



The Foreign Service Overseas Pay Gap

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The Issue

An ever-growing problem with negative implications for recruitment and retention is the exclusion of overseas Foreign Service members from receiving the locality pay adjustment given to other federal employees. This overseas pay gap was created by the Federal Employees Pay Comparability Act of 1990 (which took effect in 1994) which added to the base pay of almost all federal employees a "locality" adjustment that represented the cost of attracting talent in a given geographical area. The area in which Foreign Service members are hired, initially posted, and repeatedly assigned is Washington, D.C. The law excluded overseas Foreign Service members from receiving this standard component of base pay. As the Washington, D.C. locality pay rate has risen from an initial 4.23 percent in 1994 to 23.10 percent in 2009, this has created a serious financial disincentive to overseas service.

Legislation in 2004 removed this disincentive from the salaries of Senior Foreign Service members, but junior and mid-level diplomats currently take a 23.10-percent cut in base pay when transferring abroad. This overseas pay gap undermines, and often totally negates, traditional hardship and danger pay allowances. Thus, Foreign Service members now take a *pay cut* to serve at 183 of 268 overseas posts (68 percent) including 20 percent differential posts such as Damascus, Tripoli, Sarajevo, Chisinau, Libreville, La Paz, and Ulaanbaatar and even danger pay posts Amman, Bogota, and Tel Aviv. At another 42 posts -- those at the 25 percent hardship level -- the net incentive is now just 1.9 percent and will likely drop to zero next year unless the pay gap is closed. This would subject junior and mid-level employees at 84 percent of Embassies and Consulates to a net cut in base pay. Losing the equivalent of one year's salary for every four years served abroad has serious long-term financial consequences -- especially for Foreign Service families already suffering the loss of income from a spouse who cannot find employment overseas.

Q: What is the impact of the overseas pay gap on a typical Foreign Service member?

A: Here is an illustration: John Doe, a Foreign Service officer, and Mary, his wife, a primary school teacher, are assigned to Washington, D.C. John was recently informed that he will be assigned to Libya as a diplomat. In D.C., John earns a base salary of \$52,221 (FS-4 rank) and a 23.10-percent D.C. locality payment (worth \$12,063) for a total of \$64,284. Mary earns

\$48,000 as a teacher. Their total family income is \$112,284. When the Doe family arrives in Tripoli they will no longer receive locality pay (\$12,063) but will receive a 20 percent hardship differential (\$10,444). While John will take a small pay cut to serve overseas, Mary will most likely not be able to find employment in Libya so she will lose her entire salary (\$48,000). Thus, despite John's hardship differential, the Doe family's total income will drop from \$112,284 to \$62,665. That is a drop of \$49,619 or nearly 45 percent from what they were earning in the Washington, D.C. area.

In addition, while in Libya, the Doe family will likely face significant out-of-pocket costs such as needing to fly back to the United States for a family member's wedding, a sister's life threatening illness, a beloved relative's funeral, or for other important occasions not covered by government-funded emergency visitation travel. Finally, in the event that John is killed in Tripoli, Mary would receive 23.10 percent less in death benefits than would the family of a TDY visitor from Washington. This is because Foreign Service death benefits are calculated on base pay, excluding allowances and differentials, and John's salary is 23.10 percent less than it would be back in the States.

Q: Why should overseas junior and mid-level Foreign Service members get a pay increase when they already receive extra benefits such as hardship pay and a housing allowance?

A: This is not a pay raise. It is a correction of an unintended inequity in the worldwide Foreign Service pay schedule that grows every year. Following the creation of the modern Foreign Service in 1924, Congress created an overseas benefits package (including hardship pay and a housing allowance) to recruit and retain a talented and diverse Foreign Service. The overseas pay gap that has developed over the past 14 years undermines that Congressional intent. For example, when an individual serves at a 20 percent hardship post, that individual now actually suffers a 3.1 percent pay cut. Going to a 15 percent hardship post means that the employee actually suffers an 8.1 percent cut in pay.

Housing has always been provided to all government employees serving at overseas posts because of the huge variations in local housing standards and rental costs. Furthermore, most overseas Foreign Service members still have to pay their mortgage and property taxes on their residence back in the United States, find someone to rent their home, and hire someone to manage those arrangements. As for other overseas allowances, educational allowances pay for educational services that are normally provided free in public schools in the United States and make it possible for Foreign Service members to cover their kids' schooling in countries where no viable public schools are available; while cost-of-living allowances help to defray the cost of food and other daily needs of life in high-cost countries where those things are vastly more expensive than in the United States. These allowances were never meant to obviate the need for the basic locality pay adjustment that all other federal employees get. Ending the overseas pay gap for junior and mid-level Foreign Service members would restore what Congress intended when it first created hardship differentials and other benefits.

Q: Aren't Foreign Service members paid better than other government employees?

A: No. Foreign Service base pay is directly parallel to the Civil Service schedule. Yet, unlike the Civil Service, Foreign Service members spend an average of two thirds of their careers overseas where they do not receive the locality pay adjustment afforded to all domestic federal employees. Instead, Foreign Service members serving in some of the most difficult hotspots around the globe are excluded from that standard component of federal pay.

Q: Why do not junior and mid-level Foreign Service members just spend more time in Washington, D.C. so they can receive the highest rate of pay?

A: The Foreign Service does not have that choice. Over two thirds of Foreign Service positions are overseas. Thus, two thirds of a typical Foreign Service member's career is served abroad. Federal regulations limit to five years the amount of time a Foreign Service member can serve in Washington at any one time without a special waiver. Regulations require Foreign Service members to serve at hardship posts and urge service in danger pay and other unaccompanied posts, which now comprise almost a quarter of each year's assignments. Moreover, some of the most important work of the Foreign Service is on the front lines overseas, not back in Washington, D.C.

Q: What about employees from other federal agencies who serve abroad at embassies and consulates?

A: The Central Intelligence Agency long-ago established an overseas pay supplement exactly equal to the Washington, D.C. locality pay rate for its employees. Some other agencies get around the lack of overseas locality pay by assigning many of their personnel overseas on long-term temporary duty assignments (TDY) which enables them to continue to receive domestic locality pay. Some agencies provide their overseas employees with special allowances and benefits that substantially make up for lost locality pay (for example, DEA agents in Mexico earn Spanish-language proficiency pay and danger pay -- two bonuses not available to Foreign Service members who work beside them). Regardless of where they serve, FBI, DEA, and most DHS agents receive an additional 25 percent "Law Enforcement Availability Pay". A few smaller agencies do not give their overseas employees special bonuses, but those employees typically serve just one overseas tour during their entire careers (unlike Foreign Service members who average 20 years abroad during a 30 year long career). Uniformed military members are paid on a worldwide salary schedule and, throughout their careers, receive scores of benefits not afforded to Foreign Service members.

Q. Are there recruitment and retention problems due to this pay gap?

A: People join the Foreign Service out of patriotism, a desire to serve our country, and an interest in doing interesting and important work. Financial considerations are secondary. However, today's Foreign Service members are increasingly aware that they are being taken

advantage of. A November 2008 AFSA survey that garnered input from over 5,700 State Department Foreign Service members showed that only three percent do not see the overseas pay gap as a problem needing to be fixed. In fact, an overwhelming 73 percent attach "high" importance to correcting this pay disparity. Another 19 percent attach "moderate" importance.

There will inevitably come a point when the overseas pay gap starts to hurt recruitment and increase attrition. Given that the D.C. locality pay for federal employees usually increases by a couple of percentage points annually, in just four or five years from now, Foreign Service members will take a 30-percent drop in base pay to serve overseas. And a few years after that, our diplomats will earn less at a maximum hardship 35-percent differential posting than they would have earned staying at a desk job in Washington. There will be a breaking point when this gross injustice starts seriously undermining recruitment and retention. Statistical proof that that tipping point has been reached will only come after the damage has already been done. Waiting for such proof would result in a hollowed-out Foreign Service that would take years to rebuild. The Foreign Service would forever lose the talented applicants who went elsewhere. Mid-level employees who resigned or retired rather than wait for the long-delayed legislative fix would not come back. An assignments cycle in which most Foreign Service members eligible to transfer put in for only better paid domestic assignments would be a disaster.

Q. Why is the Washington, D.C. locality pay rate the appropriate rate to use in ending the Foreign Service overseas pay disparity?

A. The "locality" adjustment to federal base pay represents the cost of attracting talent in a given geographical area. The geographical area to which all Foreign Service members are hired and initially posted is Washington, D.C. Thereafter, the typical Foreign Service member spends one third of their career assigned to and living in the Washington, D.C. area -- 10 years out of a typical 30 year career. That is because the foreign affairs agencies are headquartered in D.C. and most long-term training takes place at the Foreign Service Institute in Arlington, VA. Thus, the Washington, D.C. area is the "home station" of the Foreign Service. Most Foreign Service members buy property and pay mortgages there. Many become domiciled there and thus pay full state, district, or local taxes (income, property) even when serving overseas (overseas Foreign Service income is not excluded from federal, state, or district taxation). Many family members stay in the Washington, D.C. area when the Foreign Service employee is serving at an overseas post where family members are not allowed due to war zone conditions or terrorist threats (an increasingly common occurrence). So, throughout their careers, Foreign Service members rotate in and out of the Washington, D.C. area where most pay taxes and mortgage payments even when assigned overseas.

Q. What would be the effect of using the "Rest of U.S." locality pay rate to narrow the Foreign Service overseas pay disparity?

A. Using the "Rest of U.S." rate (currently 13.86 percent) instead of the Washington D.C. rate (currently 23.10 percent) would lock in the overseas pay disparity at a new lower rate that

would only grow over time. The gap between the two rates is currently 9.24 percent. Thus, were overseas junior and mid-level Foreign Service members paid now at the "Rest of U.S." rate, they would take a 9.24 percent cut in base pay when transferring abroad. Since the D.C. rate has historically risen faster than the "Rest of U.S." rate, that 9.24 percent gap would likely rise by one to two percent each year (it rose by 1.53 percent last year). Thus, within five years, the overseas pay gap could be back over 15 percent. Thus, using the "Rest of U.S." rate would only "kick the can" down the road and would not represent a permanent solution.

Q: If the overseas Foreign Service pay gap problem is so serious, why has Congress not fixed it already?

A: There is not a large constituency across America writing to lawmakers in support of the career Foreign Service. Nevertheless, as a result of persistent advocacy by AFSA and, more recently, by senior State Department officials, Congressional support to end the overseas pay gap has been building. On July 16, 2008, the AFSA-supported "Foreign Service Overseas Pay Equity Act of 2008" (H.R. 3202 which was originally offered by Rep. Chris Smith (R-NJ)) was approved by the House Foreign Affairs Committee (HFAC) on a voice vote with bi-partisan support and no opposition. The bill would give overseas junior and mid-level Foreign Service members that same comparability pay adjustment that is afforded to colleagues assigned to the District of Columbia. The bill proposes to close one-third of the pay gap in FY09, another third in October 2010, and the final third in October 2011. On September 23, 2008, the Senate Foreign Relations Committee (SFRC) passed an almost identical version of the House bill (assigned Senate bill number S. 3426 when offered by Senator John Kerry (D-MA)) on a voice vote with bi-partisan support and no opposition. Although the last Congress adjourned without moving the bill to final passage, these actions are a result of expanding awareness on Capitol Hill that the large and growing cut in base pay imposed on the junior and mid-level Foreign Service is a serious disincentive to recruitment, retention, and overseas service.

Q: Why not just continue to defer action on this issue?

A: Action on this serious unresolved problem is already 14 years overdue. Moreover, every year that action is delayed, the budgetary impact rises due to the fact that domestic locality pay rates are adjusted upward every January. As this "sticker shock" grows, those lawmakers who prefer military intervention over diplomatic engagement find an easy excuse not to support the Foreign Service on this issue. Also, delaying action keeps this issue near the top of the next Secretary of State's legislative agenda at a time when a large number of other issues will be calling for attention.

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