. The Commission is composed of representatives named by the Minister of Justice and by the Canadian Judicial Council (which represents federal judges), and a Chairperson determined by these two members.

This approach preserves the judiciary's constitutional independence in that the Government, on whose actions the federal and provincial superior courts must rule, is not responsible for determining judges' salaries and benefits. Although Parliament is responsible for reviewing the Commission's recommendations, it is not bound by them. In amending the *Judges Act*, Parliament may deny or alter a Commission's recommendations, provided it substantiates this action rationally. However, the accumulating precedent of adopting these recommendations in recent decades makes such an outcome increasingly less likely.

On the other hand, it is not clear what the proper comparator is for setting judicial compensation. Historically, as described in Chapter 3, Commissions have tended to use the mid-point of the salary range for Deputy Ministers, level 3. In the most recent report, published in 2004, the Commission favoured comparison with the compensation of law firm partners in major urban centres. It seems likely that this shift in reference points was motivated by the fact that public service deputy ministers' salaries have grown only slowly in the past few years.

A broader public debate about the issue of to whose salaries judges' compensation should be compared would be warranted, especially if the Government decides to increase the comparability of public service Executive and

Deputy Minister salaries with their private sector analogues. In fact, the work of judges is very different from that of the deputy heads of federal departments and agencies in content, conditions of work, and accountability. The main pool for recruiting judges is law firm partners. So experienced private sector lawyers are in principle almost certainly better comparators. The problem, of course, is the wide variability of the remuneration of such private attorneys, across regions, firms, legal specialties and individuals. This issue of identifying the appropriate comparators in recommending changes in the level of judicial compensation demands more attention, if the current Quadrennial Commission system is to retain its public support.

Parliamentarians

Volume Two explains how it was decided, pursuant to a Commission report in 2001, to raise the salaries of Members of Parliament and Senators, to include their tax-free allowance within their salaries, and to tie future increases to the same rate of increase as legislated for federally appointed judges. In 2004, however, the Government committed to de-couple parliamentary salary increases from those approved for judges. In 2005, the *Parliament of Canada Act* and the *Salaries Act* were amended to establish a new index for calculating annual salary increases for Members of Parliament and Senators.

The decision to separate the means for setting judicial pay from that for compensating parliamentarians is conceptually sound. The work and responsibilities of these two groups of critical actors in Canada's system of governance could hardly be more different. Judges serve for life and must act independently, usually taking their decisions alone. Parliamentarians serve for terms of varying length and normally operate within a system of party discipline, deciding matters collectively.

The approach adopted for parliamentary compensation in 2005 provides for annual increases that are transparent, independent of federal public sector increases, and reflective of increases awarded to average Canadians. It also removes the need for parliamentarians to vote on their own salary increases. By providing annual increments corresponding to the change in the industrial aggregate wage level, the new policy will preserve parliamentarians' purchasing power relative to the labour force as a whole.

However, it is predictable that over time the relative position of parliamentary compensation versus that of other senior federal officials, including judges and deputy ministers will raise doubts about whether simply matching average Canadian wage growth will attract strong candidates to seek election. From time to time, therefore, it would make sense to appoint a Commission, similar to that appointed every four years to review judges' compensation, to recommend whether and how to update parliamentary compensation.

It could be argued that MPs and Senators are put in a conflict of interest in having to decide on their own compensation in response to the recommendations of such a Commission. To mitigate this criticism, it could be decided that any increases beyond the annual industrial aggregate adjustment should apply only after a new Parliament is elected. Even this would not eliminate controversy, since some candidates would no doubt be tempted to promise to rescind a pre-approved increase. The fact is, however, that only parliamentarians can decide on their own level of compensation. Even adopting the annual industrial-aggregate-increase approach was such a decision. Any pressure over time to move beyond the level yielded by the new formula would best be decided transparently on the basis of independent advice.

In summary, then, the recommendations related to the area of determining salaries for particular groups in the federal public sector are as follows:

Recommendation 13

13.1 The Treasury Board President should ask the Advisory Committee on Senior Level Retention and Compensation to review and offer recommendations on the extent to which federal public sector executives should be compensated at levels equivalent to their private sector counterparts. It would likely make most sense to focus initially on the salaries of Assistant Deputy Ministers and Deputy Ministers. In doing so, the Committee should assure itself that the method of comparison is conceptually sound, and that the comparability data is reliable. It should also consider proposing a narrowing of the definition of positions that can be included in the Executive group to exclude those without substantial management responsibilities, and recommending terms and conditions of employment that acknowledge that an executive may be let go for inadequate performance.

13.2 The Committee should at the same time reconsider the appropriate role of pay for performance in the overall executive compensation package.

13.3 If the Treasury Board President decides to ask for the review proposed in recommendation 13.1, the Privy Council Office should request the Advisory Committee to undertake a similar review and offer recommendations with regard to our positioning of compensation for heads of Crown corporations and others appointed by Order-in-Council vis-à-vis private sector counterpart compensation.

13.4 The Minister of National Defence and the President of the Treasury Board should jointly appoint an eminent Canadian public figure to propose how best to establish a Canadian Forces Compensation Advisory Committee, modelled generally on the United Kingdom Armed Forces Pay Review Body.

13.5 The Minister of Public Safety and Emergency Preparedness and the President of the Treasury Board should invite a reputable consulting firm^[206] specializing in compensation issues to review how the RCMP Pay Council measures total compensation, what considerations other than comparability ought to be weighed in determining RCMP compensation, and how the Treasury Board should deal with situations where compensation increases for one or more police forces are unusually high.

13.6 The Minister of Justice and the Canadian Judicial Council should ask the next Quadrennial Commission, scheduled to report in 2008, to conduct as part of its deliberations an in-depth analysis of the value and relevance of various possible comparators in determining the appropriate level of compensation for federal judges.

13.7 If, in the future, there is a sense that parliamentarians' salaries are out of step with what is paid for other senior federal public sector positions, an independent commission, similar to that appointed every four years to recommend changes to judicial compensation, could provide a transparent and independent means to advise Parliament on how best to update parliamentary compensation.

13.8 In mandating all the various advisory groups on compensation, the principle should be respected that they are independent in regard to their analysis and formulation of recommendations, but that the final decision on compensation rests with the Government or Parliament, as appropriate.

14. Specific Compensation Issues Relating to Pensions and Other Benefits

Pensions

Chapter 7 in this volume demonstrated that the various federal public sector pension plans are among the best in the country in terms of both their security and the value they provide to plan members. The features that offer retirement without penalty as early as age 55 with 30 years of service, or in some cases at an earlier age or with less service, are particularly attractive, especially when combined with full protection against inflation.

In principle, it is sound public policy to offer a generous pension regime for public servants. Freed from the worry of providing for a dignified retirement, long-serving public servants have little temptation to take advantage of their position to enrich themselves through abuse of their positions. This aspect of sound governance is seldom discussed in public, but we need only observe practices in countries where public sector compensation is inadequate, to see the costs incurred in economic inefficiency and mutual mistrust, where public servants cannot be relied on to act with integrity.

However, those who benefit from such a regime should share the costs fairly with the society they serve. As we illustrate in Volume Two, the proportion of current service pension costs borne by the employees in the principal federal Public Service Pension Plan fell from more than 40% through most of the 1990s, to only 26% in 2002–03. Members of the other federal public service plans pay a still lesser proportion. It has now become essential to raise employee pension contributions in order to restore greater equity between taxpayers as a whole and public servants in the funding of the latter's pension benefits. This process should continue until employees contribute at least 40% of current service pension costs.

The best formula for regaining a reasonable balance is debatable. In 2002–03, contribution rates were 4% of salary below \$41,100 (in 2005), a level known as the Year's Maximum Pensionable Earnings (YMPE), and 7.5% above that level. Because the largest part of the public service salary mass falls below \$41,100 (about two thirds of what is paid to public servants),^[207] most of the increased contribution will need to be financed in this area.

The Treasury Board President announced in July 2005 the Treasury Board's decision to phase in contribution increases over several years until the rates reach 6.4% below the YMPE, and 8.4% above that level. Since employees also contribute 4.95% of salary to the Canada/Quebec Pension Plans^[208], the total pension contribution below the YMPE will amount to 11.35%. Clearly one could juggle these figures, as well as the speed at which the new rates are implemented. The bottom line, however, is that the recent Treasury Board decision is

a reasonable approach to preserving a generous but appropriate pension plan by ensuring public servants pay an equitable share of the costs.

In Volume Two we show that, for various reasons, members of other federal public sector pension plans (i.e. members of the Canadian Forces, regular and civilian members of the RCMP, federally appointed judges, and parliamentarians) pay a lesser proportion of current service pension costs than public servants. The Treasury Board decision implements what is likely the best course in regard to these plans, by raising member contributions in line with the increases adopted for the main plan. This will not bring member contributions in these plans to the 40% level but at least it will preserve the existing relativity among the plans.

Beyond the basic issue of fair financing, however, there have been several other matters for debate in federal public sector pension policy. The most prominent relates to the way that the Public Service Pension Plan is integrated with the Canada and Quebec Pension Plans. There is an important change in how the Public Service Pension entitlement is calculated at age 65, which is the expected age at which retirees begin to collect their CPP or QPP pensions. At that point, the Pension Plan pays only 1.3% per year of eligible service, times the average of the best five years' salary, on that portion of the average that is below the income level covered by the CPP/QPP (YMPE). The benefit rate is 2% per year of service above the CPP/QPP income threshold, and for a retiree's whole eligible salary before the age of 65.

Until recently, the gradual phasing in of the CPP/QPP meant that this change at age 65 actually benefited most public service pensioners. But under current rules, by 2008 most public service retirees would find that the combination of their CPP or QPP pension and their Public Service Pension below the YMPE do not add up to 2% per year of service times the average of their best five years' salaries. Because this issue only affects the proportion of pensionable income below the YMPE (again, this is \$41,100 in 2005), those with lower incomes would feel the impact more acutely.

Whether or not this problem was fully anticipated when the CPP/QPP plans were established in the 1960s, there was little urgency to addressing the matter until recently. Although detailed descriptions of the Public Service Pension Plan have explained what happens at age 65, the general understanding among public servants has been that the Plan pays 2% per year of service. So as this becomes untrue below the YMPE, especially for those with relatively lower incomes, dismay will no doubt emerge. Adjusting the public service plan so that most or all of the gap is eliminated would increase the liability by about \$1.3 billion, and the annual cost by about \$60 million. The Treasury Board President announced in late 2005, on behalf of his colleagues, the Ministers of Public Safety and National Defence, the sensible decision to propose that Parliament amend the Plan to deal with this emerging issue as close as possible to the time that the employee contribution rates are increased towards the level needed to cover 40% of current service costs.

The second topic is the broad matter of the contemporary suitability of the existing design of the Public Service Pension Plan. As we described in Volume Two, there have been numerous adjustments over the years to the *Public Service Superannuation Act* (and the other related statutes covering the Canadian Forces, the RCMP, parliamentarians and federally appointed judges). Despite these changes, however, there remain such issues as age of retirement, flexibility in survivor benefits, career movement and equality of financing and benefits.

Age of retirement

Should the Plan continue to encourage long-service employees to retire as early as age 55? With the general aging of the population, experienced and healthy older employees may become increasingly desirable assets. It appears that long-service employees can maximize their expected lifetime value from the Public Service Pension Plan if they retire as soon as they can do so without a penalty. So persuading such employees to continue contributing would likely require some policy changes favouring additional service that would be attractive to them.

Would it make sense to permit additional accumulation of pension entitlements beyond the existing 70% level? Should we raise the minimum age for retiring with an unreduced pension? Could we devise a system whereby employees eligible for a pension could work part of the year and receive a combined pension and salary equivalent to their salary at the time of becoming entitled to an unreduced pension?

Flexibility in survivor benefits

Should there be more flexibility in survivor benefits? The existing rules in theory provide less than the 60% of member benefits required by most pension benefits legislation, yet in some cases survivor benefits exceed the 66 2/3rds^[209] maximum level permitted under the *Income Tax Act*. As the family continues to evolve and be redefined in Canadian society, is it time to rethink a regime that was designed when most families relied on a single--usually male--breadwinner?

Career movement into and out of the Public Service

Is the Public Service Pension Plan sufficiently adapted to facilitating career movement into and out of the public service over many years? The Public Service Pension Plan is now exceptionally portable in the sense that after two years, those leaving the public service can transfer their entitlement to many external plans, or take out a cash amount equal to the actuarial value of their accumulated entitlement. However, because the Public Service Pension Plan is relatively generous, bringing entitlements earned elsewhere into the federal plan can prove daunting. Without subsidizing recruits, are there ways to mesh the federal plan more favourably with entitlements earned externally? Could those who leave with the intention of returning continue to participate in the federal plan, taking responsibility to pay both the employee and the employer shares of current service costs while they work outside the public service? [\[210\]](#)

Equality of financing and benefits

Is the balance of Plan financing and benefits equitable for different groups of employees? Arguably, the Plan is not fair to single members who cannot designate a survivor, to employees who depart the public service early in their career or join the public service in their middle years, or for middle-income employees who pay a proportionately greater share of Plan costs than either low- or high-income employees. Fairness is, of course, in the eye of the beholder, but there has not been a serious review of this matter for many years.

Pension Plan governance

Finally, we would highlight pension plan governance. In the late 1990s, the government and the public service unions came close to agreeing on a plan for joint management of the Plan. This foundered on the issue of whether employees are entitled to some share of the actuarial surplus that had accumulated in the Superannuation Account over the years. Disagreement on this matter provoked litigation on the part of the unions, and rejection of the idea of joint management. However, many major public sector pension plans in Canada are governed jointly by the employer and representatives of the employees. In principle, when the current surplus litigation is concluded, we should renew our effort to establish some form of shared governance, provided this includes a commensurate sharing of responsibility for pension policy and financing.

For employees and their unions, the reason to share in governing their pension plan is evident: for most employees, especially those with long service, their pension is their most valuable asset, frequently exceeding the value of their home as they approach the age of retirement. Participating in safeguarding this asset ought therefore to be an employee priority.

For the employer, the reason to share in governance is to bring employees and their unions to participate in the responsibility to finance soundly the agreed benefits. Joint governance usually implies that both the employer and the employee will share in both surpluses and deficits. Overall, the employer can expect employees who are full partners in the financial well being of their pensions will take both an active and a responsible interest in the evolution of pension policy and financing.

We note that the Public Service Pension Plan (PSPP) is unlike most pension plans in Canada, in that it is governed by its own statute and is not subject to pension standards legislation of general application. This appears to have resulted from the fact that the PSPP predated such legislation, as well as the significant size of the liability for paying future public service pensions in the overall financial position of the federal government.

We observe as well that the joint pension governance model in the Canadian public and private sectors has come under some strain in recent years as investment returns have been unusually volatile. The Ontario Teachers Plan, for example, faces the prospect of raising contributions or scaling back benefits, having over-committed on benefits relative to how its portfolio has performed. The Ontario Municipal Employees Retirement System (OMERS) is also going through some difficulties, with the Canadian Union of Public Employees suing the plan over alleged bad management of the investment portfolio. Clearly joint governance is easier when managing surpluses rather than deficits. Any shared governance for the federal Public Service Pension Plan will need to be carefully designed to weather both bad times and good.

Recommendation 14

14.1 The President of the Treasury Board should ask the existing Pension Advisory Committee, involving representatives of the employer, the public service unions, and pensioners to review the suitability of the existing Plan design in terms of how it deals with such issues as the existing incentives to retire as soon as a member can receive a pension without a penalty, whether we need a more flexible approach to survivor benefits, how the Plan affects career movement into and out of the public service, and how equitable the existing Plan is to various groups of employees, and to make appropriate recommendations.

14.2 After the current litigation on the pension account surplus is resolved, the President of the Treasury Board should renew discussions with the public service unions with a view to involving the unions more directly in the governance of the Public Service Pension Plan, on the basis of a greater sharing of responsibility for pension policy and financing.

Other public service benefits

In this section we deal first with the broad areas of life and disability insurance, and health and dental plans including sick leave, and then briefly with other leave and overtime.

Life and disability insurance, health and dental plans

As we have described in Chapter 8, the federal public service plans relating to life and disability insurance, and to health and dental protection are middle-of-the-road in comparison with such plans in the private sector.^[211] The various plans have come into existence and evolved largely in isolation from one another, with little evidence of a systematic employer philosophy or policy animating the current suite of programs. The cost of these plans and related taxes across the various federal public sector domains examined in this Report has risen from about \$1 billion through the early and mid 1990s to around \$1.5 billion^[212] by 2002–03. Although this amounts to only about 6% of total compensation expenditures in the latter year, \$1.5 billion is still a substantial sum. This area of compensation deserves attention both from an expenditure management perspective, and because employees, retirees, and their dependants rely on these programs to meet many important needs.

Volume Two summarizes each of the existing plans and how they are financed, and traces their evolution since 1990. Among the important general themes from this examination, the following points deserve emphasis.

Little change in benefits or choice

Since 1990, there have been few changes in eligible benefits. In fact, some paramedical health services have become harder to access. Compared with many private sector plans offered by large, unionized employers, the public service plans are quite restrictive in their coverage. As well, employees have very little choice about what benefits they can access.

Emergence of the Pensioners' Dental Service Plan

This Plan, introduced in 2001, was the one major exception to the pattern noted in the previous point.

Employer financing

The various plans are entirely or mainly financed by the employer.

Confusion in relation to collective bargaining and governance

Although these plans are generally not discussed in concluding occupational group collective agreements, changes to most of these plans are worked out with the unions together through the National Joint Council and included in the relevant agreements.

In recent years, joint union-management agreements have set up organizations such as the Public Service Health Care Trust to govern the programs. While these groups have helped to make the management of the affected programs more transparent, they have also muddled the issue of how costs are to be contained and apportioned.

Time for Rethinking

The current system works reasonably well in serving the needs of employees, retirees and their dependants. Complaints are generally minimal. Nevertheless, we should not continue to accept uncritically the existing rigidity in benefits, confusion in governance, and substantial increase in costs in recent years that have characterized the suite of plans we now have.

This area is ripe for a fundamental rethink of goals and means:

- As a socially and fiscally responsible employer, what is the federal government aiming to accomplish through its various insurance, health and dental plans?
- In view of the radical changes in the Canadian family in recent years, as well as the need to attract talented citizens to join the public service at all ages for periods of varying length, would not a more flexible approach serve everyone better?
- What is the right way to include employee union representatives in the design and governance of these plans, such that they share accountability for fiscal prudence with the employer?
- With up-to-date answers to these questions in hand, what is the best way to deliver the results, such that administrative overheads and interest charges are minimized?

Probably the most important innovation would be to introduce real choices for employees in the benefits they receive. If this were successful, the need to rethink our programs would in effect be done by individual employees as they made their choices. Still, designing the choice options would require thoughtful policy

analysis, informed by in-depth canvassing of employees and their union or professional representatives. Previous attempts to move in this direction have foundered on fear of administrative complexity, concerns about costs, employee and union resistance, and the inherent caution of government officials. Moving successfully to introduce meaningful flexibility would likely require two things: first, determination of an annual total amount to be paid by the employer for each employee for such benefits; and second, design of a set of manageable choices that could be offered at reasonable cost.

The most controversial part of moving towards flexibility would be determining what amount the employer would pay per employee each year. Earlier in our recommendations, we argued that the scope of collective bargaining should be expanded to include as many components of total compensation as possible. In this way, the trade-offs among desirable goals would be transparent to all, including employees and taxpayers. It would be useful for the government to initially set a uniform annual allowance per employee available exclusively for the purchase of benefits. That amount should not aim at reducing current costs, but should credibly capture the value of existing benefit expenditures. In the transition, the cost to the employer could be expected to rise to preserve an overall equivalence for employees to existing benefits. We would likely need to offer separate amounts for single individuals and those with families. Whatever the initial amounts, they should be increased from year to year according to an appropriate index. Unions could then seek a greater or lesser amount through collective bargaining. Employees wanting coverage beyond what could be purchased through their benefits allowance could pay for the difference from their own pocket, at what would—we expect—be favourable group rates.

An important fear on the cost side is that we would lose the economies of scale that we now enjoy by purchasing insurance, such as in the case of disability,^[213] or administrative services, in the case of the health and dental plans, for very large groups with standard entitlements. Such concerns could be reduced by negotiating packages corresponding to the expressed preferences of various groups of employees. We could consider consolidating the existing plans into one major contract to make it attractive for the private sector to trim its costs to win the business.

A variation that would potentially combine economies of scale with a meaningful set of benefit choices for employees would preserve a common base set of core benefits with options for additional coverage in areas of individual interest. Such an approach could reduce the cost burdens relating to what is called adverse selection, whereby only those at high risk would choose certain benefits with the result that the cost could prove prohibitive.

Reforming Sick Leave and Disability Insurance

The whole area of disability insurance in particular is mired in overlapping entitlements and administrative complexity. Depending on the circumstances, a disabled employee could find him or herself having to navigate among sick leave entitlements, one of the public service disability plans, Workers' Compensation in the province, the Public Service Pension Plan, and the Canada or Quebec Pension Plans. An interesting option with regard to disability insurance would be to merge it with both the Pension Plan and the existing sick leave regime. In essence, sick leave with regular pay would be granted for short periods of perhaps up to three days with a manager's approval, subject to an annual non-bankable maximum of perhaps eight to ten days; short-term disability with regular pay from a short-term disability plan for moderate periods of perhaps up to ninety days with a doctor's authorization; and for longer periods, there would be long-term disability at 70% of salary as now, with medical confirmation. A variation on the short-term disability proposal would be to pay 100% of salary for the first 30 days, then say 90% for the second 30 days, and 80% for the final 30 days, before becoming eligible for long-term disability which pays 70% of salary.

Introducing a short-term disability plan would encourage appropriate disability management to commence much earlier than at present, where those on long-term sick leave are not eligible for such assistance. Early intervention is important to both rehabilitation and improving the chances of a return to work.

A corollary of this proposal would be to abolish the banking of unused sick leave. The existing practice of accumulating such entitlements leaves healthy long-service employees with a sense of missing out on something when they retire with a substantial unused bank. This leads to periodic proposals to cash out such leave, even though the public service already enjoys relatively generous severance pay entitlements—up to 30 weeks' pay for most unionized employees, 28 weeks for those not in unions, normally. For some, there is no doubt a temptation to seek out a sympathetic doctor as the date of eligibility to retire approaches.

For employees with few years of service, the replacement of the sick leave banking system with a short-term disability insurance program would provide greatly improved protection in the case of serious illness. This is consistent with the need to encourage skilled employees to enter the Public Service for various lengths of time over the course of a career. Illness correlates partly with age but disability can strike at any stage of life. An insurance-type approach is logically more aligned with the problem addressed.

In reviewing these issues, it would also be wise to consider the optimal balance in managing the risk associated with such benefits between purchasing insurance from external underwriters, and assuming the risk directly.

At the same time, steps could be taken to align the disability regimes affecting various parts of the federal public sector. At present, for example, the disability plans for the Canadian Forces and the RCMP regular and civilian members provide 75% rather than 70% of salary for long-term disability. On the other hand, the Canadian Forces plan provides lower inflation protection than other federal plans. Unless we can identify a compelling policy rationale for different salary replacement or inflation protection rates, it makes sense to maintain one standard of protection across the federal public sector.

Supplementary Death Benefit

A final substantive topic for consideration in the insurance area is the Supplementary Death Benefit (SDB) under the *Public Service Superannuation Act*. The public description of the SDB describes the plan as "a form of decreasing term life insurance protection designed to cover you and your beneficiary during the years you are building up your pension." Yet the existing SDB provides two times salary until age 65, when the coverage declines until age 75. If the stated purpose is valid, it would perhaps be better to provide coverage of as high as five, or even ten times salary for the first few years of service, with coverage reducing gradually to perhaps one times salary at age 65, and then further reductions as at present.

The financing of this benefit is unusual in three respects: first, since 1955, over 80% of the cost of benefits has been paid by the employees; second, the balance in the account^[214] has grown from year to year, rising from \$616 million in 1990–91 to \$1.897 billion in 2002–03. Finally, this is probably the only group insurance plan in Canada that is embedded in legislation, which makes it very difficult to manage as circumstances change.

It would be sensible to verify the actuarial projections for this account to determine more precisely what we can expect to happen over the next few decades. This would be essential if the benefits were to be redesigned to align better with SDB's stated purpose. If some part of the accumulated accounting balance is not likely to be required to pay benefits over a reasonable planning timeframe, we could consider allocating the unneeded funds to another employee benefit. Consideration should also be given to removing it from the *Superannuation Act*, and putting it on the same policy footing as other public service benefits.

Plan Governance

Before leaving this area, we need to touch on how these plans are overseen. Governance of public service benefits should correspond to how responsibility for financing them is allocated. At present, we appear to have variations on joint union-employer management without joint accountability for the financial consequences of decisions taken. If we move to a system of negotiated per-employee benefit allowances as part of collective bargaining, it would be appropriate to establish formal joint union-management governance of the plans that would be negotiated for employees to purchase, either with their allowance or their own funds. As long as the plans remain essentially the employer's financial responsibility, however, we should limit the role of plan boards to resolving appeals by consensus, or referring cases without significant financial implications to third-party arbitration. The employer should only make decisions that would significantly raise the ongoing cost of a plan after consulting the plan board.

We also need to be clear about the role of employer representatives on plan boards, whether those we currently have or truly joint management boards. At present, it may not always be clear to persons named to represent the employer that they must set aside their interest as a plan beneficiary in helping shape decisions affecting the plan. Employer nominees should receive thorough training^[215] from the Treasury Board Secretariat before taking up their duties. In fact, it would be sensible to name some employer representatives that are not themselves plan beneficiaries. Board members are responsible to apply their best judgement on how to interpret the employer's policy positions. This would no doubt lead to active and necessary debates among employer representatives. However, such representatives need always to guard against being unduly influenced by their interest as plan members.

Many will argue that fundamental rethinking and redesign in the areas of insurance, health and dental benefits is too controversial, too difficult, too complex; in short, not worth trying. This implies continuing indefinitely with a hodgepodge of benefits that have emerged in an uncoordinated manner over decades, that do not necessarily suit the current needs of employees, and that are growing in cost to the employer, with little incentive to match best practices of other employers. The time has come to take a hard look at what benefits federal public servants and their dependents need looking to the future, how best to finance such benefits, and how to ensure that employees, through their unions, share with their employer in the responsibility and accountability for the design and financing of these benefits.

Leave and overtime

Volume Two shows how leave entitlements and overtime policies have developed since the early 1990s. We also describe how total usage evolved, as well as usage of both sick leave and family-related leave for occupational groups that have been particularly frequent or infrequent users of such leave on average.

At the most general level, we observe that leave usage has remained fairly constant since 1990–91, at about 40 days per year for all types of leave. For 2002–03, there appeared to be an increase to about 41 days, which is consistent with the addition of two personal leave days in most union contracts beginning in 2001.

We have a concern, however, that there may be a tendency among some groups, particularly Executives, not to use fully their annual leave. [216] By collective agreement or by policy, employees have the option—with their supervisor's approval—to cash out their leave instead of taking it in time off work. However, the policy intent of leave is clearly to promote employee physical and psychological health and resilience. In effect, paid time not worked is an employer investment in employee well being. Failing to use the available leave, whether to convert it to a cash payment or to store it up for later use, risks defeating that purpose. Public service managers should strongly encourage their employees to use their leave entitlement. A culture that treats people as continually indispensable is unhealthy and risks becoming self-defeating.

Along a similar line, there appears to be a cultural expectation in some public service groups and organizations that overtime should not be claimed for payment, or should be claimed only in token amounts. It is striking in Volume Two that overtime is almost unique among elements of total compensation in the core public service in having remained essentially unchanged between 1991–92 and 2002–03. [217] This pattern contrasts, for example, with the Royal Canadian Mounted Police, where a very similar number of members over the years increased their usage of overtime from \$66.4 million in 1990–91 to \$99.1 million in 2002–03. [218]

The 2002 Public Service Employee Survey indicates in Question 7 that 63% of employees felt that they "can claim overtime compensation (in money or in leave) for the overtime hours that they work." However, later in Question 15, 16% of employees reported that "they were rarely or never compensated for overtime worked." Public service managers must not discourage or refuse legitimate overtime claims.

Pensioners' benefits

Public service pensioners, in addition to receiving their pensions under the *Public Service Superannuation Act*, participate in life insurance, health and dental plans that are partly financed by the employer. For the plans that are not externally insured, the actuarial liability of future benefits for public servants after retirement is substantial. Since it started to be tracked and recorded on an accrual basis in the Public Accounts of Canada, this amount grew from \$6.5 billion in 2000–01 to \$7.2 billion in 2002–03. [219] There has been no considered overall assessment in recent years of how much is appropriate for the federal employer to contribute to the cost of such pensioner benefits, in relation both to the level of current employee compensation, and to practices by major employers in the Canadian private and broader public sectors. Such an assessment is overdue.

Our recommendations in this Chapter, then, are as follows:

Recommendation 15

15.1 The President of the Treasury Board should commission external experts, including members with experience on both the union and the management sides of benefits design and management, to undertake a fundamental rethinking of how best to insure employees in the event of death or disability, and to supplement generally available health and dental coverage, taking account of the current and future needs of employees and their dependants. The scope of the review should include the purpose and design of the Supplementary Death Benefit under the *Public Service Superannuation Act*. In particular, the rethinking should assess the feasibility of offering employees a set of choices for coverage that best suits their needs and preferences, at reasonable cost. Consideration should also be given to the desirability of purchasing insurance programs underwritten by external insurers (such as the existing Disability Insurance Plan), or programs administered by third parties where the government assumes direct responsibility for benefits (such as the Public Service Dental Care Plan).

15.2 Based on this external study, the Treasury Board Secretariat should discuss with the public service unions how to establish an annual benefits allowance that would be available exclusively to purchase benefits from a menu defined jointly. The initial amount of the benefits allowance should be set to maintain overall equivalence with the value of existing benefits, with an appropriate annual escalator. Collective bargaining, or compensation decisions affecting unrepresented employees, could lead to changes in the allowance up or down. Consideration could also be given to a hybrid approach whereby some benefits covered by the allowance would be mandatory for all employees, and some would be available according to employee choices.

15.3 Employees should be able to purchase coverage beyond that covered by the benefit allowance on the same terms with their own money.

15.4 The President of the Treasury Board should commission a specialized assessment contributing to the study proposed in Recommendation 15.1, again led by external experts from the full spectrum of union and management viewpoints in the public service, to examine how to consolidate plans protecting employees in the case of prolonged disability, both to improve service to employees and to reduce administrative costs. The review should include an examination of the option of replacing the existing practice of earning and accumulating unused sick leave with a form of short-term disability insurance.

15.5 The Treasury Board should harmonize the rate of disability insurance income replacement and annual inflation protection across the various federal public sector plans, except where there is a compelling policy-related case for maintaining distinctions.

15.6 Depending on the result of the rethinking proposed in recommendation 15.1, the President of the Treasury Board should commission the Office of the Superintendent of Financial Institutions to assess what level of contribution would need to be recorded in the Supplementary Death Benefit Account in order to ensure its long-term financial health. Any amounts in excess of what is required could factor into broader discussions with the public service unions on the future of benefit plans.

15.7 Governance of public service benefit plans should be consistent with the allocation of accountability for financing the plans. Joint union-employer management should only apply in the case of plans for which both the employer and the employees, through their representative unions, are responsible for the plan's financial health.

15.8 Employer representatives on plan boards should be selected and trained so as to ensure that they act to implement the employer's policy on employee benefits, including a prudent approach to financing, and not on their interest as plan members. To underline the seriousness of this role, such representatives should be appointed by the Governor-in-Council.

15.9 Public service managers should ensure that employees normally use the annual leave to which they are entitled, and that employees are paid for overtime for which they are eligible to be paid.

15.10 The President of the Treasury Board should commission an independent review of the appropriate level of employer contributions to life insurance, health and dental benefits for public service pensioners, taking account in particular of the practices of other major Canadian public and private sector employers. Representatives of public service pensioners, and the public service unions, should be invited to contribute to this review.

With this, we have completed the set of recommendations relating to a wide variety of specific substantive compensation issues. We now turn to possibilities for updating of the legislative framework governing compensation management in the federal public service. Following this, we will conclude the Recommendations Section with a few thoughts on follow up and implementation of our recommendations.

15. Possible Areas for Legislative Change

This chapter discusses in turn two sensitive areas governed by legislation: collective bargaining in the federal public service, and pay equity, that is equal pay for work of equal value. In both cases, the issues are complex and deserving of in-depth analysis in their own right. In fact, there have been substantial reports from special Advisory Committees on both topics in recent years: the Advisory Committee on Labour-Management Relations in the Federal Public Service, chaired by John Fryer, which reported in 2000 and 2001; [\[220\]](#) and the Pay Equity Task Force, chaired by Beth Bilson, which reported in 2004. [\[221\]](#) In the present Report we limit ourselves to describing certain issues specific to responsible compensation management that we consider deserve further examination, notwithstanding the extensive work of both the Fryer Advisory Committee and the Pay Equity Task Force.

Collective bargaining and compensation management

To begin, it is important to affirm our view that unions play a vital role in providing employees with a common voice on important workplace issues, and that collective bargaining is the best way to set the terms and conditions of employment for unionized workers. In this section, we challenge the view that collective bargaining should be a kind of trial of strength in the public sector. However, this critique is undertaken within the framework of a fundamental commitment both to the legitimacy of unions, and to their crucial role in representing employees, especially in the process of setting the terms of public sector compensation.

There will no doubt always be controversy about the relationship between collective bargaining and compensation outcomes. Actual results in the federal public service since 1967 have on balance been positive, despite many bumps along the road. Looking to the future, however, we may reasonably ask whether similar or better results could be achieved with a system better adapted to serving the public without interruption.

An historical overview

The federal public service experience with collective bargaining over the nearly four decades since it was introduced in 1967 can best be characterized as mixed. Chapter 3 describes how periods of collective bargaining have alternated with periods of legislative wage determination. There were in fact three periods of direct wage setting by the Government:

- 1975–1978: *The Anti-Inflation Act* regulated wage increases for most employers in Canada, including the federal public service.
- 1983–1984: The *Public Service Compensation Restraint Act* applied specifically to the federal public sector, limiting salary increases to 6% and 5% in 1983 and 1984 respectively.
- 1991–1997: The *Public Sector Compensation Act*, and successive Budget Implementation Acts, froze federal public service salaries for five of six years, mandating a 3% increase in 1992.

For the first 30 years of collective bargaining, then, the system was only allowed to operate for 19 years in total, with uninterrupted operation for a maximum of eight years, in the period immediately following the implementation of the new regime in 1967. The present era, beginning in 1997 with the resumption of collective bargaining following the end of the freezes, is therefore already as long as the longest previous stretch of continuous collective bargaining. It must be acknowledged, however, that even the periods during which collective bargaining prevailed included cases of specific recourse to legislation to end or even prevent a particular strike.

Much public discussion of federal public service collective bargaining focuses on what is described as bad relations or mutual distrust between the Treasury Board Secretariat, which bargains in relation to most federal public servants, and the public sector unions. The implication seems to be that if somehow the parties worked harder at getting along with each other, or if the employer side were less prone to resorting to arbitrary controls, everything would be fine.

In fact, relations between Treasury Board Secretariat management and human resources professionals and their union counterparts have nearly always been civil and constructive. We note, however, that relatively frequent turnover in key players, especially on the management side, has likely interfered with nurturing sound relations of personal trust between the parties.

In any case, the instability in the collective bargaining system since 1967 has deeper roots, relating mainly to disputes over the appropriateness of public service wage and benefit increases in the context of broader economic and political events and, we would argue, the unsuitability of the available tools for resolving disputes under the applicable legislation. [\[222\]](#)

Critiques of union-management relations in the federal public service often include the assertion--generally unsupported by empirical evidence--that public servants have suffered financially in comparison with private sector employees in Canada. This Report shows that while there was some truth to such a view during the period of pay freezes in the early and mid 1990s, this is now no longer the case.

Chapter 2 of this volume reports that in the period following the end of salary freezes in 1997, the federal public sector--specifically the combined core public service for which the Treasury Board is the employer and the separate employers--experienced a 14.1% increase in real average salary in the five years from 1997–98 to 2002–03. In fact there was a reduction in the real average salary (constant 2003 dollars) of about 3.7% [\[223\]](#) in the mid-1990s. However, this reduction was more than reversed by 1999–2000. Chapter 5 (refer to Figure 1027, in particular) shows that the cumulative rate of increase in the federal public sector [\[224\]](#) average salary indeed lagged private sector negotiated year-over-year increases between 1990–91 and 1999–2000. However, cumulative federal public sector increases since 1990–91 outstripped private sector agreements by a total of more than 8% to 2002–03. [\[225\]](#)

At the same time that these wage results were achieved, federal public servants gained improved pension benefits while paying a reduced share of the cost of current service contributions. For example, *Public Service Superannuation Act* amendments in 1999 reduced the salary-averaging period for calculating benefits from six to five years. Other benefits remained essentially unchanged, except for the introduction of a Pensioners' Dental Service Plan in 2001, although their costs increased by about half between 1997–98 and 2002–03, nearly entirely at the employer's expense.

Overall then, it must be concluded that federal public service employees have done well relative to the Canadian private sector since the introduction of collective bargaining, even if there have been periods of arbitrary

restraints, especially in the early and mid 1990s.

An inappropriate model?

There are, in principle, only three ways to determine compensation: one party decides unilaterally; the parties agree; or a third party decides. Historically, the federal government determined public service compensation on its own, with input from employee associations, until 1967.^[226] In effect, the various interruptions in the collective bargaining system, affecting 11 of the years since 1967, were returns to the older unilateral approach. Canadian public culture would almost certainly not countenance a definitive return to such a policy. Moreover, in a world where employers need to engage the loyalty of their employees in order to promote effectiveness in the workplace, it would be counterproductive to seek to exclude employee representatives from determining the terms of compensation for the federal public service.

The option of agreeing on compensation can take individual or collective forms. As we argue earlier in this section, the need to recruit employees with exceptional skills in a world where knowledge is critical to success calls for increased flexibility in setting individual compensation packages. In Canada, however, the right to bargain salaries and benefits collectively is well entrenched, especially in large public sector workplaces. For the vast bulk of the public service, compensation will no doubt continue to be determined through collective bargaining with certified unions.

The success of collective bargaining depends on how disputes are resolved. Ideally, the parties will come to mutually agreeable terms through direct negotiation. However, the way an employer or a union bargains is shaped by their expectation of what will happen if they cannot agree. The *Public Service Labour Relations Act* gives unions a choice of two routes: conciliation followed by the possibility of a strike, or third-party arbitration. For now, we will focus only on the conciliation/strike option, which is in fact the route regularly chosen by the largest unions.

It has been argued that the federal government enjoys an inappropriate predominance in collective bargaining with its own employees. The criticism is that if the Government does not like how the process unfolds, it has the option of overriding collective bargaining by seeking Parliament's intervention to legislate an outcome unilaterally. In an ultimate sense this is undeniable, and there have certainly been cases where Parliament has imposed the Government's will, either on the whole public service, or in relation to a particular bargaining group.

Most of the time, however, the Government is reluctant to resort to legislation. Presenting a Bill in Parliament to resolve a public service labour dispute is normally unpopular, unless there is a clear indication that the public is somehow at risk, or that striking employees are behaving irresponsibly in a way that puts the public at risk.^[227] In more ordinary circumstances, the union may be able to derive significant bargaining power from the sensitivity of the services provided by their members. In order to avoid or minimize public inconvenience, the Government may find itself pressured into conceding salary increases or other benefits that are not justified by external labour market comparisons. Often buying peace with a generous settlement is judged the best short-term solution to a public service labour dispute.

In theory, workers who provide services essential to the public are identified and prohibited from participating in strike action. The new *Public Service Labour Relations Act* maintains the employer's exclusive right to determine the level at which an essential service is to be provided to the public. The employer must then negotiate with the union what number of positions is necessary for the employer to deliver an essential service. If the parties cannot agree, either may apply to the Public Service Labour Relations Board (PSLRB) to determine any unresolved matter. The resulting essential services agreement, whether determined through negotiation, or by a decision of the PSLRB, remains in effect until amended by agreement or by adjudication.

In practice, however, this protection of the government's ability to meet public needs during a public service labour conflict can be compromised in either or both of two ways. In the first case, departmental managers may fail through negotiation or in persuading the PSLRB to identify a sufficient number of employees to deliver essential services to the public. They may also fail to amend the agreement on a timely basis in the lead-up to a strike. This is of course an employer responsibility; it is not the union's fault if the designations are inadequate or untimely. Whatever the reason, when this occurs, the capacity of the employer to withstand a withdrawal of services on which the public depends is limited, especially as problems accumulate over time. This was the case, for example, in relation to the Aircraft Operations (AO) group in the labour dispute of 2002–03. As time passed, with successive targeted strike actions, the backlog of aircraft and pilot certifications came to threaten the ability of the Canadian airline industry to operate.

The second problem with designations is more corrosive of the very idea of essential services. This is the increasingly frequent refusal by union picket lines to allow those designated essential workers, or indeed even excluded employees such as Executives or Personnel Officers, to enter the workplace without waiting various arbitrary lengths of time. During rotating strikes in Ottawa in 2004, for example, pickets declared quite formally that excluded or designated employees, or even in some cases members of the public, would have to wait an

hour (as determined by the picketers) before entering the workplace. At some locations this enforced delay was apparently extended to as long as four hours. There is nothing in labour law that authorizes this type of union regulation of workplace entry. In effect, this practice is a form of intimidation that risks getting out of hand. For the first time, the new Act (in Section 199) prohibits interfering with employees whose position is identified as essential when they are entering or leaving their place of work. Section 200 provides for a penalty of up to \$1,000 for contravening section 199. The section is now expected to be enforceable in Federal Court, with orders applicable across Canada, if appropriate.

It is too early to know how these changes in the labour law governing federal public service collective bargaining will work in practice. However, there is reason to hope that the new provisions will assist in protecting the Government from having to choose between acceding to union demands in the face of public concern about essential services, and resorting to the blunt instrument of a legislative resolution of the dispute.

Whatever the impact of the PSLRA, however, the more fundamental issue will remain that the use of strikes to resolve public sector labour disputes is of doubtful public policy merit. As Roy Adams remarked, strikes and lockouts are akin to "the medieval method of dispute resolution known as trial by combat."[\[228\]](#)

Underlying labour legislation generally is the idea that labour disputes are best resolved through the interplay of economic power or, when necessary, political power. The power struggle perspective was well expressed by Barbara Wootton, a Labour member of the United Kingdom House of Lords, as follows: "[It is] the business of a union to be anti-social; the members would have a just grievance if their officials and committees ceased to put sectional interests first."[\[229\]](#)

This concept of trial by combat may suit the private sector. Excessive compensation outcomes can threaten the size or even the survival of a private company, necessarily placing a constraint on union demands. In the public sector there is no such economic brake on compensation outcomes, at least not in the short term, especially for relatively small groups of employees. One may ask whether it is reasonable to pay public employees relatively high compensation simply because they may be able to translate their privileged role in providing essential services to the public into a means to force generous collective agreements.

Yvon Tarte, Chairperson of the Public Service Staff Relations Board, commented in a speech to the 1999 National Joint Council Seminar, as follows:

The strike method of dispute resolution in the public sector does not have the same foundation as it does in the private sector. In 1967, Jake Finkelman, the father of labour relations in the federal public service, thought long and hard and hesitated before being convinced to accept and recommend conciliation/strike as a method of dispute resolution for the federal Public Service. Several years later he expressed the view that given the opportunity he would not go down that road again.[\[230\]](#)

It is inherent in the power struggle model of collective bargaining that principles such as comparability are at best reference points in negotiation. As we sketched in Chapter 2, this was the experience of the federal public service as well, with market comparability appealed to or ignored, depending on what was convenient in the collective bargaining struggle.

The recourse to economic power invites a response by political power. Thus it is not really so difficult to understand the relatively frequent reliance by the federal Government over the past 38 years on unilateral wage determination through general wage controls or freezes, or back-to-work legislation for specific groups.

Both economic and political power positions fail to address a critical aspect of collective bargaining in the federal public service: the relationship of salary increases to productivity. In the private sector, bargaining is as much about work rules as it is about salaries. This is so for the simple reason that an enterprise's capacity to pay compensation increases greater than the rate of inflation generally depends on achieving higher productivity. Such productivity improvements occur as a result of the use of the best available equipment, and of the most efficient work methods.[\[231\]](#)

In the federal public service there are three broad reasons that there is seldom a direct link between collective bargaining and productivity improvement. First, in much of the public service measuring productivity meaningfully and reliably is inherently difficult. Second, even where managing productivity is clearly feasible, for example, in relation to large volume processes such as issuing cheques, the bargaining relationship is one where either economic or political power prevails. Normally an outcome emerges without the need to relate the result to wage comparability with the private sector, or to productivity levels or changes. Third, federal public service bargaining normally occurs at a very aggregate level at which it is difficult, if not impossible to surface, let alone address meaningfully workplace issues that are critical to the effectiveness of an individual department or agency.[\[232\]](#)

In summary, then, collective bargaining in the federal public service based mainly on the conciliation/strike approach to dispute resolution sort of works, but it is neither reliably stable, nor designed really to serve the

public interest. Thus the question arises: is there an alternative way to settle labour disputes that we could reasonably expect to be capable of delivering better results both for employees and for the Canadian taxpayer?

Is there a better model?

The dilemma we have described above in relation to fair compensation determination in the federal public sector is of course largely shared across the broader Canadian public sector. If there were a model that was unquestionably superior to our present mix of industrial warfare and political unilateralism, surely it would be spreading even now through Canadian labour jurisdictions. But no such emerging consensus is evident.

Conceptually, any alternative must involve third-party resolution of labour disputes in which the government and the union cannot agree on an outcome through collective bargaining. Numerous variations on this theme have been tried over recent decades. John O'Grady offers an excellent survey of the subject in his paper *Arbitration and Its Ills*.^[233] Among the most pertinent points emphasized in this paper are the following:

- Evidence suggests that replacing the right to strike with compulsory arbitration results in a decline in the proportion of contract disputes that are settled through direct bargaining between the parties.
- The weight of evidence supports the view that arbitration has an upward bias in the public sector as a whole, though this is not a unanimous view.^[234]
- Studies suggest that there is significant variance in the weight that arbitrators attach to different criteria.
- Studies consistently find that productivity, ability-to-pay, and labour market disequilibria play little role in shaping arbitral decisions. The weight attached to comparability is so great that it tends to marginalize other criteria.
- Directing arbitrators to consider total compensation appears to have comparatively little impact on arbitral practice.
- Arbitration should not be viewed as simply a substitute for the right to strike. *Replacing the right to strike with compulsory arbitration fundamentally alters the process of wage determination in the public sector.*^[235]

Federal public service experience with the arbitration route, since this option was restored in 2002, has generally followed patterns established through direct settlements. Economic increases awarded have been at the going rate; restructures through adding pay increments were approved in five of seven awards to June 2005, somewhat more frequently than in direct negotiation (11 of 17 settlements included restructures).

The amended *Public Service Labour Relations Act*, which came into force in April 2005, added an additional point to the existing factors to be considered in making an arbitral award, namely "the state of the Canadian economy and the Government of Canada's fiscal circumstances." There is no guarantee how arbitrators will choose to interpret this point.^[236] In fact, with several years of surpluses in a row, it might be argued that the federal government is well placed to pay whatever compensation increases an arbitrator may feel is warranted.

In short, arbitration is unpredictable in its results, to the point sometimes of appearing to be arbitrary. Thus simply throwing federal public service labour disputes into the hands of what might be called traditional arbitration is unlikely to please anyone, including the Government of the day. So where should we go for the future?

One logical alternative would be to embrace the power struggle approach more fully. If we are to decide compensation through a trial of strength, then it would be sensible not to tie the hand of the employer to the extent now in place. In particular, in addition to the picket line tactics described earlier, federal public service unions have tended more and more to adopt the tactic of brief rotating strikes to disrupt the workplace, without incurring significant costs to either the striking employees in the form of lost wages or to the union in the form of strike pay. With the intimate knowledge of government operations possessed by union members, it is not difficult to plan these strike activities to inflict maximum disruption with minimum pain to the union or its members.

There are at least two responses that could help to even the balance. The first response is administrative. Public service managers, according to anecdotal evidence, are often not rigorous in documenting strikers' absence from the workplace.^[237] As well, the pay system is such that any lost wages affect pay cheques long after the strike action has passed. Both these tendencies reduce even further any pressure on striking employees to resolve their dispute. Systematic management action to record employee absences, and adjustments to the pay system to implement pay reductions immediately, would move rotating strikes from the realm of street theatre to that of incurring tangible costs as a result of the decision to strike, whatever the duration.

The second response would require a legislative change: giving the employing department the right to lock out employees who go out on a rotating strike, for any period up to the conclusion of a collective agreement. It has long been the general consensus that the government should not lock out its workers, since that would amount to the government itself creating a disruption in service to the public. However, with the increasingly

sophisticated use of rotating strikes, unions can undermine operations to almost the extent of a full strike, but at little cost to employees or the union's strike fund. So a limited power to lock out those whose hit and run tactics approach the impact of a full strike could encourage a resolution of the matters remaining in dispute. In real life, the government will always, and properly, resist the idea of locking out employees serving the public. But fear that a lockout might result from limited strike action would act as a restraint on what is now low-risk, low-cost, targeted strike action by the unions.

Overall, however logical the option of embracing the conciliation-strike model more fully, it is unlikely to improve either labour-management relations in the federal public service or the appropriateness of compensation outcomes. So the better course almost certainly lies in seeking variations on the use of third-parties to resolve labour disputes that resist settlement through direct bargaining.

The most interesting proposal along these lines in recent years was advanced by the Advisory Committee on Labour Management Relations in the federal Public Service, chaired by John Fryer, which reported in June 2001. The Committee considered that the choice of procedures between a conciliation/strike route and an arbitration route tends to hinder the process of voluntary settlement. Particularly where the union selects the arbitration route, there is little need to make hard choices since the arbitrator will make the final decision in any case.

Instead, the Committee recommended the establishment of a Public Interest Dispute Resolution Commission (PIDRC), modelled on the Public Interest Disputes Commission suggested in 1968 by the Woods Task Force for use in the larger federal labour jurisdiction. The PIDRC would report to Parliament, and comprise members with union, management and neutral backgrounds.

The PIDRC would assist the parties in resolving bargaining impasses by working through a wide variety of established dispute-settlement techniques.^[238] It was suggested that such flexibility on the part of the Commission would keep the parties in a state of uncertainty about the remedy that the Commission could impose in the case of a deadlock, which would in turn encourage the parties to settle on their own and avoid the imposition of a less desirable solution.

The new *Public Service Labour Relations Act* includes the concept of Public Interest Commissions (PIC). However, such Commissions are much more limited in concept than the Public Interest Dispute Resolution Commission advocated in the Fryer Report. In essence, the PIC is a relabelled Conciliation Board as it was known in the previous *Public Service Staff Relations Act*. There is some possibility that in establishing an agreed list of eligible PIC Chairpersons, care may be taken to include exceptionally accomplished candidates of broad public credibility. If such individuals are in fact selected to head some early PICs, perhaps a new standard will be set in the persuasiveness of their recommendations, both with the parties and with the general public.^[239]

In this regard, willingness to pay competitive per diem fees, which is permitted under the PSLRA, would assist in recruiting some of the most accomplished neutrals experienced in resolving labour disputes, or distinguished public figures whose sound judgement is widely recognized. In the past, the policy of limiting such fees to relatively small amounts was no doubt intended to save money. In practice, this was almost certainly a false economy.

In considering whether there is a realistic and sustainable alternative to the conciliation/strike model in resolving labour disputes in the federal public sector, it is sobering to reflect on John O'Grady's paper, "Arbitration and Its Ills," and its overview of arbitration practice in Canada through to the early 1990s. The main message seems to be that arbitrators as a profession have their own ideas of what their role is: "the predominant view among arbitrators [is] that arbitration's purpose is to replicate a bargained outcome, not an outcome that proceeded from a unilateral determination by an employer."^[240]

In fact, any permanent alternative third-party process would need to be designed to apply fairly and consistently a philosophy of compensation rooted in comparability. Most observers agree that the fairest way to compensate public employees is to adhere to the principle of comparability with what is paid in the private sector for similar work. As Fogel and Lewin remarked:

The output of government does not pass through the marketplace where its relative worth can be assessed by customers. In the absence of a product market discipline imposed on pay practices ...what could be [fairer] than to pay government employees what their private industry counterparts are getting? To attract employees of at least average quality to the government, the pay offered must be comparable to that available in the private sector. For the government to pay more than the private sector, however, would be unnecessary and would waste government revenues.^[241]

A third-party dispute resolution system that did not permit strikes in the federal public service would need to meet several conditions, including these:

1. **Reliable information on comparable compensation in the broader Canadian labour force would need to be available.** As we noted earlier, it is difficult to design and implement surveys that are

convincing to both employer and union officials. Nevertheless, we have a chance with the compensation analysis and research services that are to be established by the new Public Service Labour Relations Board, to build such a capacity. Success will depend on timely senior level attention to the careful design of the survey criteria and methods.

2. **The Public Service Labour Relations Act would have to specify the compensation policy to be applied.** Such a policy would not be formulated as considerations to take into account, but as criteria to be implemented. We outline below a concept for such criteria.
3. **The Adjudicators^[242] mandated to resolve disputes would need to serve for a fixed term so they could maintain appropriate independence.** Adjudicators would need to be personally credible with both the government employer and the public service unions. To accomplish this, appointments should be from among candidates acceptable to both the government and the unions. By serving for a non-renewable term of five years, for example, Adjudicators would be able to act with reasonable independence.
4. **Adjudicators would be required to give a detailed written rationale for their decision.** The only way to demonstrate that the statutory criteria for resolving disputes are applied in practice is for decisions to be transparent in their reasoning, and in the interpretation of evidence.
5. **Decisions should be subject to appeal to a panel of Appeal Adjudicators on the grounds of failing to apply the statutory criteria.** A third-party system with statutory criteria implies a need to be accountable for applying the criteria responsibly. These are not issues that should be referred to the court system, since judges normally lack the necessary specialized expertise.^[243] The Appeal Adjudicators would be a group of the most experienced and credible of the Adjudicators. To prevent undue delays in determining compensation outcomes, there would need to be statutory time limits for filing and ruling on any appeals.

On the matter of criteria, it would be logical to set out a framework that would promote comparability in a context of overall compensation, not just salaries. Such criteria might look something like this:

- The presumption would be that compensation is comparable or set to respect the principle of equal pay for work of equal value. So in the absence of evidence to the contrary, salary increases would track a general measure of changes in Canadian private sector compensation levels. Such a measure could be the Industrial Aggregate used to adjust judicial and parliamentary salaries each year.^[244]
- The Adjudicator could vary the annual increases up or down based on compelling evidence that the salaries for a group of employees were not comparable with appropriate private sector comparators. The evidence for this adjustment would need to be documented and would be subject to review as described above.
- The Adjudicator would take into account arguments relating to the principle of equal pay for work of equal value in determining any such adjustments. In this chapter, we set out some complementary ideas for modernizing the regime for applying pay equity in the federal public service.
- Normally, the non-salary aspects of compensation would be reserved for agreement between the government and the union. Subsequent to a determination of a salary increase by the Adjudicator, the parties could agree to direct some of that increase toward the benefits allowance proposed in Recommendation 15.2.

A critical question in establishing a third-party dispute resolution process of any type is the impact it will have on direct collective bargaining between the parties. The evidence adduced by O'Grady's paper and other literature on adjudication suggests that such a regime makes it harder to achieve an agreement through direct bargaining. Key to maintaining a fair chance of settling compensation terms and conditions directly is a reasonable uncertainty on the part of both parties about what will emerge from the third-party process.

A likely criticism of the approach outlined in this section is that it could reduce collective bargaining to the application of formulas. There is some truth to this view. However, if one accepts the primacy of the concept of comparability as the principal criterion for federal public sector compensation, then determining salary or other compensation levels does become largely a matter of defining and applying suitable methods for assessing comparability with the private sector.

However, making such determinations about comparability will never be without controversy. For many groups, there are no direct comparators in the Canadian private sector, so comparability must be established indirectly through defining internal comparability within the public service. Thus both parties must remain uncertain how an Adjudicator will in fact rule.

To augment the uncertainties that could be expected to promote settlements directly between the government and one of its unions, we could add elements of the dispute resolution toolkit approach advocated in the 2001 Fryer Report, for the Public Interest Dispute Resolution Commission (PIDRC). These could include fact-finding, mediation, and issuance of a report on recommended terms of settlement. The option of imposing a settlement should be reserved for the case where the negotiations are declared at an impasse and an Adjudicator would be assigned to determine the terms of the collective agreement according to the criteria set out in statute.

As one further possible element to encourage settlements through collective bargaining, consideration could be given to authorizing the Adjudicator to set a longer duration to the collective agreement than the parties had been negotiating.

The ideas set out in this section are not a formal proposal for reform. At most they are intended to outline elements for consideration in devising a compensation determination regime that excludes recourse to strikes. The recently adopted *Public Service Labour Relations Act* (PSLRA), was at most a modest revision of the previous *Public Service Staff Relations Act* (PSSRA). The broader *Public Service Modernization Act* (PSMA), of which the new PSLRA was a component, was aimed primarily at modernizing staffing and related recourse in the federal public service. So the task of rethinking the statutory framework for collective bargaining in the public service remains to be undertaken.

Any such rethinking will of course need the active engagement of the public service unions, federal employers, academic experts, and interested non-governmental organizations. At first, unions can be expected to be suspicious of such a process, fearing that it could threaten their members' interests as well as the institutional interests of the unions themselves. There will certainly be a vocal group that will denounce any attempt to put aside the strike weapon, on both ideological and practical grounds. On reflection, however, many unions may adopt a more nuanced position. Collecting fees to mount strikes and finance strike pay is a major challenge to union leaders. Moreover, although recent strikes have allowed for some blowing off of steam by disgruntled employees, and provided an opportunity to build solidarity, the impression of most observers would likely be that public service employees generally feel very uncomfortable leaving their work serving the public to emulate briefly the tactics of their private sector union brethren.

In 2010, there will be a parliamentary review of the PSLRA. That could be a reasonable time to look at possible changes to the public service collective bargaining regime. Over 40 years after the introduction of a collective bargaining regime adapted from the prevailing private sector model of trial of strength through strikes, it would not be too early to consider introducing a more suitable model. Such an approach would need to be better suited to balancing the public interest in employee participation in setting their terms of compensation, with the broader public interest of delivering services reliably to citizens and of protecting the interest of taxpayers to pay enough but not too much for public services. The intervening three or four years could be used to encourage a wide debate on possible alternative models for optimizing such a balance, and to gain experience with the modest changes in fact contained in the new *Public Service Labour Relations Act*.

Our recommendations, therefore, in regard to the statutory framework for collective bargaining in the federal public service are these:

Recommendation 16

16.1 The President of the Treasury Board should sponsor a series of expert studies and conferences over the next few years to foster broad public debate about a possible alternative model for collective bargaining dispute resolution that would replace the existing conciliation/strike and arbitration routes under the existing *Public Service Labour Relations Act*. Such a model would provide for third-party dispute resolution--instead of a right to strike or traditional arbitration--in a way that would apply the principle of comparability with the Canadian private labour market to the determination of total public service compensation for particular groups of employees, in a way that would be credible to taxpayers, employees, the public service unions, and the Government.

16.2 Any such model should respect the *Canadian Human Rights Act* requirement of equal pay for work of equal value, based on a clearer method for interpreting and applying this principle in the federal public service. Refer to Recommendation 17 below for further proposals in this regard.

16.3 If a suitable model can be developed, the Government should propose draft legislation for consideration by the time of the parliamentary review of the *Public Service Labour Relations Act*, required for 2010.

16.4 In the meantime, the Treasury Board Secretariat and public service managers should apply the new provisions of the *Public Service Labour Relations Act* relating to essential employees diligently.

16.5 All those with a role in implementing the Public Interest Commission provisions of the new *Public Service Labour Relations Act*, including the President of the Treasury Board, the Treasury Board Secretariat, the public service unions, and the Chairperson of the Public Service Labour Relations Board, should take advantage of the opportunity to invite distinguished Canadians to bring their experience and wisdom to bear on resolving labour disputes in the federal public sector.

This concludes our reflections on possible changes to the statutory framework for collective bargaining in the federal public service. We now turn to our last substantive topic in this volume: proposals for improving the clarity and reasonableness of the means for applying the requirement to provide equal pay for work of equal value in the federal public service. As with the area of collective bargaining above, in this Report we cannot realistically undertake a full critique and prescription for reform. Nevertheless, a brief survey of the issues and a

sketch of a possible way forward seem to us an indispensable component of a comprehensive assessment of federal public sector compensation.

Applying pay equity in the federal public service

Pay equity is the shorthand term normally used to express the principle of equal pay for work of equal value. As early as 1951, the International Labour Organization adopted a Convention (Number 100) on this subject: Convention Concerning Equal Remuneration for Men and Women Workers for Work of Equal Value. Canada ratified this convention in November 1972. The *Canadian Human Rights Act* (CHRA), which was passed in 1977, gave effect to this convention in the federally regulated labour jurisdiction.^[245] Specifically, section 11 of the CHRA states that it is discriminatory to establish or maintain different wages for men and women doing work of equal value in the same establishment. The Equal Wage Guidelines issued by the Canadian Human Rights Commission in 1986 provide more detail on such topics as the definition of "establishment" and permissible exceptions such as performance pay, labour shortage supplements, and regional rates of pay.

Chapter 4 of this volume includes an overview of the nature and financial impact of settlements in the federal public service of pay equity complaints under the *Canadian Human Rights Act*. Appendix H provides a summary of specific settlements in the core public service up to 2003. Appendix I presents the best available estimate of the costs of pay equity settlements from 1980 to 2003. About \$3.4 billion was paid out in lump sum amounts (including over \$900 million in interest) over this period. The cumulative total of resulting pay increases for affected employees was estimated at over \$1.8 billion to March 2003, and the ongoing portion of the core public service salary mass attributable to implementing pay equity was over \$200 million per year in 2002–03.

This level of annual costs amounts to between 2% and 2.5% of the relevant public service salary mass. The Pay Equity Task Force Report, citing studies by SPR Associates (1991), Canadian Facts (1992 and 1993), and the Institute for Social Research (1994) found that "the costs of pay equity to employers in the Ontario labour jurisdiction ranged from 0.5% to 2.2% of payroll for public sector organizations."^[246] It is worth noting that for private sector employers with 500 or more employees, the total payroll adjustment was reported as only 0.6%. For smaller employers, the adjustments averaged 1.4% or less. Results in the Quebec labour jurisdiction were reported in the Pay Equity Task Force Report as being a "relatively moderate percentage of the payroll, usually under 2.5%."^[247]

It is indispensable that the federal public service come to terms constructively with the *Canadian Human Rights Act* obligation to ensure equal pay for work of equal value. Existing uncertainties of interpretation cast a shadow on any systematic management of compensation. Until now, acrimonious litigation and the fear of litigation, as well as an unsuccessful search for a panacea through a universal classification system have distracted attention from adopting a pragmatic, fact-based strategy for addressing pay equity. Now is the time to take up this challenge as part of a broader reform of federal public service compensation management. To begin, however, we must probe some of the fundamental but not always explicitly acknowledged issues that lie at the heart of the pay equity debate.

Fundamental issues

By now, the concept of equal pay for work of equal value is well entrenched as a right protected by legislation in nearly all Canadian jurisdictions. Many commentators consider equal pay for work of equal value to be a fundamental right with a quasi-constitutional status, as an essential element of human rights prohibitions against discrimination on the basis of gender. At a common sense level, the concept is compelling, with a ready appeal to basic fairness. This is particularly true in light of the well-established fact that on average women earn considerably less than men in the Canadian workplace.

According to Statistics Canada, the 2001 Census indicated that women earners in Canada aged 15 and over made 64 cents for every \$1 earned by their male counterparts. This proportion represents an improvement from 52 cents in 1980. Comparing only full-year, full-time employees, female workers earned 70 cents for every dollar earned by male workers. For young university-educated women working full time, full year, the female pay level was 81 cents for every dollar earned by their male counterparts. Within the ten most common occupations chosen by men, university-educated women aged 25 to 29 earned 89 cents compared with each dollar earned by male workers.^[248]

A 2002 Statistics Canada study, The "Who, What, When and Where of Gender Pay Differentials" addresses directly the issue of whether there are reasonable explanations for the gender pay gap other than discrimination.^[249] Whereas previous studies of this type focused on differences in the characteristics of individual workers, the data collected through the 1999 Workplace and Employee Survey (WES) allowed an assessment as well of the contribution of "workplace characteristics such as high performance workplace practices, foreign ownership, non-profit organizations, training expenditures, desirable employment contracts, and the workplace part-time rate." The author, Marie Drolet, concluded that:

Unlike other studies that estimate the explained component [i.e. that portion not attributable to gender discrimination] to be about 50% of the gap, the inclusion of workplace characteristics—in particular more accurate industry measures—increases the explained component to 61% of the gap ... Yet despite the inclusion of the new WES variables, a significant portion (38.8%) of gender pay differentials remains unexplained. [\[250\]](#)

This study suggests that some element of discrimination does affect women's earnings in the Canadian workplace.

However, the issue of how to interpret the deceptively simple phrase equal pay for work of equal value, and to apply it in practice as a guide to reducing discrimination raises difficult and complex philosophical and analytical challenges. Among these fundamental issues are the following:

- How do we measure value in comparing different types of work?
- To what extent are wage differences between male-dominated and female-dominated groups the result of discrimination?
- How does pay equity relate to collective bargaining?
- What is the appropriate scope of comparison for determining equal value?
- What is an appropriate group for undertaking comparisons?

How do we measure value in comparing different types of work?

Sub-section 11(2) of the 1977 *Canadian Human Rights Act* (CHRA) states:

In assessing the value of work performed by employees employed in the same establishment, the criterion to be applied is the composite of the skill, effort and responsibility required in the performance of the work and the conditions under which the work is performed.

So far, no firm method has been established for assessing equal value in the federal public service. The need to develop such a method is underlined by the approach applied by the courts during lengthy litigation on the main public service pay equity case, that begun by the Public Service Alliance of Canada (PSAC) in 1984 and concluded in 1999. The settlement in the PSAC case was based in effect, in the absence of better information or methodology, on a doubtful sample of positions and a comparison of multiple male-dominated groups to particular levels of particular female-dominated groups. Male-dominated groups that had even one position evaluated in the point range of that female-dominated group and level were included in calculating the equal value gap. However pragmatic it may have been for the courts to accept such an approach to settle a long-standing case, it is hard to argue reasonably that such a method in fact compares work of equal value.

The inherent difficulty of designing such a method is profound. For example, the language of subsection 11(2) already feels disconnected from the reality of modern Canadian workplaces. Increasingly, the most critical element of value to any employer is an employee's knowledge. Yet the term "knowledge" is not even explicitly listed among the statutory criteria. Skill is a related but hardly equivalent concept. [\[251\]](#)

In any case, vast efforts were expended in the federal public service over more than two decades to develop a Universal Classification System (UCS) that was intended to evaluate all the tens of thousands of jobs in the public service according to a single standard of value without gender bias. [\[252\]](#)

The premise of such an approach is that one yardstick can meaningfully measure value across diverse workplaces and types of work within the federal government. An implication is that once established, such a yardstick will remain valid over time, or at least change only slowly. Both propositions are doubtful. For example, knowledge—or skill, in the terminology of the CHRA—has for some time been increasing in importance as a critical component of public service work, and would logically then command a growing share in assessing the overall value of a job.

In fact, the Treasury Board decided in 2002 to discontinue the pursuit of such an overarching standard of value in classifying jobs in the public service. This decision was based primarily on the conclusion that such a system would be too inflexible for such a diverse workforce. To continue with the knowledge theme, an important problem with the provisional UCS evaluations of positions across the public service was that knowledge-intensive jobs had trouble achieving what managers judged to be adequate recognition through the proposed evaluation system. In any case, it was decided to modernize classification standards group by group to ensure that each deals equitably with both men and women. Until now, however, only standards for the Foreign Service group and the Border Services group have been completed and approved for implementation.

To what extent are wage differences between male-dominated and female-dominated groups the result of discrimination?

Obviously this issue can engender fierce debate. The 2002 Statistics Canada study by Marie Drolet suggests that over 60% of the observable differences between male and female wages in the Canadian labour market can be

explained by factors other than discrimination. How this analysis can be applied in comparing particular occupational groups in a given establishment is far from clear, however.

Section 16 of the Equal Wages Guidelines, 1986 does set out reasonable factors that could justify differences in wages between male and female employees performing work of equal value in an establishment. These include: different performance ratings, seniority, a re-evaluation and downgrading of an employee's position, a rehabilitation assignment during recuperation following an injury or illness, demotion, temporary training, an internal labour shortage, red circling, and regional rates of pay. These exceptions make sense, but they at best indirectly acknowledge the main reasons for pay differentials across occupational groups such as differences or changes in the external labour market or differences in the bargaining power of particular groups of employees. They take no account of factors such as education, work force attachment, degree of part-time work or similar factors that figure in the type of analysis offered by Statistics Canada explaining male/female wage differentials.

How does pay equity relate to collective bargaining?

The employer obligation to ensure equal pay for work of equal value was superimposed on a wage determination system based on collective bargaining between the public service employer--normally the Treasury Board--and employee representatives organized in unions. The CHRA places no requirement on unions to include pay equity in its bargaining considerations, nor are unions responsible for achieving agreements that provide for pay equity.

In general, collective bargaining is driven by pay comparisons with other groups, both inside and outside the workplace, and by bargaining strength. While internal group comparisons might favour pay equity, comparisons to the external labour market and the strength of a union's position in bargaining are irrelevant to the factors driving equal pay for work of equal value within a given establishment such as the federal public service. [\[253\]](#)

A plausible scenario would be for a union to push for salary increases for male-dominated groups, and place greater emphasis on non-cash benefits in negotiations relating to female-dominated groups. [\[254\]](#) Later, the union could try to make up any salary lag affecting its female-dominated groups through whatever pay equity process is available. Such a strategy would drive up employer labour costs in the short term; in the longer term it would risk undermining employer trust in collective bargaining as a viable wage determination system.

To the extent that a universal classification system might be adopted by an employer, there would be pressure to consolidate bargaining units and unions. Once the salary level for a given set of jobs was set through one negotiation, likely with the largest union in the establishment, the employer could only negotiate different results with another union for positions of equal value at the risk of incurring a pay equity liability. [\[255\]](#)

Such pressure to combine unions could be argued to infringe on the right of free association, which is at the heart of union legitimacy. Although the right of free association does not enjoy the same degree of protection in Canadian law as the right of equal pay for work of equal value, in the context of International Labour Organization (ILO) Conventions, both principles are seen as core labour rights. Presumably employees choose to belong to different unions because they prefer different approaches to expressing their interests.

What is the appropriate scope of comparison for determining equal value?

Section 11 of the CHRA says wage comparisons are to be undertaken within the same establishment. Subsection (3) reinforces the idea of a broad interpretation of the term "establishment" by stating that separate establishments "established or maintained by an employer solely or principally for the purpose of establishing or maintaining differences in wages between male and female employees" shall be deemed to be the same establishment. Finally, section 10 of the Equal Wages Guidelines, 1986 clarifies that employees of an establishment include "all employees of the employer subject to a common personnel and wage policy, whether or not such policy is administered centrally."

In effect, the statutory and regulatory intent appears to favour larger rather than smaller establishments. This orientation makes sense if the goal is to define the broadest feasible field of comparison in determining equal value. In some labour jurisdictions, and most notably Ontario, the law provides for proxy comparisons between distinct establishments if there are no appropriate male comparator groups within an establishment. Quebec uses the approach of constructing a theoretical male comparator job in certain cases.

In the case of the federal public service, it has been accepted so far that the core public service is one establishment, and that the various separate employers are distinct establishments. This view is under challenge in the courts, however, with the Public Service Alliance of Canada arguing that in the end the Treasury Board exercises general control over much of the federal public sector, so that most or all of that entity should be treated as a single establishment.

Conceptually, however, the more diverse an establishment, the more varied its business lines and areas of operation, the less likely it is that the value of a particular set of skills would in fact be uniform. For example, as we noted in Chapter 4, for the Canada Revenue Agency auditors are of fundamental importance to the

organization's mission. For most of the core public service, auditors are a much less critical group. So evaluating the group's value as equal across the two employers would not reflect their real value to one or the other, or perhaps even both. Using such a group for comparison to other groups would likely be misleading.

What is an appropriate group for undertaking comparisons?

The federal legislation does not explicitly define what constitutes a group for the purpose of assessing equal pay for work of equal value. The term "identifiable occupational group" is used several times in the Equal Wages Guidelines, 1986. In the context of the federal public service, this terminology appears to refer to one of the 70-plus occupational groups defined in 1967. However, the use of the modifier "identifiable" leaves open the possibility of focusing on some other set of employees. This issue applies separately to how we define male-dominated and female-dominated groups, and presumably leaves open the possibility of using different approaches on the two sides of the equal value equation.

A further complication is how to define gender dominance. The Equal Wages Guidelines, 1986 set out in section 13 a sliding scale based on group size, with 70% as the threshold for groups with fewer than 100 members, 60% between 100 and 500 members, and 55% above 500 members. For most groups in the federal core public service, the 55% standard applies. This seems an unreasonably small distinction in gender representation on which to ground an assessment of gender-based discrimination. ^[256] As gender balances shift over time through employment equity and the simple evolution of the labour market, one could easily encounter male-dominated occupational groups shifting to female-dominated, or vice-versa. ^[257] Logically, any gender-based discrimination resulting from such a shift could only creep in over many years. Yet in principle an occupational group shifting to female dominance could register a complaint immediately.

Our purpose in canvassing briefly the five issues set out above has been to illustrate that applying the concept of equal pay for work of equal value is fraught with ambiguity. Most fundamentally, pay equity seeks to redress the income gap between men and women in the Canadian economy. Ironically, those women most vulnerable to discriminatory wage practices almost certainly are concentrated in small businesses in the private sector. Yet the figures cited in the Pay Equity Task Force Report, show that on average pay equity salary increases for small private sector employers were in the order of only one half of public sector increases. And this comparison takes no account of non-wage benefits, which are generally much more generous in the public sector than among small private sector employers. It is reasonable to suspect that existing pay equity legislation benefits mainly women who are already relatively better off.

Towards a workable approach

The federal public service is of course a part--albeit the largest part by far--of the federal labour jurisdiction. As such, it is governed for pay equity purposes by the *Canadian Human Rights Act*, as we have described. Thus any approach to managing the obligation to ensure equal pay for work of equal value must fit within the prevailing statutory framework.

The 2004 Report of the Pay Equity Task Force has proposed legislative amendments to the existing framework. That report was commissioned by the Minister of Justice and the Minister of Labour in 1999, in the aftermath of the settlement of the lengthy pay equity dispute of the Public Service Alliance of Canada. For various reasons, the Task Force was not fully established until June 2001. The purpose of the Task Force was to conduct a broad review of the legislation, "with a view to ensuring clarity in the way pay equity is implemented in the modern workplace."

It is beyond the scope of this more general review of federal public sector compensation to offer a thorough assessment of the Pay Equity Task Force Report. In many respects this is an impressive piece of work, the fruit of extensive research and discussions with academics, practitioners, and employer and union representatives. However, despite its 500+ pages and over three years of work, in our view the Pay Equity Task Force Report does not really come to terms with the fundamental issues we highlighted earlier in this section. Considerable attention is devoted to institutional and process issues, but there is relatively little focus on such questions as:

- What outcomes is pay equity legislation intended to achieve?
- To what extent these have been accomplished?
- What has been the cost of the accomplishments to other important objectives such as cost-effectiveness, the place of women in the workplace, and the integrity of collective bargaining?

We recognize that Parliament may amend the statutory regime within which federal jurisdiction employers must meet their pay equity obligations. The rest of this section suggests possible directions for reform, as well as steps that federal public service employers should undertake in managing the obligation to ensure equal pay for work of equal value.

Legislative and policy issues

The legislative framework should be shaped, among other considerations, to respect these five premises.

1. Pay equity should aim to redress that portion of the male/female wage gap that is attributable to discrimination, and not to other factors.

As we noted earlier, the reasonable factors recognized in the Equal Wage Guidelines, 1986, do not exhaust the non-discriminatory factors that can explain wage differences between particular groups of male and female employees. Other factors include, for example, years of experience, education levels and hours worked. It might be argued that differences in these areas are themselves a result of broad societal gender-based discrimination, and therefore should not be excused in assessing pay equity. Such a view, however, would place on individual employers an unreasonable burden to undo broad social trends.

Pay equity legislation, therefore, should permit employers to make a case that some definable part of any male/female wage gap is a result of factors other than gender-based discrimination. As outlined these factors should be broader than the reasonable factors enumerated in the existing Equal Wages Guidelines, 1986.

One potential factor that probably could not be assessed with precision is that referred to as bargaining strength. This is true if only because no employer would want to admit publicly that part of a settlement was forced by union bargaining power. Such an admission could make the next round even more difficult to manage.

2. Pay equity should operate at a systemic level to detect and remedy patterns of differential pay for men and women performing work of equal value within an establishment.

Over the past 25 years, the trend in pay equity has been towards designing complex systems to quantify value for various jobs according to a supposedly gender-neutral standard. Implicitly, there would be one such standard for a given establishment. The result in the federal public service has been an expensive and distracting search for a kind of Holy Grail. In a large, complex organization such as the federal public service, any single standard for measuring value must be arbitrary, sliding rapidly out of touch with changing workplace needs and therefore relative values.

In effect, we have felt obliged to try to create measurement tools of such complexity and obscurity that few could even claim to understand them. Such an approach to job evaluation alienates employees and managers, and ensures recurrent bouts of discontent as internal relativities drift out of balance. A seeming science cannot overcome the underlying reality that value is difficult to assess at the best of times, varies by organization according to the nature of their work, and changes fairly rapidly as technology and client needs evolve.

The better approach would be to analyse actual differences in salaries for men and women in an establishment, determine whether there are explanations for these differences that do not involve gender discrimination, and then design means to redress any remaining systemic gaps. It is not obvious, by the way, why redress must take the form of cash; other benefits or terms of employment might in fact appeal more to a particular affected group. Such analysis could be undertaken jointly by the employer and union representatives, with outside assistance where needed. It is in this sense that the proactive approach, as opposed to the existing complaints-based method of surfacing issues advocated by the Pay Equity Task Force report could make a lot of sense. [\[258\]](#)

3. Pay equity should function within a collective bargaining wage determination system with multiple bargaining groups based on community of interest, and should disrupt that system as little as possible.

It makes no sense to maintain a legislative framework that is internally incoherent. At present, in effect, the human rights principle of equal pay for work of equal value can trump the results of collective bargaining. Perhaps it was understandable that the interconnection of these two systems was poorly appreciated in 1977 when the *Canadian Human Rights Act* was first adopted, and collective bargaining in the federal public service was barely a decade old. In fact, so far the interaction of the two regimes has been limited. But if we establish a proactive duty on the employer to maintain pay equity, while leaving the unions with no analogous responsibility, there is a great danger of significant salary distortions emerging. The accompanying loss of confidence in the integrity of collective bargaining could be profound. There would be no excuse now, nearly 30 years on, to amend the pay equity laws yet leave the issue of their interaction with collective bargaining to be resolved through trial and error.

Equal pay for work of equal value should be a shared objective for employer and unions, at least within the scope of workers represented by a given union. Failing to respect this principle should be grounds for finding either party to be bargaining in bad faith. The employer would retain a responsibility to see to pay equity across unions, but on a systemic basis as described above.

4. Pay equity should recognize that Canada is a market economy in which salaries generally reflect the forces of supply and demand. Federal jurisdiction employers should not be expected to stray far from market norms in implementing pay equity.

By its very nature, pay equity is at odds with the external labour market. It seeks to substitute for the impersonal workings of supply and demand as the determinant of workplace value, a competing system that essentially works within a given establishment. This could perhaps succeed if the employer had little or no need to recruit from the external labour market or to keep existing employees from defecting to other employers. Like all employers, however, the federal public service can expect to face an increasingly competitive labour market as the baby boomers retire over the coming decade, and so cannot insulate itself from the overall Canadian labour market.

Accommodating external labour market realities needs to be better accepted within a sensible pay equity regime. There should not be an expectation that just because a particular group of employees may be in high demand, this creates an obligation to adjust the salaries of other groups that may have been seen as having a similar value. The fact is that the relative value of groups changes over time, both up and down, within the Canadian labour market, and it should not be the task of pay equity to attempt to overrule this reality within a given establishment.

It may also be the case that extraordinary circumstances such as supporting military operations overseas would make the employer ready to negotiate unusual salary increases to avoid a work stoppage with a particular group. While legislation might be used to override such a need, this course would likely seem undesirable, if only to avoid leaving critical employees disgruntled.

5. For large employers with diverse workforces, pay equity should permit appropriate partitioning of jobs into groupings with broadly similar characteristics, especially required skill levels.

The value of particular skills can be quite different in distinct parts of a large, diverse establishment. Forcing homogeneity in such assessments can only distort the workplace. The better approach for large, diverse establishments is to recognize the legitimacy of defining appropriate families of jobs that share similar levels of education and responsibility within which differences in the remuneration of men and women can be assessed. Later in this section, we outline how such a method might be applied in practice. Such an approach would reduce or eliminate one of the least defensible aspects of pay equity as it has come to be interpreted, whereby the search for male-dominated comparators that will justify a pay equity increase takes on more weight than do discernible similarities in the nature of the work.

The Pay Equity Task Force Report provides ample meat for consideration by the Government and Parliament in drafting possible new or amended pay equity legislation affecting the federally regulated labour jurisdiction. However, in our view, the Pay Equity Task Force Report's recommendations do not go nearly far enough in coming to terms with the legislative principles outlined above, which are themselves rooted in the fundamental issues described earlier in this section. Nearly 30 years into our experience with equal pay for work of equal value in the federal jurisdiction, workers, taxpayers and employers deserve greater clarity on the points in contention.

Administrative practices

In the meantime, there are several important steps that federal public service employers could take to pay more attention to issues of gender equality in compensation. Broadly speaking, we advocate a pragmatic, proactive approach to identifying and remedying compensation differences between male- and female-dominated groups, where these gaps cannot be explained by non-discriminatory factors. The four most desirable practices are described below.

1. Ensure that new classification standards minimize gender bias.

The 2002 Treasury Board decision to shift from pursuing a universal classification standard to a group by group renewal of existing standards aims to adapt these standards to the current realities of the public service workplace, and to minimize any gender bias. The Public Service Human Resources Management Agency has made substantial progress in developing quantitative means to apply gender neutrality tests relating to such topics as: omitted elements or dimensions of work, biased measures, progression and element (dimension) weights, and double counting or redundancy of elements.^[259]

2. Assist managers and others involved in classification to minimize gender bias in the application of existing classification standards.

At least as important as modernizing standards is the training of classification officers and managers in the application of existing, unreformed standards. This training should include sensitization to gender issues and guidance on how to address them throughout the job evaluation process, including the way jobs are described in the first place.

3. Decide on a sensible framework for comparing groups for pay equity purposes.

One effective way to group employees in appropriate shared contexts would be to establish additional separate employers, where the business lines are sufficiently unique and self-contained. We have suggested giving separate employer status to such organizations as the Canada Border Services Agency, the new Service Canada, Correctional Service Canada and Statistics Canada. Adopting this approach, where appropriate, would avoid or at least reduce conflicts around how work is valued in the public service by allowing individual businesses to assess work according to their distinct missions and objectives.

Whether or not the Government decides to implement further separate employers, the core public service will remain a large, diverse employer engaged in a wide range of businesses. For the purpose of assessing equal pay for work of equal value, it would make sense to develop a framework for cross-group comparisons that facilitates meaningful comparison. Such a device would reduce the need persistently felt to turn to complex amalgams of male-dominated groups as a comparator for a given level of a particular female-dominated group. Such tactics might yield appealing results for those lodging complaints, but the very abstraction of such consolidated information renders these comparisons questionable measures of relative value.

A promising tool for grouping broadly similar types of work is the National Occupational Classification (NOC) structure. Developed and maintained by Human Resources and Social Development Canada and its predecessor departments, the NOC "is the nationally accepted taxonomy and organizational framework of occupations in the Canadian labour market." This structure is described as:

... of critical importance for the provision of labour market and career intelligence, skill development, occupational forecasting, labour supply and demand analysis, employment equity ... It provides a standardized framework for organizing the world of work in a manageable, understandable and coherent system and has been successfully implemented in a number of major applications over the past decade. [\[260\]](#)

Interestingly, the Edition 2001 NOC also emphasizes that over the preceding decade the labour market has undergone significant changes. Technological advancement, globalization of the economy and the increasing importance of knowledge in many occupations have all contributed to occupational change.

In summary then, the NOC offers a framework that is specifically developed for use in broad human resource management. It is widely utilized including, for example, for employment equity comparisons, and it is updated regularly to evolve with the realities of the Canadian labour market.

The NOC uses a three-tiered hierarchical structure for classifying occupations, organized into 26 major groups, 140 minor groups and 520 unit groups. Skill types are distinguished into 10 broad occupational categories, as follows:

0. Management Occupations
1. Business, Finance and Administration
2. Natural and Applied Sciences and Related Occupations
3. Health Occupations
4. Occupations in Social Sciences, Education, Government Service and Religion
5. Occupations in Art, Culture, Recreation and Sport
6. Sales and Service
7. Trades, Transport and Equipment Operators and Related Occupations
8. Occupations Unique to Primary Industry
9. Occupations Unique to Processing, Manufacturing and Utilities

The NOC also distinguishes four skill levels, as follows:

- A. University degree
- B. Some post-secondary at community college, institute of technology or CEGEP; or two to five years of apprenticeship training; or three to four years of secondary school plus more than two years of on-the-job training, courses or specific work experience; and other occupations with supervisory responsibilities or significant health and safety responsibilities
- C. Some secondary school; or up to two years on-the-job training, courses or specific work experience
- D. Little or no formal educational requirements or on-the-job training [\[261\]](#)

This tool may assist in carrying out the task proposed in Recommendation 10 to develop a more sensible occupational group structure for the core public service. Aligning the public service group structure better with the broader Canadian labour market will facilitate comparisons with the private sector. Such an approach would also aid in defining meaningful groupings of jobs of broadly equal value within which we could analyze differences between male- and female-dominated groups.

So far, the Treasury Board Secretariat and the Public Service Human Resources Management Agency have undertaken some preliminary work on how the NOC could be used to specify better what sets of jobs are reasonably comparable for pay equity purposes. Of particular interest is the broad skill level distinction used

within the NOC. A preliminary impressionistic application of these definitions to the existing core public service suggests about 10,000 positions may fall into the category of management occupations, 45,000 into skill level A, 45,000 into level B, 30,000 into level C, and 2,000 into level D. Other positions were more difficult to categorize, so were not included. Since knowledge--skill in the language of the *Canadian Human Rights Act*--is undoubtedly the most important source of value for an employer in the contemporary workplace--and whose importance can be expected to grow, using broad skill levels as defined by the NOC to frame occupational groups for assessing equal pay for work of equal value appears sensible. A more thorough and rigorous development of these concepts should now be undertaken.

4. Conduct an analysis of significant differences in male and female salaries in the core public service.

We have spent decades in the federal public service struggling with theory, rhetoric and complex abstractions in the area of equal pay for work of equal value. It is overdue for us to shift our energy to concrete analyses of the actual differences between male and female compensation in the federal public service, and an assessment of whether such differences can reasonably be attributed to gender discrimination. This could be seen as a case of the sort of gender analysis that is intended to condition any policy work in the public service.

Such an analysis was beyond the mandate and capacity of the present Report. However, we can offer a proposal on how to undertake such a review. The following five steps would make sense:

1. Document the proportion of male and female employees by existing classification group and level, and the related average salaries.
2. Document the work-related characteristics of male and female employees in these groups and levels, according to the criteria used by Statistics Canada and other social researchers in evaluating to what extent salary differences may be explained by factors other than discrimination.
3. Assess to what extent there are group salary differences that cannot be reasonably explained by factors other than discrimination.
4. Develop appropriate comparison domains, particularly broad skill levels, based mainly on the NOC framework, to facilitate cross-group comparisons.
5. To the extent that the above analyses yield significant discrepancies that may be the result of gender discrimination, include these as issues for priority consideration in the next round of collective bargaining for the affected groups.

Such an analytical journey will no doubt be technically complex and controversial. For example, the whole area of non-discriminatory factors will engender great debates. However, a resolutely pragmatic and transparent enquiry into the real situation of male and female employees in the federal public service is long overdue. Ironically, despite a huge effort over many years initiated in response to the issue of pay equity, there has been relatively little work done on what is actually going on. The quest for a seeming science of equal value has driven out simple social science examinations of public service compensation from a gender perspective. Now is the time to adopt a more humble but likely more fruitful strategy.

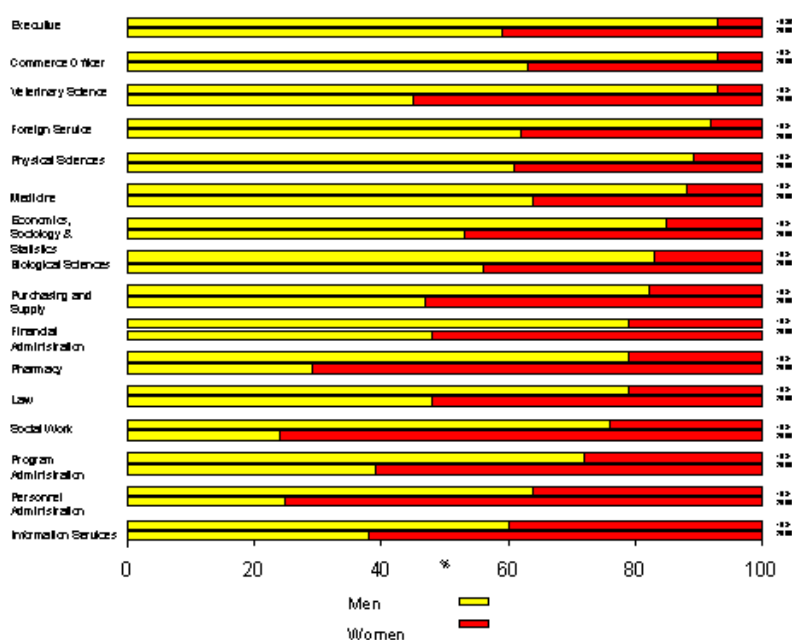
Of critical importance to any such analysis will be a careful assessment of how the relative position of men and women in the public service has evolved since the *Canadian Human Rights Act* was passed in 1977. Particularly striking as evidence of dramatic changes under the surface is the evolution of the ratio of men and women within the more than 70 occupational groups first established at the time collective bargaining was introduced in the public service in 1967. Appendix K^[262] provides details of the distribution of these groups by gender for 1981, 1986, 1991, 1996, and then each year from 2001 to 2005.

At the broadest level, the public service as a whole has shifted from 59% male and 41% female in 1981, to majority female (48% male/52% female) by 2001, to almost female-dominant in 2005 according to the Equal Wages Guidelines, 1986 criteria, at 46% male/54% female. Notable shifts in particular occupational groups include the examples shown in Figure 1056, below.

Figure 1056

Changes in gender balance in selected classification groups, 1981-2005

[Display full size graphic](#)



* This figure is for 1986, since the Executive Group did not exist in 1981 in its present form. The predecessor "Senior Manager" group was 96% male in 1981.

Almost without exception, the 16 groups listed above are relatively well-paid professional groups. At this high end of the public service, pay equity appears to be emerging through employment equity, as well as women's increasingly greater participation in the academic and professional training needed to fill such positions. A deeper analysis of these groups by level would likely show the proportion of men increasing at higher classification levels. The broader historical trend, however, can be expected to move towards strengthened gender balance by level over time.

In looking at the shift in gender balance within occupational groups over time, it would also be important to look for any evidence that feminizing groups are sliding in salary levels relative to similar male-dominated groups. Such changes would need to be assessed carefully to determine whether they resulted from gender-based discrimination.

There remain some groups, normally fairly small, that are heavily weighted towards male participation. Examples include Architecture and Town Planning (91% male in 2005), Electronics (96% male), Engineering and Land Survey (85%), Forestry (82%), Firefighters (98% male), General Labour and Trades (95% male), Heating Power and Stationary Plant Operation (99% male), Ships Crew (93% male), Ships Repair (97% male), and Technical Inspection (89% male). Many of these groups are at most in the middle ranks on pay levels.

On the female-dominant side, there are several groups that have remained essentially unchanged since 1981. The largest occupational group, Clerical and Regulatory, is 82% female. Hospital Services is 58% female, Library Science 74% female, Nursing 85% female, Occupational and Physical Therapy 73% female, and Secretarial, Stenographic and Typing is 98% female. The last group is declining rapidly in numbers and can be expected to virtually disappear in the next few years.

The point of this brief exposition on the evolution of gender proportions by occupational groups over the past 25 years is not to make any precise finding relating to equal pay for work of equal value. What is evident, however, is that the federal public service workforce has been transforming in many ways in the place accorded to men and women. This can only alter profoundly the relationship between the genders on matters of compensation.

This concludes our commentary on issues relating to the application of the human rights principle of equal pay for work of equal value in the federal public service. Perhaps the biggest problem with the past generation's struggle to interpret and apply this concept has been an unresolved ambiguity at the heart of pay equity as to its real purpose. Formally, International Labour Organization Convention 100 and the Canadian legislation giving effect to this international undertaking, address individual employers and require them to avoid gender-based discrimination on pay. But the proponents of pay equity are understandably driven by a much larger agenda of bringing society as close as possible to equal incomes for men and women. Thus pay differences arising from less education, or shorter labour force attachment, or shorter working hours, while logically non-discriminatory at the level of an individual employer, can still be seen as the results of larger social forces that themselves

discriminate against women. This broader social outlook leads pay equity advocates to resist accepting non-discriminatory factors as mitigating an employer's obligation to close fully a given gender pay gap.

Pay equity is thus aimed squarely at correcting wage discrimination in the overall labour market. Some egregious historical examples of undervaluing women's work in the economy generally can be cited. Few would now argue, for example, that nurses were treated fairly in the health professions until recently. But taking on the labour market as an individual employer, even such a large and prominent employer as the Government of Canada, is a perilous enterprise. Internal wage differentials that do not correspond with the external labour market will make it too easy to recruit and retain some kinds of employees, giving those successful in landing such jobs a salary premium not enjoyed by other Canadians in similar circumstances. On the other hand, these differentials risk making the public service less attractive to other kinds of workers, who can generally expect to be more highly valued by private employers less influenced by the pay equity system.

It is especially unfortunate that these imbalances in the weight attached to work characteristics tend to downplay the importance of knowledge, which is more and more the key to a competitive workplace. It is doubly regrettable if the processes used to arrive at this situation are themselves expensive, little understood or trusted, and time-consuming. Organizations that succeed in serving their clients with excellence cannot afford to divert scarce talent over many years into the search for an all-purpose formula that will push the organization toward greater gender equality in compensation.

The main danger for the federal public service in the legislative reforms proposed by the Pay Equity Task Force is that once again a set of ill-defined concepts will be enshrined in law, with little guidance on how to understand them, apply them, or reconcile them with other important principles like free collective bargaining. This in turn risks spawning a new industry of complex, arcane seeming science. After inevitable procrastination, litigation and bad feelings on all sides, substantial expenditures will be required to advance income equality between men and women, but with little regard for the draining of energy from the substantive work of the public service, or its capacity to attract and retain critical talent. Now is not the time to launch further decades of trial and error in the name of a powerful human rights principle. Rather, it is long overdue that we focus on identifying breaches of the equal pay for work of equal value requirement in a pragmatic manner, and that we get on with eliminating directly those gaps that cannot reasonably be explained by reasonable factors other than discrimination.

In summary, then, our recommendations on pay equity in the federal public service are these:

Recommendation 17

17.1 The Government of Canada should consider proposing amendments to the statutory framework for pay equity, to ensure clarity in the way pay equity is implemented in the modern workplace. Such amendments should, among other goals, respect these five premises:

- Pay equity should aim to redress that portion of the male/female wage gap that is attributable to discrimination, and not to other factors.
- Pay equity should operate at a systemic level to detect and remedy patterns of differential pay for men and women performing work of equal value within an establishment.
- Pay equity should function within a collective bargaining wage determination system with multiple bargaining units based on community of interest, and should disrupt that system as little as possible.
- Pay equity should recognize that Canada is a market economy in which salaries generally reflect the forces of supply and demand; federal jurisdiction employers should not be expected to stray far from market norms in implementing pay equity.
- For large employers with diverse workforces, pay equity should permit appropriate partitioning of jobs into groupings with broadly similar characteristics, especially required skill levels.

17.2 Although it has contributed greatly to public understanding of pay equity issues in the federal labour jurisdiction, the 2004 Pay Equity Task Force Report entitled *Pay Equity: A New Approach to a Fundamental Right* should not be accepted as an adequate basis for revising the statutory framework. In particular, greater clarity is required in such areas as the fundamental purpose of the legislation within a broader competitive labour market, how knowledge can be better accepted as the central employer value in modern workplaces, how to distinguish what part of any male/female wage gap is a result of gender discrimination, and how pay equity can coexist constructively with collective bargaining.

17.3 Until such time as the statutory framework governing the implementation of equal pay for work of equal value in the federal labour jurisdiction is amended, the Treasury Board Secretariat, in collaboration with the Public Service Human Resources Management Agency, should implement a pragmatic, proactive approach to identifying and eliminating male/female wage differences resulting from gender discrimination. This approach should include:

- Ensuring that new classification standards minimize gender bias.

- Assisting managers and others involved in classification to minimize gender bias in the application of existing classification standards.
- Deciding on a sensible framework for comparing groups for pay equity purposes. The potential for the National Occupational Classification published by Human Resources and Social Development Canada to assist in this work should be fully explored.
- Conducting an analysis of significant differences in male and female salaries in the core public service.

17.4 In conducting the analysis referred to in the fourth point of Recommendation 17.3, the following steps should be undertaken:

- Document the proportion of male and female employees by existing classification group and level, and the related average salaries.
- Document the work-related characteristics of male and female employees in these groups and levels, according to the criteria used by Statistics Canada and other social researchers, in evaluating to what extent salary differences may be explained by factors other than discrimination.
- Assess to what extent there are group salary differences that cannot be reasonably explained by factors other than discrimination.
- Develop appropriate comparison domains, based mainly on the NOC framework, particularly the skill levels, to facilitate cross-group comparisons.
- To the extent that the above analyses yield significant discrepancies that may be the result of gender discrimination, include these as issues for priority consideration in the next round of collective bargaining for the affected groups.

17.5 Whatever methods are adopted, the Treasury Board Secretariat and the Public Service Human Resources Management Agency should ensure that measures to implement equal pay for work of equal value complement, and do not distort, a balanced approach to managing the full range of compensation issues in the federal public service.

17.6 The federal public service should continue to pursue employment equity as a key component in bringing greater equality of incomes to men and women in the federal public service.

With this chapter we have brought to an end our series of substantive proposals for improving the management of compensation in the federal public service. Before concluding this Recommendations Section, we provide some thoughts and recommendations in the next chapter on how best to proceed with following up on our proposals.

16. Implementation Framework

Over the course of the Recommendations Section, we have made 77 proposals grouped into 17 sets of recommendations. These proposals vary widely in the difficulty, impact and feasibility required to implement them. Many are interconnected, and would need to be sequenced appropriately. Although the largest number of recommendations falls under the responsibility of the President of the Treasury Board or the Treasury Board Secretariat, several are addressed to other organizations such as the Public Service Human Resources Management Agency, the Department of Finance, or public service managers generally. Substantially complete implementation of the bulk of our proposals would demand sustained attention over many years, in some cases a decade or more.

In effect, we are calling for a fundamental rethinking and modernizing of the compensation regime governing the federal public service. In our view this is overdue. No such thorough review has been undertaken in nearly 40 years, since the implementation of collective bargaining in 1967. Yet, as we sketched at the beginning of this volume, the Canadian workplace and the Canadian public service have changed dramatically in the intervening years, and we can expect continued transformation as phenomena such as information technology, citizen expectations, and globalization intensify their impacts. To remain successful in serving Canadians, the federal public service needs to ensure that its compensation policies and practices support the flexibility and increasing knowledge intensity demanded by changing circumstances.

Getting started

The first step in any implementation program must be to establish a governance and management framework capable of planning, directing, and controlling the process, and even more importantly, of delivering results for a reasonable investment of money and energy. Such a framework should comprise three elements, as follows:

1. Sponsorship by the Treasury Board—The Treasury Board is the committee of Cabinet with ultimate responsibility under the *Financial Administration Act* for sound management in the federal public service, including most aspects of compensation.^[263] The strategy and timetable for implementation should be approved by the Treasury Board. The Board should also review progress at least annually.
2. Direction by the Secretary of the Treasury Board, advised by a Deputy-Minister level compensation council—The Secretary of the Treasury Board has the greatest responsibility for ensuring the coherence of decisions affecting public service compensation. The Secretary should therefore take the lead in directing implementation planning and arranging for delivery.^[264] To facilitate overall coherence, as proposed in Recommendation 8.3, the Secretary should be supported by a Compensation Council comprised of the most senior representatives of those parts of the federal public service with substantial responsibilities in the compensation field, and any other senior officials selected by the Secretary.
3. A dedicated project management team should be attached to the Compensation Planning and Coordination Secretariat proposed in Recommendation 8.1, with responsibility to design and manage the implementation process. Planning and managing the various inter-related processes entailed in implementing a fundamental review and rethinking of public service compensation will require full-time attention over several years. An Assistant Secretary reporting directly to the Treasury Board Secretary could provide the needed leadership both (a) for the project management team, and (b) for the substantive work proposed for the Compensation Planning and Coordination Secretariat such as preparation of the Annual Report on Federal Compensation. This blend of project and substantive activity will likely prove fruitful and stimulating.

Because of the importance and wide-ranging nature of this Report's recommendations, it would also be necessary to confirm the Prime Minister's support for the plan of action. This implies a need for the Secretary of the Treasury Board to work closely with the Clerk of the Privy Council in finalizing the plan to be recommended to the Treasury Board.

With sound governance in place, the Treasury Board President should make the report public and invite public reaction and discussion. While we have taken care to be objective and to present issues and evidence dispassionately, this Report is clearly written from an employer and, to a considerable degree we hope, a taxpayer perspective. We can expect commentary to range widely, and no doubt controversy will surface. Facilitated roundtables can be used to bring disparate perspectives together and to test viewpoints against each other in debate. These conversations should be taken fully into account in determining how to proceed with implementation.

A suggested framework for phasing implementation

Acknowledging the need for consultation, we nevertheless suggest breaking implementation down into four baskets organized essentially by level of difficulty.

Basket 1—Most essential

The first basket comprises those recommendations that can have a substantial benefit at relatively low cost, and which are primarily in the discretion of the Treasury Board or the Treasury Board Secretariat. In this we would group the following 10 recommendations:

- Recommendation 8 on central analytical and strategic leadership. This is the prerequisite for further progress.
- Recommendation 1, on the Annual Report to Parliament on Federal Compensation. This is likely our single most potent recommendation. Regular tracking of key trends in federal compensation will raise questions that will require answers. To the extent that the answers raise concerns, greater management attention will be directed to managing compensation trends.
- Accepting Recommendation 1 implies a need to act on Recommendation 3, on defining rigorously each data element included in the Annual Report, and investing in the systems and analytical capacity necessary to estimate and report consistently on the key compensation data elements. A project feasibility plan would need to be developed to ensure the soundness of the investments proposed for this purpose.
- For related reasons, Recommendation 4, on compensation research capable of tracking credibly trends in the broader Canadian labour market, also needs early attention. However, since this requires collaboration with the new Public Service Labour Relations Board and the public service unions, the timetable will be shaped in dialogue with these partners. The critical point, however, will be for the federal public service employer not to miss the boat by failing to invest at the beginning in developing the definitions, standards and methods that will govern this work for years to come.
- Recommendation 5 on the proposed compensation policy framework for the federal public service should also be put into place as soon as possible. The framework has already been the object of broad consultations, primarily in 2003. Approval has in effect been awaiting the results of this Report. There is no longer any reason to delay approving the framework.

- Because compensation costs are strongly affected by the size of the federal public service, early action is warranted on Recommendation 6, regarding the management of salary budgets. Increasing the mark-up price on transferring money from approved non-salary budgets to salaries will send an important signal regarding the real cost of such conversions. After confirming the appropriate new mark up--we propose going from the current 20% level to 30%, the Treasury Board Secretariat should implement this change as early as 2007-08. Preparing the protocols and system capacity to track and report on trends in salary budgets and their rationale will take some time. The more complete reporting proposed in Recommendation 6.4 will take longer to put in place but the decision to do so can be taken soon.
- As noted later, the process of modernizing public service classification standards, although long delayed, can be expected to take many further years in practice. In the meantime, it is important that the Public Service Human Resources Management Agency focus on helping departments to manage the existing standards pragmatically, as proposed in Recommendation 11.2.
- Early consideration would be appropriate for Recommendation 13.4, on establishing a Canadian Forces Compensation Advisory Committee, modelled generally on the United Kingdom Armed Forces Pay Review Body. Given the increasing importance accorded by the Government to the role of the Canadian Forces, it would make sense to move soon to put the determination of military compensation on a sounder foundation.
- The review proposed in Recommendation 13.5, of how the RCMP Pay Council measures total compensation and what considerations other than comparability ought to be weighed in determining RCMP compensation, should be undertaken soon.
- Recommendations 15.8 and 15.9 are in effect common sense admonitions to public service management to take care in appointing and training management representatives on benefit plan boards, to encourage the use of annual leave as an organizational and individual health measure, and to pay overtime as it is earned.

These recommendations could likely be implemented in large part by the end of 2006-07, with more complex technical or systems aspects to follow at the earliest feasible time according to an agreed work plan.

Basket 2--More in-depth reviews and reforms

The second basket involves critical but more difficult subjects that would require setting up some kind of advisory processes to develop more specific options and recommendations for later decisions. In these areas the public consultations will be especially useful in deciding whether and in exactly what way to pursue this Report's recommendations. In each case, the Treasury Board Secretariat and the other key public service agencies involved will want to consider carefully whether, in principle, to open up the subject. Following that decision, determining how best to proceed in setting up the required advisory processes will be the next priority.

It will of course also be necessary to plan carefully the sequencing of such processes, and how to manage the connections among the processes. Rigour is required in this planning to ensure that all participating parties dedicate the needed intellectual and leadership talent and resources to bring these processes, both individually and collectively, to an orderly conclusion within the timeframes established.

A general caveat deserves attention regarding this second basket. First, most of these subjects are difficult and will be controversial. The temptation will be to let the cup pass; to avoid the risk of bogging down in endless process. However, each of these areas is in its own way urgently in need of attention, if we are to renew our compensation regime to support our human resources needs as the great generational shift from the baby boom generation to its successors occurs over the next decade. A clear view of what is needed, and a determination to act will overcome the undeniable obstacles. The Treasury Board Secretariat should consult actively, but in the absence of consensus it still bears the responsibility to act in the interests of the long-term health and sound management of the public service.

The 12 main subjects falling into this basket are these:

- A rational approach to managing compensation requires action on Recommendation 10 regarding the development of a revised occupational and bargaining structure that appropriately combines employees with common interests and working conditions, and that facilitates compensation comparisons with the external Canadian labour market. Because changes risk upsetting at least some unions, it will be important to get third party help as suggested in Recommendation 10.1. Failure to get the basic workforce structure right will continue to compromise sound management of compensation in the public service.
- Recommendation 11, on deciding on the most appropriate approach and sequence for developing gender-neutral classification standards is essentially a corollary of Recommendation 10. Modernizing these standards has been the object of frustrating and generally unsuccessful efforts over more than two decades. While completing this work is overdue, it must dovetail with the results of the proposed review of the occupational group structure. Note also Recommendation 12.8 which suggests that advice should be obtained on whether any new appropriate occupational group structure should include regional pay for any of the proposed groups.

- It is essential that separate employers, if they have not done so to a satisfactory degree already, carry out their own versions of Recommendations 10 and 11. Note also recommendation 9.3. It would be prudent to coordinate the timing of these exercises in order to avoid overloading public service unions, or other partners' capacity.
- Recommendation 13.1 proposes that the Treasury Board President ask the Advisory Committee on Senior Level Retention and Compensation to recommend executive compensation more comparable to that offered in the broader Canadian economy, but with a more restrictive definition of who is an executive, and easier provisions for executives to be dismissed for inadequate performance. Executive pay is always controversial, but greater comparability with the private sector--especially at the levels of Assistant Deputy Minister and Deputy Minister--in return for more rigorous accountability should promote sounder management. Recommendations 13.2 and 13.3 are closely connected, covering performance pay, and the application of any changes affecting public service executives, to Heads of Crown corporations, and others appointed by Order-in-Council.
- Recommendation 14, proposing revisiting the option of a form of shared union-employer governance and responsibility for the public service pension plan, should be considered if the current union lawsuit on the pension surplus is resolved. As we point out in this Section, the logic of shared responsibility for surpluses is powerful. However, it would be wise to assess carefully the accumulating experience in other Canadian jurisdictions with such joint boards. This review would permit a well-informed evaluation of whether on balance this track deserves another try, and what the nature of a preferred model would look like.
- Recommendation 15.7 makes a similar proposal in relation to the governance of public service benefit plans, to the effect that joint union-management governance should entail joint responsibility for the plans' financial health.
- Whatever is decided about joint governance of the public service pension plans, it is critical to pursue the proposal in Recommendation 14.1 to review the suitability of the existing plan's design in meeting the needs of current and future employees. Changes in families, a growing interest in working beyond the period of eligibility for a pension, and a likely increase in the proportion of employees who may enter and leave the federal public service over the course of their career, perhaps several times, all point to the wisdom of taking a fresh look at how the plan works.
- In a similar vein, Recommendation 15 proposes a series of measures to review and renew the insurance, health and dental benefits available to federal public servants. The same sort of demographic and social forces highlighted above in relation to the Public Service Pension Plan call into question the appropriateness of the existing plans. So a joint review including experts with experience on both the union and management sides of benefits design and management should be undertaken. No such rethinking has been undertaken for decades, and what exists has simply emerged from incremental adjustments over the years.
- Recommendation 7 on how to expand the scope of normal collective bargaining to provide more explicitly for trade-offs across the full range of compensation elements, and Recommendations 15.2 and 15.3 on the idea of an annual benefits allowance with a range of benefit plan choices for purchase by employees from their allowance, are closely related. Broadening the scope of bargaining has various strategic and practical pros and cons that would need to be weighed carefully. The suggested advisory panel would assist in exploring the feasibility of the suggested approach, from a balanced management and union perspective. In preparation for deciding to pursue these recommendations, the Treasury Board Secretariat would be wise to develop and evaluate possible scenarios internally first.
- Recommendation 15.4 suggests a specific review of the complex set of plans and policies relating to sickness and disability. This topic could be included in the broader benefits review proposed above. However, given the specialized and likely controversial nature of the issues, it could make more sense to undertake a distinct process for this purpose.
- Recommendation 15.6 on reviewing the financial requirements of the Supplementary Death Benefit account, in light of its growing actuarial surplus, and of any changes to its purpose and design as a result of the broader benefits review proposed in Recommendation 15.1, is essentially a technical issue that requires the kind of objective assessment that the Office of the Superintendent of Financial Institutions is well placed to provide. Any amounts in excess of what is required could factor into broader discussions with the public service unions on the future of benefits plans.
- Recommendation 15.10 proposes reassessing the appropriate level of employer contributions to life insurance, health and dental benefits for public service pensioners. This is an area that has received relatively little attention over the years, although the stated employer liability for such benefits in the Public Accounts is substantial.

Basket 3--Possible changes to the legislative framework

The third basket includes the two areas of statutory framework affecting compensation in the federal public service: collective bargaining and pay equity. We argue at some length in Chapter 14 that the laws governing these areas are flawed and deserve deeper rethinking. We have not attempted the huge task of suggesting specific amendments to the *Public Service Labour Relations Act* (PSLRA) or the *Canadian Human Rights Act*. Nevertheless, we do propose two directions for reform that we believe have the potential to prove fruitful for all interested parties.

- On collective bargaining, Recommendation 16 essentially suggests that now is the time to launch a more fundamental search for a viable alternative dispute resolution model that could replace the existing conciliation/strike and arbitration options under the current *Public Service Labour Relations Act*. While the present options have not worked too badly, despite relatively frequent recourse to legislative overrides of the process, the basic premise of resolving union-management disagreements by either a trial by combat through a strike, or by unregulated arbitral discretion, seems incompatible with an underlying policy of comparability of public sector compensation with what prevails in the broader Canadian private sector.

Sponsoring a dialogue on new models will be controversial, but holds the potential of advancing public sector collective bargaining to embrace a new model more suited to balancing the interests of taxpayers and employees. Action in this area is not urgent, but it is important for the longer term credibility of federal public sector compensation management. An appropriate timeframe for exploring new models is the period between now and the parliamentary review of the *Public Service Labour Relations Act* (PSLRA) mandated in the legislation for 2010 (i.e. five years after the proclamation of the PSLRA in 2005).

- On equal pay for work of equal value, Recommendation 17 argues that the 2004 Pay Equity Task Force Report does not offer an adequate foundation for amending the legislation governing pay equity in the federal labour jurisdiction. Our argument is that the Report's recommendations do not really come to terms with certain fundamental issues with the interpretation of the principle of equal pay for work of equal value that have become increasingly problematic over the nearly three decades since the *Canadian Human Rights Act* was passed in 1977.

At this stage, we suggest that it makes more sense to pursue a pragmatic, proactive approach to identifying and eliminating male/female wage differences resulting from gender-based discrimination. Acting on our administrative proposals will require the Treasury Board Secretariat and the Public Service Human Resources Management Agency to invest in developing fully the suggested methodology and starting to apply it systematically over the next two to three years. Doing so should be a priority, we suggest, in view of the fact that the federal public service employer has not yet adopted a systematic approach to fulfilling its obligations in this area under the existing *Canadian Human Rights Act*. Without this building block properly in place, the stability of the entire federal public service compensation system is at risk.

Basket 4--Proposals to other Authorities

The final basket is a fairly small set of proposals that are clearly in the discretion of authorities outside the Treasury Board portfolio. Essentially the only action incumbent on the Treasury Board Secretariat is to bring these recommendations to the attention of those responsible. These include the following six suggestions:

- Recommendation 2 suggests that the Department of Finance include in the annual federal Budget an expected track for total Personnel spending. Such a global amount would reinforce the idea of planning and accountability for compensation spending.
- Recommendation 4.3 urges the leadership of the Public Service Labour Relations Board to consult actively in establishing a credible compensation research function, as authorized by the new *Public Service Labour Relations Act*.
- Recommendation 9.1 raises the possibility of establishing further separate employers with a view to improving organizational performance by aligning human resources management practices, including in particular compensation, with each employer's business needs. Decisions on machinery of government are of course a prerogative of the Prime Minister, assisted by advice from the Privy Council Office.
- Recommendation 10.3 recognizes the role of the Public Service Labour Relations Board in determining the appropriate bargaining unit structure in relation to the new occupational group structure proposed to be developed and proclaimed in recommendations 10.1 and 10.2.
- Recommendations 13.6 and 13.7 suggest actions for consideration by the Minister of Justice and the Canadian Federal Judges Association regarding the appropriate comparators for determining compensation levels for federally appointed judges; and by Parliament regarding the possible establishment of a mechanism for reviewing parliamentary compensation periodically.
- Recommendations 17.1 and 17.2, on possible legislative changes to the framework for applying equal pay for work of equal value in the federal labour jurisdiction, would need to be considered by the Minister of Justice and the Minister of Labour.

By working through each of the four baskets of recommendations systematically, implementation of this Report can be tailored to the Government's priorities and to the resources available for improving compensation management in the federal public sector.

17. Conclusion

These remarks on how to approach implementation bring us to the end of our Report. At the end of such a long journey of analysis and reflection many thoughts jostle for attention. Perhaps the best way to conclude is simply to emphasize seven perspectives that have hardened into convictions over the course of drafting this Report:

1. The future of the federal public service depends importantly on how employees are compensated.

How people are rewarded at work tells them what the employer values. As knowledge grows in importance as the primary value for employers, and as younger employees seek greater control over their careers compared with the baby boomers now retiring, how we compensate will affect crucially who will join the public service, who will stay, and how effective their contribution will be in meeting the expectations of Canadians.

2. All aspects of compensation are connected for the employees, and so the employer needs to manage the field coherently.

Conscious design should tie together all aspects of compensation, including salaries, pensions, insurance plans, leave entitlements, and even security of employment; the federal employer needs to balance wisely how each of the components of total compensation contribute to attracting and motivating the employees we need.

3. The proper standard for fair compensation is comparability with appropriate comparators in the Canadian private sector.

In the private sector, employers pay excessively at their peril. So the broad private sector provides a benchmark for what we need to pay in the public sector. Although applying this concept can be hugely difficult in practise, we need always to justify our choices against our best understanding of this standard. To be clear, we need to compare the whole compensation package, not just parts of it.

4. Collective bargaining in the federal public service is a healthy way to balance the interests of employees and taxpayers but it cannot be used to justify excessive compensation.

A strong voice for employees in shaping how they are compensated and treated in the workplace is healthy in a free society. However, exceptional bargaining strength derived from the privilege of serving the public should not justify going beyond what is reasonably comparable in equivalent circumstances in the private sector. The time has come to search with determination for better ways to settle disputes fairly, without recourse to the strike weapon.

5. Collective bargaining in the federal public sector should be about productivity as much as compensation.

This is very hard to achieve in view of the highly aggregated character of federal public service collective bargaining. It would make sense to think hard about a range of options to strengthen this link, which is at the heart of compensation negotiations in the private sector. These include, for example, creating additional separate employers, where numbers and focused mandate warrant, or imaginative use of two-tier bargaining.

6. The time has come to rethink the design and balance among non-salary benefits, from pensions to insurance to health and dental plans

The existing suite of benefits has emerged in its current form through decades of unplanned evolution. Changes in the nature of family in Canada, evolving expectations of younger employees, and increasing variety in the private sector make such a review overdue.

7. Transparency is the best way to bring discipline to the compensation field

Few understand the current compensation regime in the federal public service—even fewer track changes or compare them to what happens in the private sector. Regular public reporting of trends in such indicators as total employment, total spending and average salaries will force both federal public sector employers and unions to explain and account for their choices.

This first-ever comprehensive description of the world of federal public sector compensation and its recent history equips ministers, public service management, union officials and other observers to appreciate the issues in context. With this foundation of fact and understanding in place, the opportunity to design and shape public service compensation to attract and retain the workforce we need to serve Canadians well over the coming years has never been greater.

Endnotes – Volume One

Chapter 1. Introduction

[1] By 2004–05, the total expenditure in this area had risen to about \$27.7 billion, approximately one third of discretionary federal spending in that year.

[2] For details refer to the Backgrounder entitled *The Expenditure Review Committee: A Catalyst for Modernizing Management Practices*, published March 24, 2004. The original terms of reference of the Review are attached as Appendix A.

[3] The Compensation Review team, consisting of the principal author and four analysts, worked substantially full time on the project through most of 2004. From December 2004, the principal author devoted five to ten hours per week to the project, supported by a full-time analyst until July 2005 and a part-time analyst thereafter. Full-time team analysts and other staff (for varying durations) included Lee Beatty, Louise Richer, Lucie Proulx, Monique Paquin, Don Booth, Noomen Ketata, and Joanne Di Raimo, all of the Treasury Board Secretariat for most of the relevant periods. Many dozens of specialist staff assisted with the Review, as listed in the acknowledgements.

[4] In March 2003, this was still the Canada Customs and Revenue Agency. Accordingly, we use this larger organization in our analysis in Volume Two. The present Canada Revenue Agency came into being in December 2003, with the transfer of the Customs portion of the organization to the new Canada Border Services agency.

[5] Where federal business enterprises and other Crown corporations are likely of special interest is in the variety of human resources and compensation policies they have adopted. This experience may be informative in designing policies for the core public service. In Volume Two we give some examples of such policies.

Chapter 2. History of Compensation Comparability and Collective Bargaining

[6] *Report of the Royal Commission on Government Organization* (Glassco Commission), *Report 3: Personnel Management*, Part 2, Chapter 8 – "Compensation: Policy and Administration" p. 403.

[7] Much of this section is a paraphrase of Appendix B to the 2003 draft paper entitled *Towards a Compensation Framework for the Federal Public Service*. This in turn is largely based on the document referenced in footnote 3.

[8] Extracted from *Briefing Notes on Total Compensation Comparability*, Treasury Board of Canada Secretariat, May 1978

[9] A.D.P. Heeney, *Report of the Preparatory Committee for Collective Bargaining in the Public Service*, 1965, p. 7

[10] E.W. Beatty, *Report of the Royal Commission on Technical and Professional Services*, 1930. The quotation is from p. 14.

[11] The quotations in this and the subsequent paragraph are taken from W.L. Gordon, *Report of the Royal Commission on Administrative Classifications in the Public Service*, 1946, pages 11, 14, 17 and 25 respectively.

[12] Appendix C is entitled "Salient Extracts on Public Service Compensation and Comparability from the Section on "Personnel Management" in the *Report of the Royal Commission on Government Organization*." Specifically we replicate, for ease of reference, Chapters 7 and 8 of the Report.

[13] Glassco, at pages 395 to 397.

[14] Glassco, at page 410.

[15] Glassco, at page 411.

[16] Glassco, at page 411.

[17] Glassco, at pages 412 to 418.

[18] Glassco, at page 421.

[19] Heeney, 1965.

[20] The information on the Pearson Government's views is cited in Jacob Finkelman and Shirley B. Goldenberg, *Collective Bargaining in the Public Service: The Federal Experience in Canada*, Montreal: Institute for Research in Public Policy, 1983, p. 426.

[21] *Agenda for Cooperation: A Discussion Paper on Decontrol and Post-Control Issues*, page 27

[22] *Agenda*, page 60

[23] These points are taken from *Briefing Notes on Total Compensation Comparability*, Treasury Board of Canada Secretariat, May 1978.

[24] As reported in Finkelman/Goldenberg (p. 43 and p. 443), Bill C-28 would also have extended the rules for management exclusions and set a limit of \$33,500 on the salary that could be set in an arbitral award. The first report of the Advisory Committee on Labour-Management Relations in the Public Service (chaired by John Fryer), *Identifying the Issues*, 2000 (p. 20) reports that the amendments also restricted the right to strike, and introduced an employer lockout right.

[25] Treasury Board document cited in footnote 16, paragraph 113. The ten years referred to would be the decade following the introduction of collective bargaining in 1967.

[26] *Evaluation of Current Salary Comparability Practices and Total Compensation Comparability Methodology*, Wyatt Consultants, September 1992.

[27] Citations from a Treasury Board Secretariat document entitled *Discussion Paper: Compensation Comparability*, dated February 1987, pp. 172-173.

[28] *Compensation Briefing Notes*, Staff Relations Branch, Treasury Board Secretariat, March 1984, page 3.

[29] *Compensation Determination for Represented Employees: Future Directions*, Treasury Board Secretariat, 1992, page 132.

[30] The arbitration route was suspended for a further four years to 2001.

[31] Annex B is entitled "Draft Compensation Policy." This includes both the draft policy circulated for discussion by the Treasury Board Secretariat *Towards a Compensation Policy Framework for the Federal Public Service: Discussion Paper*, July 2003, and the policy statement adopted by the Canada Customs and Revenue Agency in March 2001.

Chapter 3. The Legal and Institutional Framework for Salary Determination

[32] The *Public Service Labour Relations Act* (PSLRA) came into effect April 1, 2005. The PSLRA's principal provisions on the rules for collective bargaining and dispute resolution are very similar to the *Public Service Staff Relations Act*, which it replaced.

[33] A separate *Parliamentary Employment and Staff Relations Act* (PESRA) enacted in 1986 provides for collective bargaining and binding arbitration of differences for employees of the House of Commons, the Senate, and the Library of Parliament.

[34] Salary increases were limited to 2.5% and an additional increment for 1997, and 2% in each of 1998 and 1999.

[35] The lump sums were equal to 1.5% of the group salary mass, divided by the population and rounded in most cases to the nearest \$50.

[36] The requirement to obtain such a mandate flows from Section 112 of the *Public Service Labour Relations Act* and a Cabinet decision of November 30, 1967. The purpose of the Cabinet decision was to maintain some financial control over separate agencies in terms of the collective agreements they negotiated. While these agencies have their own authority over personnel management, they are still appropriation dependent. An 1967 Order-in-Council delegates to the Treasury Board Secretariat the function of reviewing mandate requests from

separate agencies and making recommendations to the President of the Treasury Board on approving collective bargaining mandates.

[37] An occupational group structure maps the world of work in an organization. It distinguishes occupations for the purposes of recruitment, development, remuneration and human resource management generally. The group brings together a family of related jobs.

[38] A classification standard sets out the criteria and the means to evaluate a job against the criteria that permit the relative weight of a job within a particular group to be determined. The standard is supplemented by benchmark positions with the corresponding evaluation to assist raters.

[39] As defined and calculated by Hay Associates.

[40] Post 2003, CEO compensation determination has changed as a result of the 7th Advisory Committee Report. It is now to be based on median total compensation comparisons at Group 1 level, with the Hay Total Canadian Market data.

[41] In autumn 2004, the Government announced its intention to amend the legislation to decouple parliamentary compensation from that of federally appointed judges. To this end, Bill C-30, *An Act to Amend the Parliament of Canada Act and the Salaries Act and to make consequential amendments to other Acts* was introduced in the House of Commons December 3, 2004 and received Royal Assent on April 21, 2005.

Chapter 4. Components of Increases in Average Salaries

[42] Strictly speaking we have only included the three largest separate employers (i.e. the Canada Customs and Revenue Agency, the Canadian Food Inspection Agency, and the Parks Canada Agency), due to data limitations for small agencies. In March 2003, these three organizations constituted 88% of the separate employer domain.

[43] Note that we included the former Senior Manager (SM) group with EX 1 in 1991 because amalgamation was implemented shortly after.

[44] Data before that year are *not* considered reliable, so we omitted them.

[45] These figures have been validated jointly by the Appointments Information and Analysis Directorate of the Public Service Commission and the Organization and Classification Branch of the Public Service Human Resources Management Agency. There are no doubt some errors relating to reporting rigour, but we believe the figures are satisfactory for analyzing trends, which is our purpose here.

[46] As a technical point, the "external mobility" figure is a residual to balance various factors in the overall change in average salaries.

[47] *Cohorts of ES Hires and their Progression*, Appointments Information and Analysis Directorate, Public Service Commission, 2004.

[48] This was, however, a complex and controversial case where the parties were very far apart, and significant disruption of the air transport industry loomed.

[49] Until 1997-1998, the total population of the separate employer domain was lower than 9,000.

[50] This in fact occurred in a 2005 arbitral ruling.

Chapter 5. Comparing Federal Total Compensation with Economic Indicators, 1990 to 2003

[51] The current data series for Average Weekly Earnings based on the North American Industry Classification System (NAICS) is not available prior to 1991-92, when the average weekly earnings stood at \$544.68. Data prior to that date are available from a terminated series based on the Standard Industrial Classification (SIC). We estimated the 1990-91 figure by applying the 1990-91 to 1991-92 growth rate of 4.57% from the SIC-based series to the 1991-92 figure of \$544.68 in the current series.

[52] This includes general government plus health and social service institutions, universities, colleges, vocational and trade institutions, and provincial and territorial business enterprises.

[53] This includes general government plus local school boards and local government business enterprises.

[54] In this context, "greater" rate of increase is measured by the slope (i.e. the steepness) of the various lines in Figure 1025.

[55] Note that the total salary mass can also be shifted by compositional changes in the work-week distribution. For example, a shift to proportionately more part-time workers will drive salary mass down even if wages and employment are unchanged. We have not attempted to take account of this additional complexity.

[56] Private sector average weekly earnings cover the Statistics Canada "Industrial Aggregate", excluding Public Administration, Health Care and Social Assistance, Educational Services, and Utilities. The data does not rigorously distinguish the private and the public sectors. However, we believe any discrepancies are minor. This measure includes both full- and part-time workers. Accordingly, it can fluctuate with changes in the average work week.

[57] Average hourly wages relate to private sector employees who are full-time single job holders.

[58] The private sector average hourly wages series begins in 1996–97. For presentation purposes, the starting point of this series was aligned with the private sector average weekly earnings series.

[59] Estimating the growth in average hourly earnings by using the average weekly earnings rate of growth for the period before 1996–97, average hourly earnings are considered to have increased by about 33% between 1990–91 and 2002–03. However, since this calculation does not take account of changes in the average work week, it must be used only as a very broad indicator.

[60] These are unpublished data furnished by Human Resources and Social Development Canada. They attribute wage increases to the year to which they apply, rather than the year in which they are negotiated.

[61] As a reminder we note that the "broad measure" includes the core public service domain, the separate employers, the Canadian Forces, and the regular and civilian members of the Royal Canadian Mounted Police.

[62] This estimate is taken from a Treasury Board Secretariat internal staff paper entitled *Compensation Determination for Represented Employees: Future Directions*, dated December 1992, page 16.

[63] The Pay Research Bureau was abolished at about the time the Treasury Board report was being written.

[64] The occupations selected covered managers, secretaries and administration officers, clerks and professionals. Specifically, "managers" includes senior government managers (compared with senior managers in financial, communications carriers and other business services, trade, broadcasting and other services, goods production, utilities, transportation and construction. "Professionals" includes: financial auditors and accountants; human resources specialists; computer and information systems specialists; health and social policy researchers; and, professional occupations in public relations and communications. "Clerks" includes: general office and administrative support clerks; general office clerks; records and file clerks; data entry clerks; accounting and related clerks; administrative clerks; customer service, information and related clerks; and, survey interviewers and statistical clerks. "Secretaries and administrative officers" is not otherwise specified. In the 2000 Census these four groups covered 33% of federal government employees and 13% of private sector employees.

[65] Again we define the "federal public sector" as the core public service domain, the separate employers, the Canadian Forces and the regular and civilian members of the RCMP.

[66] This is based on the observation in relation to Figure 1027 that the difference in cumulative increase between federal public service average salaries and private sector agreements in force year-over-year wage increases was about 8.3% by 2002–03.

Chapter 6. Studies Comparing Federal Compensation to the Private and Broader Public Sectors

[67] Derek Picard, *Wage Watch: A Comparison of Public-Sector and Private-Sector Wages*, Canadian Federation of Independent Business, October 2003. The earlier studies were published in 1992 (based on the 1986 Census), 1993 (the 1991 Census), and 1999 (based on the 1996 Census).

[68] At page 5.

[69] At page 3.

[70] *Compensation Briefing Notes*, Staff Relations Branch, Treasury Board Secretariat, March 1984, pp. 28–29. The pronounced dislike of the author for such studies is evident in this further quotation: "These kinds of comparisons are misleading and none are pertinent to the policy objective of relating compensation between similar public service and other jobs. However, the sensitivity of public service compensation continually stimulates interest in and confers unwarranted status on such comparisons." (pp. 28–29)

[71] At page 4.

[72] Special analysis entitled *Correcting Census Data for the Receipt of Employment Equity cheques in 2000*, March 2004. This was conducted by the Business and Labour Market Analysis Division of Statistics Canada.

[73] Morley Gunderson, Douglas Hyatt and Craig Riddell, *Pay Differences between the Government and Private Sectors: Labour Force Survey and Census Estimates*, CPRN Discussion Paper No. W/10, Human Resources in Government series, February 2000. This report also looks at Census data as a complement to the main focus of analysis, the 1997 Labour Force Survey.

[74] Morley Gunderson (MKG Associates), *Public-Private sector Wage Differences with Emphasis on the Federal Government*, draft report dated October 2003, unpublished.

[75] The comments in this and the preceding paragraph summarize points in the CPRN Discussion Paper, particularly on pages 2 and 23.

[76] For example, observations for Prince Edward Island in April 2003 numbered 1,284, versus 16,110 for Ontario whose population is about 100 times larger. This oversampling is undertaken in order to be able to provide reliable estimates for various labour force characteristics within PEI. According to Statistics Canada, the process of assigning a sampling weight to each individual record involves the following steps: "Each record has an initial weight that corresponds to the inverse of the probability of selection. Adjustments are made to this weight to account for non-response that cannot be handled through imputation. In the final weighting step, all of the record weights are adjusted so that the aggregate totals will match with independently derived population estimates for various age-sex groups by province and major sub-provincial areas." Source: Labour Force Survey [Online] <http://www.statcan.ca/english/sdds/3701.htm>

[77] One drawback of using sampling weights, however, is that the estimated standard errors are not valid, which does not allow to run significance tests for the point estimate, for instance to test whether the estimate is different from zero.

[78] *Rémunération des salaires : État et évolution comparés*, 2003, Institut de la statistique du Québec.

[79] The definition of "l'administration fédérale" is not given, but presumably focuses mainly on the federal public service.

[80] In effect, the ISQ is an inheritor of the Pay Research Bureau tradition from before 1992 when the PRB was closed.

[81] Based on June 2003 LFS Data and excluding self-employed people. This population (i.e. firms of more than 100 employees) is the closest match available to the population surveyed by the ISQ, which covers employees working for firms of 200+ employees. The ISQ data reflects the compensation situation on July 1, 2003

[82] For full-time indeterminate and term employees exceeding three months.

[83] Even though the 16.2% wage premium identified by Gunderson is larger than the 15.1% figure identified by the CFIB, we consider the CFIB estimate "higher" in principle because it relates to the year 2000, whereas Gunderson is reporting on data for 2003. This view is based on the information reported in the earlier part of this Chapter to the effect that federal public sector average salaries were increasing faster than indicators of private sector earnings in the 2000–2003 period.

[84] It is interesting to note Morley Gunderson's comment on the nature of a small premium in favour of the federal public sector: "...[such a] premium must be judged in light of the more egalitarian pay practices that seem to prevail in the public sector, especially with respect to women and less skilled workers where the premiums are usually largest. That may reflect political pressures, as well as pressure to be a 'model employer,' at least regarding compensation." Page 36, Gunderson, Hyatt and Riddell, February 2000.

[85] *Treasury Board of Canada Secretariat – Public Service Alliance of Canada National Compensation Survey on Operational Services Positions: Final Report*, Morneau-Sobeco, July 2003.

[86] *The Table 2 Compensation Study: The PSAC's Analysis of the Results*, Public Service Alliance of Canada, October 2003.

[87] At page 40.

[88] *Overview – Joint Wage Comparability Study of the Operational Services Groups for the 2003–2006 Round of Negotiations*, Treasury Board Secretariat, undated.

[89] For example (p.3 of TBS commentary), 78% of the surveyed labourer jobs are in the Quebec, Ontario and Atlantic pay zone, whereas only 38% of the SV population works in that zone.

[90] At page 1.

[91] Details are given in Table 2 on page 9 of the TBS commentary.

[92] In fact, this phenomenon has been evident for some time. For example, the Treasury Board report of 1992 that calculated an overall 8.3% gap between the federal public service and the private sector cited a 20.3% lag for the Operational Category, which overlaps substantially with the current SV bargaining group.

[93] *Comparative Terms and Conditions of Employment of Foreign Service Officers*, Pricewaterhouse Coopers, May 2002

[94] These are the two countries referenced as having salaries 60% above those of the Canadian foreign service.

[95] *Transport Canada – Review of Recruitment, Retention and Compensation of the Civil Aviation Inspector Community*, Pricewaterhouse Coopers, January 1999.

[96] *The Art and Science of Competitive Compensation*, Watson Wyatt Worldwide, November 2002.

[97] More generally, this case raises the issue of whether "terminable" allowances can in fact be terminated. Even when the external "hot market" conditions that justified instituting such an allowance change or reverse, the logic of collective bargaining as now practiced makes such corrections extremely difficult, perhaps even impossible to effect.

[98] *Studies on Total Compensation Comparability and Total Cash Compensation of Senior Level Employees in the Public and Private Sectors*, Hay Group Ltd., October 2001.

[99] The actual method for evaluating non-cash benefits is set out on pages 5 through 9 of the 2001 Hay Group report.

[100] At page 30.

[101] At page 31.

[102] At page 32.

[103] At page 33.

[104] At pages 34 to 36.

[105] At page 37. As we report in Chapter 13 of this volume, the 2004 version of the Hay Group Report indicated a gap of 80% on salaries and 101% on total compensation at the DM2 level.

[106] The pilot survey was limited to Ontario to keep logistics and costs manageable.

Chapter 7. Comparing Pensions

[107] In 2002–03 federal employer pension contributions amounted to about 40% of total benefit costs.

[108] Most Crown corporations have their own pension plans as well, but their description is beyond the scope of this study.

[109] Our main source for this overview is the Statistics Canada publication entitled *Pension Plans in Canada*, January 2000, and the updated version covering the period up to January 2003. For data, we used the analytical

papers published by Statistics Canada as part of the CD entitled *Canada's Retirement Income Programs*, reporting the analysis up to 2002.

[110] This figure takes account of the fact that self-employed workers with unincorporated businesses, unpaid family workers, and the unemployed are not eligible for such plans, since they are not involved in an employer-employee relationship.

[111] It should be noted that some of these plans may offer "contribution holidays" from time to time and some offer variable (i.e. full or partial) contribution rates.

[112] As noted previously, our main source for this overview are the Statistics Canada publications cited in endnote 3 above.

[113] *Treasury Board Secretariat Workforce Adjustment Directive Statement of Pension Principles "Reasonableness" Test*, Towers Perrin, July 1997.

[114] *Report on PSSA/RCA Evaluation*, Buck Consultants, February, 2001.

[115] *Understanding the Value of the Pension Plan, Part II: A comparison with provincial pension plans*, Buck Consultants, September 2002.

[116] Benefits Data Bank Benva[®] - Government of Canada, Towers Perrin HR Services, June, 2004.

[117] As described later, in fact this rate only applies to that portion of income above the Canada/Quebec Pension Plans' "year's maximum pensionable earnings," which was \$39,900 in 2003.

[118] Note that benefit rates earned below the CPP Year's Maximum Pensionable Earnings vary from plan to plan, as we report below. The methods of calculating average earnings also vary. Some plans have moved to using the career average earnings, which significantly lowers benefits compared with a "best" or "last" five years average.

[119] This information appears on pages 7 and 8. In some cases the policy is the best consecutive five years. Prince Edward Island was reported as using a three-year average. This information is confirmed by a 2004 report prepared by the Manitoba Civil Service Superannuation Board on Canadian public sector pension plans.

[120] This information is from Towers Perrin's proprietary database.

[121] We understand that employers update their input to the Towers Perrin database each year.

[122] Final average means that an employee's pension is based on the average of a set number of years of income before retiring.

[123] This was substantially the case in all the various age-at-entry and income scenarios examined in the report.

[124] This information was compiled and reported in July 2004 by the Manitoba Civil Service Superannuation Board. As a participant in an ongoing federal-provincial conference on pensions, it was Manitoba's turn that year.

[125] This point is noted in Volume Two.

[126] This is the most recent date for which this data was available.

[127] It must be reiterated, however, that only 58% of registered pension plans, covering about 73% of members were contributory. For the remainder, the plans were fully funded by the employer.

[128] The 1997 Towers Perrin study found the federal pension plan to provide the second highest level of both employer and total value, after the Province of Nova Scotia. We have not reported this in the main text because the analysis is relatively old.

[129] The difference between 13.1% in the 2004 Towers Perrin study and the Treasury Board Secretariat's 17.3% would be worth deeper analysis. But it is difficult to conduct such a comparison when a proprietary database is involved. What is most important is methodological integrity and consistency within any given study.

[130] The findings cited below relate to the overall findings of the study which is based on numerous cases, not simply the specific case outlined in the chart above.

Chapter 8. Comparability of Other Benefits

[131] *Benchmarking Survey of Health Care Plans for the Public Service Health Care Plan Trust*, Mercer Human Resources Consulting, September 2003.

[132] *2001/2002 Statistical Summary – Health Benefits Prevalence Tables*, Watson Wyatt comparison, October 2003.

[133] A formulary is a list of drugs approved for purchase or reimbursement under a drug plan.

[134] Since late 2003, the PSHCP did reimburse for newer drugs of this type such as Cialis.

[135] The survey data is from Mercer. The employers covered were: the Government of British Columbia, Canada Post Corporation, the Canadian Broadcasting Corporation, Canfor, CIBC, EDS Canada, Nortel, the Government of Quebec, TD Bank, and one anonymous company.

[136] At page 39.

[137] There are technically two plans, the Public Service Alliance of Canada Plan and the National Joint Council Plan. We treat them in this chapter as one plan because their terms are virtually identical.

[138] *Benchmarking Study of Selected Employee Benefits and Paid Leave Policies*, Mercer Human Resources Consulting, September 2004.

[139] This is a proprietary database that may be accessed by employers that subscribe for an annual fee.

Chapter 9. Conclusions on Comparability

[140] Except on pensions where we included employee contributions in assessing value

[141] The federal public sector data includes the core public service domain, the separate employers, the Canadian Forces, and the regular and civilian members of the Royal Canadian Mounted Police.

[142] We used indexes to compare the rate of change for different variables. But this leaves unanswered the question of whether such indicators started out at comparable points, or whether a faster rate of change in a given variable was closing an initial disparity, for example.

[143] See Chapter 6 of this volume for more for details.

[144] The term "proactive" means that employers have a positive duty to implement pay equity in their organizations, without requiring employees to register a complaint.

[145] Morley Gunderson, "The Evolution and Mechanics of Pay Equity in Ontario," *Canadian Public Policy*, vol. XXVIII, Supplement I, 2002, p. S117.

[146] *Pay Equity: A New Approach to a Fundamental Right*, Pay Equity Task Force, Department of Justice, 2004.

[147] Pay Equity Task Force, 2004, p. 125. This repeats an analysis carried out by SPR Associates in 1991.

[148] Ontario Management Board Secretariat, e-mail dated July 22, 2004.

[149] Information received from the Government of Quebec.

[150] This information is gleaned from an article entitled "Show Us the Money: A pay Equity Cross-country Check-up," which appeared in the February-March issue of the union periodical *Our Times*.

[151] Gunderson, *Canadian Public Policy*, 2002, p. S143.

[152] Most notable are those of the Canadian Federation of Independent Business, and of Morley Gunderson at the University of Toronto. These are described more fully in Chapter 6 of this volume.

[153] Glassco, Chapter 7, "Compensation in the Public Service – Comparisons with Outside Employment."

Chapter 11. Recommendations on Transparency and Accountability

[154] This figure is given in Table 3, page 1.18 of the *Public Accounts of Canada* for 2002–03.

[155] Since the field of compensation is inherently complex, rooted in an understanding of precedents, relationships and subtle distinctions, rebuilding the requisite expertise will require several years of sustained effort and continuity in leadership and key personnel.

[156] We argue that only the cost-to-the-employer approach can really work. Any attempt to calculate value to the employee, however well-founded conceptually, will lose credibility through endless debates over methodology and the sheer abstractness of the results.

[157] At the EX 1 level, the policy is to set salaries to match total compensation with what is paid for comparable jobs in the Canadian private and broader public sectors. A part of the amount needed to match the external labour market (7% of salary) is set aside to be re-earned in whole or in part, based on performance. For exceptional performance, up to 10% can be earned. In this case, the extra 3% beyond the "normal amount" can be considered a performance bonus.

[158] As we note in a later section, federal compensation policy and practice must juggle various considerations, including the external labour market and internal relativity (as with any employer), and various public policy considerations. Clarity about the considerations and how they are trending can facilitate a broader public conversation about the appropriate positioning of federal public sector remuneration.

[159] Fiscal framework is a term used in the federal Government to describe the set of approved and expected expenses. It includes contingencies for various purposes, including policies not yet announced, and sensitive areas such as the funding set aside to deal with the outcomes of collective bargaining and other salary and compensation decisions.

[160] Apparently Statistics Canada presents its data as it does in order to align with international statistical reporting practices. With adequate discussion and planning, it ought to be possible to report the data in different ways for different purposes.

[161] Interestingly, this example illustrates that a solid answer could only be determined by collaboration across expert groups that have not been accustomed to working together or even taking notice of each other's data.

[162] We would expect such costs to total as much as \$10 million or more to get things on a sound foundation, and several millions of dollars annually to operate the system.

[163] Those parts of the *Public Service Modernization Act* related to establishing a compensation research function in the new Public Service Labour Relations Board were proclaimed April 1, 2005. Implementation of the new research unit will no doubt take several years.

[164] "The parties" refer to the various federal employers, principally the Treasury Board, and the relevant public service union.

[165] This point applies as well, of course, to the unions. However, they are much less likely to miss this opportunity than the employer, since getting suitable information on compensation that can support their cause is unquestionably central to the union mission. The employer historically has too often paid too little attention to such studies until they are completed.

[166] Of the 4,883 separations of indeterminate employees that took place in 2002–03, only 22 employees were released for incompetence or incapacity while 36 were rejected while on probation (this latter amount representing about 0.6% of indeterminate hires for the year).

[167] Statistics Canada's Labour Force Survey and the Canadian Occupational Projection System both include retirement and death in their figures for "attrition." As a result, it is difficult to obtain solid data on private sector "quit rates." One 2003 Statistics Canada study, *Innovative Work Practices and Labour Turnover in Canada*, suggests that the private sector quit rates are likely between 10 and 15% depending on the specific industry sector. R. Morissette & J.M. Rosa, *Innovative Work Practices and Labour Turnover in Canada*, Evolving Workplace Series, Statistics Canada and Human Resources Development Canada, August 2003.

Chapter 12. Coherent Management of Federal Compensation

[168] This was, in part, intended to respond to a recommendation by the Auditor General in her May 2003 chapter, *Reform of Classification and Job Evaluation in the Federal Public Service*.

[169] Appendix A of the proposed framework assesses a set of indicators suitable for tracking trends in the employer-related factors.

[170] Under this system, for example, two employees working half a year each would equal one full-time-equivalent position.

[171] A related issue is whether other costs relating to expanding staff levels (e.g. office space and informatics overheads) need to be levied on such transfers. Since 1998 departments and agencies have been subject to a 13% charge on any increase to the personnel costs of their reference levels as an offset against accommodation.

[172] It must be noted that the principal author of this Report was the Associate Secretary referred to in this paragraph.

[173] The former Canada Customs and Revenue Agency (CCRA) was split into two parts in December 2003. The larger part became the Canada Revenue Agency, with a mandate to administer various tax programs. The Customs part of CCRA was combined with elements of the Department of Citizenship and Immigration Canada to form the Canada Border Services Agency.

[174] For example, the Canadian Food Inspection Agency consolidated four inherited inspection groups, and the Canada Revenue Agency created a Management Group spanning all those playing a supervisory role.

Chapter 13. Specific Substantive Compensation Issues Relating to Salaries

[175] The occupational group structure was further revised in 2005 to separate the former Applied Science and Engineering (AP) group into the Architecture, Engineering and Land Survey (NR) group, and the Applied Science and Patent Examination (SP) group, and to create a new Border Services (FB) group, for a new total of 31 groups.

[176] This authority was available for six years only. What was unusual was that the power to set up occupational groups included the designation of these groups as bargaining groups. In Canadian labour law, the latter responsibility normally rests with the applicable labour board. The Treasury Board acted to consolidate the existing groups only at the very end of this period.

[177] This is not literally true, in the sense that pay determination in the context of a universal classification system could have made some allowance for shortages of particular occupations that could justify a salary premium.

[178] Section 7 reaffirms that the Treasury Board and separate employers retain the authority "to determine the organization," "to assign duties to and to classify positions and persons employed" in those parts of the federal public administration for which they are the employer.

[179] In this case, the lead would fall to the Public Service Human Resources Management Agency because of their responsibility for classification. However, the Treasury Board Secretariat must be an active partner because of the importance of the occupational group structure to collective bargaining and compensation management generally.

[180] Further detail can be found in the May 8, 2002 Treasury Board Secretariat news release and backgrounder entitled *Government Moves Ahead with Classification Reform*, located on the Treasury Board Secretariat Web site (www.tbs-sct.gc.ca).

[181] As with Recommendation 10.1, the Public Service Human Resources Management Agency would have the lead within the Treasury Board portfolio, in close cooperation with the relevant parts of the Treasury Board Secretariat.

[182] This quotation is taken from the *Fact Sheet on DHS and OPM Final Human Resource Regulations*, which is available on the Web site of the United States Department of Homeland Security (DHS). OPM refers to the Office of Personnel Management. The General Schedule is the principal American government classification and pay system, comprising 15 levels, each with 10 pay steps.

[183] The GAO is the American analogue of the Canadian Office of the Auditor General. The quotation is from the first page of the GAO report *Observations on Final DHS Human Capital Regulations*, dated March 2, 2005.

[184] Prior to that date the numbers were generally about twice as high. But in earlier years, employees could be rejected on probation each time they moved to a higher level, not just in their first job in the public service.

[185] This is the colloquial name (in fact, the name of the current Chair) for the Advisory Committee on Senior Level Compensation and Retention, which advises the Treasury Board on executive compensation.

[186] To some extent, the incumbent-based promotion regime for scientific researchers exhibits such an approach.

[187] Of course there are also assignments from the federal government to external organizations, on the same basis. That is, the public servant works for an outside employer, but is compensated according to his or her public service classification.

[188] There have, in fact, been a few cases in recent years where the Treasury Board has approved such compensation packages

[189] This possibility was suggested by Warren Edmondson, based on his recollection of how the federal public service salary bands were constructed at the introduction of collective bargaining in 1967.

[190] The suggested parallel processes for the other federal employers should similarly assess whether the proposed criteria for adopting a regional pay philosophy should apply to the new groups.

[191] The definition of "locality pay" is given on page 73 of the April 2002 United States Office of Personnel Management White Paper entitled *A Fresh Start for Federal Pay: The Case for Modernization*. Source for data: General Schedule 2003, United States Office of Personnel Management

[192] Salary levels for excluded employees of groups that are otherwise represented by unions, and the Personnel (PE) group, are essentially determined by reference to the relevant collective agreements.

[193] It is worth repeating that this comparison includes an amount of 7% of salary as the average amount to be earned through performance pay. Thus, in the absence of this provision, EX 1 salaries would need to be 7% higher to maintain equivalence with the external labour market

[194] In both cases (2003, when the reduction was 0.3%; and 2004, when the reduction was 0.25%) the reductions were approved in order not to disturb collective bargaining negotiations then in progress with the Public Service Alliance of Canada.

[195] The Report title is *Government of Canada: Executive and Deputy Minister Level Total Remuneration Market Review*.

[196] These are comparisons to the median level in the Hay Associates sample. For deputy ministers, comparisons are only carried out at the DM 2 level, the most numerous level of deputy heads supporting a minister directly.

[197] Long-term incentives such as stock options can play an important role in the private sector, but likely cannot be replicated in the public sector. It appears more realistic to leave this element out of any practical definition of comparability.

[198] To prevent such a policy from being abused, a right of appeal to the Public Service Commission, which is responsible for protecting the merit principle, should exist to prevent the removal of persons that the Government dislikes for partisan political reasons or for whistle-blowing.

[199] This quotation comes from a Mercer Human Resources Consulting Report for the United Kingdom Office of Manpower Economics, entitled *Benchmarking international Armed Forces' pay and allowances*, dated December 2004, at page 25

[200] For example, the above-noted Mercer report states that Canada uses a "Joint Treasury Board Secretariat/Canadian Forces advisory group on military human resource issues." At various times, the Canadian process has been described internally as reported by Mercer. However, this language implies far more rigour and structure to the process than the reality could justify.

[201] Information on the Australian approach has been taken from the *Nineteenth Report (2003-2004)* of the Defence Force Remuneration Tribunal, dated 29 October 2004.

[202] Although the Howard Government has reformed the awards system in the general labour market, in order to encourage enterprise-specific or individual labour contracts, it has maintained the ADF Remuneration Tribunal, apparently as a result of the critical role the Defence Force has played in Australian foreign policy in recent years.

[203] Remuneration of Canadian judges is effectively determined by an independent advisory body known as the Quadrennial Commission. Judges are in a unique position under the Constitution, requiring their independence from the Government to be unassailable. Still, changes are implemented through amendments to the *Judges Act*, so Parliament could theoretically refuse to implement the recommendations.

[204] Cited from the *Thirty-Third Report 2004* of the United Kingdom Armed Forces Pay Review Body, dated February 2004, page 5.

[205] In one sense, the bad feelings are understandable. RCMP members have become proud of enjoying overall compensation equal to or better than all but one or two police forces in the country. The 2004 decision pushed the RCMP to fourth place, albeit by only a few dollars. On the other hand, it is important to keep perspective on RCMP pay over time and not overreact to temporary situations.

[206] For objectivity, this should not be the firm that has conducted the total compensation surveys over the past decade.

Chapter 14. Specific Compensation Issues Relating to Pensions and Other Benefits

[207] This does not mean two thirds of public servants earn below \$41,100, but that whatever their salary level, the part below \$41,100 totals about two thirds of all salary dollars paid.

[208] Except on the portion of salary below \$3,500 on which there is no contribution.

[209] See the 2002 report *A Strategic Framework for the Examination of the PSSA*, by BRO Workforce and Retirement Strategies Inc.

[210] In considering these questions, it might turn out that requirements of the *Pension Benefits Standards Act* or the *Income Tax Act* would prevent certain kinds of Plan changes. It may be that these statutes as well would benefit from the kind of reflection and renewal we are suggesting.

[211] At the same time, it must be noted that according to the 2000 Statistics Canada Survey of Labour and Income Dynamics, 38% of the Canadian labour force had no coverage of this type through their employment. One half had all three of extended medical, dental and life/disability coverage. Source: *Perspectives on Labour and Income*, Summer 2003, volume 15, no. 2, p.9.

[212] Note that the 2002–03 figure includes about \$0.2 billion for such programs for federal public sector pensioners.

[213] For example, life insurance plans can experience sudden surges of claims followed by periods with few claims. Such volatility can put small plans into such a deficit that full recovery is unlikely. Large plans, managing a greater pool of risks, have somewhat flatter variations in claims overall, and can weather more easily such claims surges that do occur. Accordingly, insurers usually charge a higher risk premium for small plans than they do for larger ones. In general, a plan with a large membership is stronger and cheaper than a plan with a small membership.

[214] It should be noted that this is not a funded plan, but only an account maintained in the Accounts of Canada.

[215] These comments apply equally, of course, to employer representatives on the Pension Advisory Board, discussed in the previous section of this chapter.

[216] Between 1991–92 and 2002–03, members of the Executive (EX) group cashed out on average between 4.12 and 5.81 days of holidays, or about 20 to 25% of their average annual leave entitlement in those years. By contrast, in the public service as a whole, vacation days cashed out ranged from 0.91 days to 1.79 days on average, or about 5 to 10% of their average total annual leave entitlement. This information was obtained through the Public Service Leave Reporting System (LRS).

[217] The apparent decline in usage displayed in Table 2047 in Chapter 6 of Volume Two results in part from the creation of the Canada Customs and Revenue Agency as a separate employer, thereby removing from the core public service domain a large organization with significant overtime usage.

[218] Even for the RCMP usage remained at about \$66 million as recently as 1999–2000.

[219] By 2004–05, this actuarial liability had grown to \$8.3 billion.

Chapter 15. Possible Areas for Legislative Change

[220] The 2000 Report was entitled *Identifying the Issues: First Report of the Advisory Committee on Labour-Management Relations in the Federal Public Service*. The 2001 Report was entitled *Working Together in the Public Interest: Second Report of the Advisory Committee on Labour-Management Relations in the federal Public Service*.

[221] *Pay Equity: A New Approach to a Fundamental Right*, report of the Pay Equity Task Force, chaired by Professor Beth Bilson, 2004.

[222] For an entirely different perspective, see L. Panitch and D. Swartz in *From Consent to Coercion: The Assault on Trade Union Freedoms*, Aurora, ON: Garamond Press, 2003, where they argue that the previous 20 years saw a gradual move towards "permanent exceptionalism" by governments across Canada, as they began to strip away the rights of unions through legislative imposition of contract terms, jailing of union leaders in the 1970s, and increased designation of essential workers.

[223] The constant dollar average salary fell from \$48,100 in 1994-95 to \$46,300 in 1997-98.

[224] For the combined core public service and separate employers alone, the cumulative increase exceeded that of private sector agreements in 2001-02.

[225] It would be correct to note that we are comparing federal public service average wages with negotiated salary increases in the private sector, two measures that track different things. However, if we track average hourly or weekly earnings in the private sector instead (see Figure 1026), the cumulative gap in favour of the federal public sector is even greater by 2002-03.

[226] In the United States, federal public service salaries are still recommended by the President and approved by Congress, based on recommendations from Advisory Boards.

[227] In a minority government situation, it can be particularly unattractive to resort to a legislative resolution of a public service labour dispute. If the Government were to "go the legislative route" but fail to get the Bill passed, its bargaining position would become untenable.

[228] Cited in B. Adell, M. Grant, and A. Ponak, *Strikes in Essential Services*, Kingston, Ont.: IRC Press, 2001, chapter 1, page 7.

[229] Cited in Sandra Christensen, *Unions and the Public Interest: Collective Bargaining in the Government Sector*, the Fraser Institute, 1980, p. ix.

[230] Presentation of Yvon Tarte, Chairperson of the Public Service Staff relations Board to the National Joint Council 1999 Seminar, 15-17 September 1999, Winnipeg, Manitoba.

[231] See Peter Warrian, *Can't Get There From Here: Old/New Unions in a New/Old Economy*, Sefton Lecture 2001, University of Toronto. Using the health sector in Ontario as the case in point, Warrian argues the "repeated application of the traditional Wagnerist trade union modelcondemns itself to a tread mill of periods of distributive bargaining alternating with restrictions of trade union rights and wage controls. A new social contract is necessary in the health sector. One that is locally based, expands employee voice, utilizes workers' skills and commitment in new ways."

[232] Interestingly, as part of the Government's restraint program in the mid1990s, it was proposed that cost savings or efficiency gains identified by departments or unions could be shared with employees through increases to frozen salaries, once the savings were implemented. The initiative went nowhere because of the difficulties described in this paragraph.

[233] John A. O'Grady, *Arbitration and Its Ills*, Discussion Paper Series, No. 94-05, Government and Competitiveness Project, School of Policy Studies, Queen's University, 1994.

[234] As we noted in Chapter 2, experience with arbitration in the twenty years before the wage freezes of the early 1990s suggests that in the aggregate arbitration outcomes lagged slightly versus collectively bargained settlements. It is still early to assess the impact of arbitration in the period since its reinstatement in 2001.

[235] Italics in the original text.

[236] See page 44 of John O'Grady's 1994 paper: "Influencing arbitrators through directive language in statutes was found to have been comparatively ineffective."

[237] Because collective bargaining is generally centralized, there may be a tendency for departmental line managers to feel that a labour dispute is not "their" affair but a matter for the relatively distant Treasury Board.

[238] The techniques would include: fact-finding, referral back to negotiations, mediation, issuance of a preliminary report commenting on the reasonableness of the parties' positions, issuance of a report outlining the terms of a settlement that could be adopted or imposed on the parties, and imposition of a collective agreement at the request of a union under specific circumstances.

[239] There is reason to fear, however, that the method set out in the Act for selecting a PIC Chairperson will make groundbreaking appointments unlikely. If either party requests a three-member PIC, then their nominees select the Chairperson. The parties seem likely to be conservative, selecting those with whom they have had experience. The need to agree on a name in itself militates against innovation in choosing a PIC Chairperson. On the other hand, where the union requests a tripartite Commission, the union will have to pay the costs of their representative. Overall, it may not be that common that the PSLRB Chairperson, who could be freer to experiment, will have the chance to select a PIC Chairperson.

[240] Cited by O'Grady from Gene Swimmer, "Critical Issues in Public Sector Industrial Relations," in Amarjit S. Sethi, *Collective Bargaining in Canada*, Scarborough, ON: Nelson, 1989, p. 410. O'Grady observes further in his footnote 34: While so clear-cut a statement of arbitral criteria is difficult to find, Arbitrator Martin Teplitsky came close when he observed: "Interest arbitrators interpret the collective bargaining scene. They do not sit in judgement of its results." This is cited from *Re: Ottawa Board of Commissioners of Police and Ottawa Police Association (Martin Teplitsky)*, September 10, 1980, p. 4.

[241] Cited from W. Fogel and D. Lewin, "Wage Determination in the Public Sector," *Industrial and Labor Relations Review*, 27 (1974), p 413

[242] We have not called them "arbitrators" because that title has a vast history and cultural context, which we would be attempting not to import into a new regime.

[243] It must be recognized that the more the system is "rules-based," the more it would be vulnerable to judges intervening, notwithstanding their lack of expertise in most cases. This reality would need careful assessment in designing a new system.

[244] Industrial Aggregate is defined by Statistics Canada as being the average Canadian weekly wages and salaries for a specified year and tends to track inflation and general increases in labour income.

[245] This jurisdiction includes the federal government and private enterprises in such areas as banking, railways, airlines, shipping, ports, and interprovincial trucking.

[246] Pay Equity Task Force Final Report 2004, pp. 124-5.

[247] See above-noted Report, p. 138. It should be noted that provincial public sector labour negotiations in Quebec, concluded by legislation in December 2003, provided for substantial further pay equity adjustments.

[248] These data are extracted from Statistics Canada's 2001 Census report entitled *Overview: University education, experience pay off in higher earnings*, pp. 7 and 8.

[249] This study is part of the Evolving Workplace Series, based on the Workplace and Employee Survey conducted in 1999 by Statistics Canada with the support of Human Resources Development Canada. The author was Marie Drolet of the Business and Labour Market Analysis Division of Statistics Canada.

[250] See page 43 of the above study.

[251] This issue is not resolved by the explanation provided in the Equal Wages Guidelines promulgated by the Canadian Human Rights Commission in 1986. Section 3 states: "For the purposes of subsection 11(2) of the Act (i.e. the CHR), intellectual and physical qualifications acquired by experience, training, education or natural ability shall be considered in assessing the skill required in the performance of work."

[252] It is worth noting that critics of such universal rating systems have conducted experiments that suggested that different raters could come to very different evaluations of job descriptions in applying supposedly objective standards. Of particular note is a 1986 study entitled *Game Playing with Comparable Worth*, which sought to determine whether independent assessments of job worth by several job evaluation firms were consistent. The study found highly differentiated results and wide disagreement among the firms. Among other things, the study found that it was possible for one evaluator to suggest that two jobs be paid the same amount while another evaluator suggested that one of them be paid 50% more than the other. Ultimately, the authors concluded that

it was not possible to identify consistent, reliable measures of job worth apart from market value. E.J. Arnault, et al. *Game Playing with Comparable Worth*, October 1986.

[253] The Ontario labour jurisdiction does accept bargaining power as a permissible exception to pay equity.

[254] A background study for the Pay Equity Task Force explored the complexities of dealing with non-cash benefits in the context of pay equity: *The Treatment of Non-Wage Benefits in Pay Equity Comparisons*, by Monica Townson, December 2002. The Task Force argues that non-cash benefits should be captured in the total compensation approach it favours. Townson notes, however (page vii) that "if anything, valuation problems, for both traditional and non-traditional forms of non-wage benefits, have become even more complex," since the equal pay provisions of the *Canadian Human Rights Act* came into effect in 1977.

[255] This is true, except insofar as a wage difference fit within one of the "reasonable factors" set out in section 16 of the Equal Wages Guidelines, 1986.

[256] The Pay Equity Task Force Report recommends adopting a single 60% threshold, which would be an improvement. However, new ambiguities are proposed such as factoring such imprecise concepts as "historical incumbency" and "traditional stereotypes." An even odder suggestion is that one should add the number of women and other designated groups (aboriginal, visible minority, and persons with disabilities) in determining whether the 60% level had been met. As the definitional complications expand, any meaningful idea of comparing "equal pay for work of equal value" can only recede from view.

[257] In fact, the Personnel Administration (PE) group shifted from male- to female-dominated during the 1980s. In 1981, 64% of the group was male; by 1991, it was 60% female. Subsequently, a pay equity complaint was advanced, and a settlement agreed in 1999.

[258] It is interesting to note a conceptual disconnect between "equal pay for work of equal value" and improving the relative position of women versus men in the labour force. Because pay equity compares the value of jobs between groups, men can benefit from pay equity settlements where they are a minority (up to 45%) of an affected group. Conversely, women in low-paid occupations dominated by men have little prospect of improving their situation through a pay equity complaint.

[259] See, for example, the study *Assessing the Gender Neutrality of the FB Classification Standard*, by Professor John Kervin of the University of Toronto, August, 2005.

[260] Cited from "Introduction to Edition 2001" of the National Occupational Classification (NOC), published by Human Resources and Skills Development Canada, 2001, p. i.

[261] This is a summary of the chart on page vii of the document cited in endnote 41.

[262] Appendix K is entitled "Distribution of employees by gender in the federal public service for selected years, 1981 to 2005."

Chapter 16. Implementation Framework

[263] Separate employers enjoy various degrees of autonomy from the Treasury Board on compensation matters. However, all federal institutions are subject to Treasury Board scrutiny of their operating budgets and financial plans.

[264] The Secretary may well decide to give a major leadership role in this area to the Associate Secretary. Nevertheless, the Secretary must remain visibly and knowledgeably committed to the success of this work.