

General Schedule (current range with constant progression) [4]

NOTE: The content of this document has not been reviewed by legal counsel, nor does it represent a consensus view of the Design Team or indicate any kind of preference among options presented to the Senior Review Committee.

Summary Description:

This option would create a modified performance-based General Schedule (GS) system for Department of Homeland Security (DHS) employees currently under the GS. The GS 15-grade structure with 30% rate ranges would be retained; however, rate ranges would be “open” with steps eliminated. Annual adjustments equal to 1.75% of the minimum rate of the range would be provided to employees at an acceptable level of performance through the lower 80% of the range. Employees could advance into and through the top 20% of the range only if they receive the highest possible performance rating. At management’s discretion, employee may receive additional “quality performance increases” equal to 1, 2 or 3 times 1.75% of the minimum rate.

DHS employees would remain under the GS classification system (chapter 51) and the title 5 performance management law (chapter 43). However, DHS would require a performance appraisal with at least two levels for performance at an acceptable level or higher.

Key Features:

Coverage

This option is designed to cover all “white-collar” DHS employees who are now covered by chapter 53 of title 5.

- 15 grades with pay ranges of about 30 percent (same as GS).
- Open ranges with no fixed step rates.
- Annual within-grade increases equal to 1.75% of the minimum rate of the grade through the lower 80% of the range for employees at an acceptable level of performance. Employee could receive a 1.75% increase that advances employee into or through the top 20% of the range only when the employee’s rating of record is the highest possible performance rating.
- At management discretion, a high-performing employee could receive a “quality performance increase” equal to 1, 2, or 3 times 1.75% of the minimum rate of the grade in addition to the regular within-grade increase.
- All employees at an acceptable level of competence receive general increases equal to GS structural increase. Employees with a below-acceptable performance rating would receive a zero general increase.
- GS locality pay would apply. GS special rates would apply.
- Would apply title 5 provisions governing GS classification and performance management. (See sub-option below regarding modifying GS classification so that DHS has control over grades and qualifications for entry and developmental jobs.)
- The design of the pay system would not be subject to collective bargaining. System administration rules in DHS/OPM or DHS regulations would not be subject to collective bargaining.

Sub-Options:

- The DHS Secretary could direct TSA to adopt a system that is identical to this modified GS system.

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TSA would be subject to DHS headquarters control in administering the system.

- The DHS Secretary could direct EP&R (formerly FEMA) to adopt a system that is identical to this modified GS system for its Stafford Act employees, who are covered by an administrative pay setting authority. (Stafford Act employees with regular schedules are currently covered by a GS-similar system. Disaster Assistance Employees are currently covered under a separate pay system.)
- Modify the centralized GS classification system so that it controls grades for journey-level positions only. Allow DHS to establish grades and qualifications for entry and developmental levels. Also, DHS could establish fixed rates at various entry/developmental grades to be used in lieu of the regular pay progression provisions.
- Add a GS-16 grade for managers who do not belong in the Senior Executive Service (SES) but whose positions are determined to be classified above GS-15. The number of GS-16 positions may be limited. The GS-16 rate range would be established in joint DHS/OPM regulations (e.g., it might be a 30% rate range that exceeds the GS-15 rate range by 10%, with the Executive Level V cap still applicable, or it might be a 30% range whose maximum rate is 6% below the maximum SES rate).

Relation to Other Options:

- The General Schedule is a pay and classification system. It could work with almost any performance management option that provides for summary performance ratings (for the purpose of determining whether the employee's performance is acceptable or merits a "quality performance increase").
- This system could work with any labor relations, discipline and appeal system.

Implications: (This section contains "possible advantages/benefits" and "possible problems/challenges" and "other implications" suggested by design team members. The views expressed in these "implications" represent the opinions of one or more members of the design team and therefore reflect sometimes opposing points of view. These opinions do not reflect the collective judgment of the entire design team on any of the issues addressed, nor have they been reviewed by legal counsel.):

Possible Advantages/Benefits

- This option retains the 15-grade GS structure; thus, the transition to a new system should be less difficult and disruptive. The pay progression approach is relatively simple and should be easily understood.
- The provision to provide a general increase equal to the structural increase to all but below-acceptable performers will provide some reassurance to employees. Also, through the first 80% of the range, employees with an acceptable performance rating receive a significant annual pay increase.
- Places more emphasis on performance by providing management with authority to award quality performance increases to high performers in addition to the regular within-grade increase. Provides more options (1, 2, or 3 times 1.75%) compared to the 1-step Quality Step Increase under the GS system. Also, reserves the top 20% of the range for top performers, consistent with their higher value in the labor market (rather than allowing virtually all employees to progress to the top of the range based on time in grade). Together, these provisions could help promote a more performance-oriented culture in DHS. Making base pay more performance-sensitive could provide more equitable treatment of employees based on their contributions and a more strategic use of payroll dollars. Also, some employees could be more motivated to improve performance, which could lead to higher organizational performance. Poor performers would be held accountable through the loss of base pay adjustments. These possible benefits are based on the presumption that the system for evaluating employee performance is fair and reasonable.
- Since the system uses GS rate ranges and locality pay, it should not create intragovernmental

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competition problems. (If the GS system is reformed--e.g, to provide more occupation-sensitive locality pay, the DHS modified GS system would be changed in tandem with the GS changes.)

- Provides all base pay increases at a single point in time each year, which makes the increases more significant and perhaps more appreciated.
- Controls payroll costs by having a set annual within-grade increase percentage. Costs for quality performance increases can be controlled by having DHS establish a set fund or pool (% of payroll). Such a fund could also be used as an accountability mechanism to help ensure that components actually set aside and use funds targeted for quality performance increases.
- Supports internal equity through the classification system, while also providing more emphasis on individual equity based on performance, consistent with the merit principle of equal pay for work of substantially equal value.
- Limiting appeals regarding pay adjustments to internal mechanisms could provide speedier resolution and would ensure that decisions are made by officials who are close to the work and who are accountable for accomplishing the agency mission, while still providing due process. Some believe that management officials are more likely to make pay decisions based on mission-based factors than a third party.

Possible Problems/Challenges

- May not place enough emphasis on market (external) equity. The core GS system is not sensitive to the labor market for specific occupations. In a given location, the same locality pay percentage applies to all employees regardless of grade or occupation. Use of special rates authority is more cumbersome than a change to the core system that allows occupation-sensitive pay ranges.
- If this system results in employees receiving less compensation than they would have received under the General Schedule, it may lessen acceptance of the system.
- Giving DHS authority to determine the amount of funds to be used for quality performance increases may raise the risk that the program will be inadequately funded when budgets are tight.
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation. These concerns could be addressed, in part, by ensuring that individual performance measures take into account an employee's support of and contributions to team efforts.
- Some employees may hit the maximum rate of the grade sooner than they would have under the GS. Motivating capped employees may be a problem (but could be addressed by bonuses).
- May not place enough emphasis on individual equity (i.e., performance). Almost all employees receive the annual across-the-board GS increase regardless of performance or contribution to agency mission. Also, regular progression through the rate range for a grade is based almost exclusively on longevity through most of the rate range. Use of quality performance increases may be affected by budget constraints.
- Maintenance of GS classification system with so many categories and levels of work requires considerable resources, which generally are not provided. (See major sub-option above that would limit centralized classification control to journey level and higher grades.)
- Some DHS components currently use a pass-fail appraisal system and would be required to develop new systems that provide at least two positive ratings. Administering such a system would place an additional burden on supervisors in such components.
- Some believe that not providing external appeal rights to an independent third party could reduce management accountability and may lessen acceptance of the system.

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- Some believe that not allowing collective bargaining over system design would be contrary to the intent of the Homeland Security Act and lessen employee acceptance of the system.
- Some believe that making distinctions among individual employees based on performance could result in competition between employees and lessen incentive for teamwork and cooperation or that distinctions based on individual performance are not possible in some positions given the mission and nature of the work.
- Unless the current labor relations system is modified, a DHS independent pay system, including the rates of pay, would be subject to collective bargaining.

Other Implications

- Unless the current labor relations system is modified, some aspects of a DHS pay system would be subject to collective bargaining.
- In order to implement this system effectively, a strong and well-managed performance management system is required. Employees will not only be concerned that the system be fair in its design, they will also be concerned about its application by supervisors and managers. Employee perceptions of the program will be colored by the degree of confidence they have that management officials will evaluate employees fairly and objectively and will also be fair in giving employees equal opportunity to show high performance (e.g., through work assignments).
- Requires training and education regarding the new system.

Cost

- Transition of employees to the system would require “buying out” employees for accrued time toward their next step increase, in order to promote employee acceptance of the new system.
- Can be cost neutral relative to the GS system. Costs depend on how many employees in the upper range receive the top performance rating and how many quality performance increases are granted. Since the costs associated with the current GS system depend, in part, on the extent to which quality step increases are granted at management discretion, cost comparisons should consider the fact that DHS could choose to be more generous in awarding quality step increases if it remained under the GS system.

Evaluation in Terms of Guiding/Design Principles:

Mission Centered

This option places greater emphasis on individual performance than the current GS system. It could help create a more performance-oriented organizational culture where poor performers are held accountable and top performers are recognized and rewarded, consistent with their contributions to mission accomplishment. This could lead to improved organizational performance. Payroll dollars could be allocated more strategically based on individual contributions to mission accomplishment. This option could help retain higher-level performers and increase their motivation.

By retaining the GS grade structure and locality pay, this option does not address a perceived weakness in the GS system of not being sufficiently sensitive to occupational differences in the labor market, which could have mission implications (in terms of strategic use of limited payroll dollars and the quality of workforce). However, to provide DHS with different pay ranges than the rest of the GS workforce would have mission implications for other agencies, which could lose employees to DHS.

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Performance Focused

This option requires distinctions to be made among employees with acceptable or higher performance. Larger base pay adjustments will be provided to higher performers. Poor performers would be held accountable through the loss of base pay adjustments.

Contemporary and Excellent

The ability to give larger pay increases to top performers could help DHS retain those employees and maintain a quality workforce. Pay progression based on individual performance is also common in many successful private sector companies. On the other hand, the excellence of this system ultimately will hinge on the strength and credibility of the performance management program.

Generate Trust and Respect

To the extent this option produces a system that values and rewards performance in an understandable, rational, and fair way, it will be respected by employees. Supervisors and managers have a key role in explaining the system, communicating clear expectations, providing feedback, and in fairly appraising individual performance. Most employees will support a system that allocates pay based on performance if they believe the system is reasonable in its design and fairly applied, without personal bias or favoritism. Again, the success of this system depends on the strength and credibility of the performance management program. Also, management must provide training so that supervisors have the resources and skills needed to properly administer this system, and so that employee perceptions are based on accurate information. Finally, it is essential that employees have an opportunity to give feedback on operation of the performance management system so that weaknesses or misperceptions can be corrected.

Based on Merit System Principles and Fairness

This option is built upon a classification framework that continues to provide for internal equity based on work level. Employees are still protected by title 5 merit system principles and bars against prohibited practices. One merit system principle provides that employees should receive equal pay for work of equal value with consideration of labor market rates and with appropriate incentives for excellence in performance. In comparison to the GS system, which primarily focuses on internal equity, this option places more emphasis on individual equity (based on individual performance). Once again, the fairness of the pay and classification rests on the credibility and fairness of the underlying performance management system.

Transition & Implementation:

Transition and implementation tasks would include ensuring that performance management systems are in place that can support the pay-related distinctions that will be made.

Detailed Description By System Component and System Element

B		Base Pay System
System elements:		Summary description:
1	Structure of pay ranges	<ul style="list-style-type: none"> • Same as GS system under title 5. <p style="margin-left: 20px;"><i>Sub-option:</i> Revise the special basic pay ranges for law enforcement officers (LEOs) at grades GS-3 through 10 so that all the LEO special pay ranges extend to a</p>

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		maximum rate that is 30% above the current minimum rate.
2	Adjustment of pay ranges	<ul style="list-style-type: none"> • Same as GS system under title 5.
3	Pay progression methodology	<ul style="list-style-type: none"> • Open ranges with no fixed step rates. • All employees at an acceptable level of competence receive a general increase equal to GS structural increase. Employees with a below-acceptable performance rating would receive a zero general increase. <ul style="list-style-type: none"> <i>Sub-option:</i> Allow a below-acceptable performer's unadjusted basic pay to be reduced at the time of the general increase as long as the employee's adjusted basic pay (including any locality payment or staffing supplement) is not reduced. In other words, this would allow DHS to prevent a below-acceptable employee from receiving a pay increase through the application of higher locality pay or staffing supplements. <i>Sub-option:</i> Allow managers discretion to give a below-acceptable performer one-half of the general increase instead of a zero increase. (For example, an employee who has never before been rated as below acceptable could be given a half increase, while an employee who has been rated below acceptable within the last 3 years could be given a zero increase.) • A below-acceptable performer who is denied a general increase will be given a 12-week opportunity to bring his/her performance up to an acceptable level. The 12-week evaluation period would begin on the effective date of the general increase. After the 12-week period, the employee's performance would be reappraised (if the employee is still on board). If performance remains at the below-acceptable level, the denial of the general increase will remain in effect for the remainder of the year. The supervisor will continue to take appropriate action to deal with the performance problem. If the performance is appraised to be at an acceptable level or higher, the employee would receive the general increase effective on the first day of the first pay period beginning immediately after the 12-week evaluation period. However, the general increase would be paid on a conditional basis for the remainder of the year. The general increase must be permanently removed if the employee's performance again is determined to be below acceptable during that same year. • Employees at an acceptable level of performance would receive annual within-grade increases equal to 1.75% of the minimum rate of the grade through the lower 80% of the range. (See attachment regarding use of 1.75% factor.) (Note: The 80% point in the range is slightly above the GS step 7 rate.) Employees could receive a 1.75% increase that advances employee into or through the top 20% of the range only when the employee's rating of record is the highest possible performance rating. Annual increases would take effect at the same time as general increases (i.e., first pay period in January) but would be applied after the general increase (i.e., based on the minimum basic rates in effect after the general increase). <ul style="list-style-type: none"> <i>Sub-option:</i> Provide that employees with an acceptable performance rating other than the top rating may move into and through the top 20% of the range but that annual within-grade increases would be 1% of the minimum rate of the grade, which is approximately the average annualized value of a step under the GS system in the top steps where a 3-year waiting period applies. (This sub-option could be limited to current employees as a grandfathered group for a designated period—e.g., 3 years.) <i>Sub-option:</i> For employees who cannot receive a full 1.75% increase because they reach the rate range maximum rate, provide a lump-sum bonus equal to the unpaid portion of the 1.75% increase.

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		<ul style="list-style-type: none"> At management discretion, a high-performing employee could receive a “quality performance increase” equal to 1, 2, or 3 times 1.75% of the minimum rate of the grade in addition to the regular within-grade increase. Quality performance increases would take effect at the same time as the regular within-grade increases. DHS could establish special funds or pools to ensure that quality performance increases are used and to control costs. DHS would decide the criteria for awarding these increases. DHS could have special criteria for newly hired or promoted employees in the lower part of the range to recognize rapid acquisition of desired competencies. <i>Suboption:</i> Allow quality performance increases to take effect at any point during the year as long as the total number of multiples applied to the 1.75% factor is no more than 3. For example, if an employee received a quality performance increase equal to 1 x 1.75% in January, then he or she could receive 2 x 1.75% later in the same year. [Issues: An intervening promotion would affect the value of the 1.75% increase; thus, timing becomes a concern. Spreading out the increases may reduce the impact of the full increase. Cost control may be more difficult.]
4	Pay administration rules	<ul style="list-style-type: none"> <i>New Hire.</i> Same as GS system under title 5 (i.e., minimum step unless agency uses the “superior qualifications” authority based on the unusually high or unique qualifications of the new employee or on a special need of the Government for the employee’s services). <i>Promotion.</i> The employee’s post-promotion rate would be the higher of (1) the minimum rate of the new grade or (2) the rate resulting from increasing the current rate by an amount equal to 7% (4 x 1.75%) of the minimum rate of the current grade. (This is similar to the GS system which provides a two-step promotion increase of approximately 6.7% of the minimum rate; however, under the GS system, the increased rate must be slotted into a step rate for the higher grade, resulting in an additional increase.) DHS/OPM regulations may address situations where the 7% promotion rule would not apply—e.g., employees who are being promoted to a grade they recently held. <i>Geographic Movement.</i> Same as GS system under title 5 (i.e., locality payment may be increased or decreased). <i>Use of Past Rates.</i> Same as GS system under title 5 (i.e., discretionary use of highest previous rate). <i>Pay Reduction.</i> Same as GS system under title 5 (i.e., no within-grade pay reductions). As under the GS system, locality pay and special rates may be reduced. An employee’s pay could be reduced if he/she is reduced in grade level. <i>Sub-option:</i> Allow for reductions in unadjusted basic pay for below-acceptable performers in conjunction with general and locality pay increases, as long as employee’s adjusted basic pay is not reduced. <i>Pay Retention.</i> Same grade and pay retention as under title 5, except that special rates would not be basic pay for pay retention purposes except as specified in DHS/OPM regulations. (An employee who moves to a noncovered position—e.g., position change or geographic move—would not be eligible to retain a special rate designed for a particular category of positions. Pay retention would apply if a special rate schedule is reduced or terminated.) <i>Sub-option:</i> Eliminate 2-year grade retention. Provide pay retention as described above. (Variation: Could modify pay retention to provide for retained rate adjustment

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		<p>equal to 100% of change in maximum rate of grade for 2-year period, instead of the regular 50% adjustment.)</p> <ul style="list-style-type: none"> • <i>Conversion to New System.</i> Employees on board at the time the new system is established who have accrued service toward a within-grade increase would receive the prorated value of the within-grade increase as a base pay adjustment at the time of conversion, as long as their performance is currently at an acceptable level. If the period of time between conversion and the effective date of the first within-grade increases under the new system is less than 1 year, the first within-grade increases (including any quality performance increases) would be prorated accordingly.
5	Managerial compensation	<ul style="list-style-type: none"> • Same as GS system under title 5 (i.e., supervisors and managers are covered under the same pay system and rules as other employees unless their position is classified above the GS). (See major sub-option regarding possible GS-16 grade.)
6	Appeals	<ul style="list-style-type: none"> • Employees may appeal internally the denial of a regular within-grade increase (within the lower 80% of the range, unless the sub-option to provide a regular 1% within-grade increase within the upper 20% of the range is adopted).. <i>Sub-option:</i> Employees may appeal externally the denial of a regular within-grade increase. • No appeal rights regarding quality performance increases (i.e., same as GS quality step increases).
7	Evaluation	<ul style="list-style-type: none"> • Collect data on salary costs, average salaries, distribution of pay increases, etc. • Use employee surveys to collect information on employee views on fairness of the base pay system.
8	Other compensation	<ul style="list-style-type: none"> • Bonus money would be funded at a fixed percentage of base payroll (e.g., 2%) but DHS could withhold bonuses from low-performing organizations or approve additional bonus money for high-performing organizations. DHS may establish controls or guidelines that relate to bonus distribution to individual employees.

Derivation of 1.75% Factor

Under the General Schedule, there are 10 steps in each grade. The value of a step for any grade is a fixed dollar amount equal to approximately 3.33% of the minimum (step 1) rate. Since there are 9 steps between step 1 and step 10, a step increment of 3.33% of step 1 produces a rate range of about 30% ($9 \times 3.33\% = 30\%$).

Under the General Schedule, regular step increases depend on the applicable waiting period. Advancement to steps 2, 3, and 4 are subject to a 1-year waiting period. Advancement to steps 5, 6, and 7 require a 2-year waiting period. Advancement to steps 8, 9, and 10 require a 3-year waiting period. Thus, for an employee who starts at step 1, it takes a total of 18 years to advance to step 10, unless the employee receives one or more quality step increases. For employees in a 2-year waiting period, the annualized value of a step increase is about 1.67% ($3.33\% \div 2$). For employees in a 3-year waiting period, the annualized value of a step increase is about 1.11% ($3.33\% \div 3$). Thus, for an employee progressing through steps 1 to 10, the average annualized value of a regular step increase is 1.67% (30% divided by 18 years).

This option provides for annual within-grade increases. Thus, we chose to round 1.67% to 1.75% (nearest quarter of a percent) to establish the regular annual within-grade increase amount. The 1.75% factor is applied to the minimum rate of the grade so that the regular within-grade increase for any grade is a fixed dollar amount, just as under the General Schedule.

The GS system provides larger increases and higher pay rates in the early years, which theoretically provides higher total cumulative pay over the period of movement through the range (even though the 1.75% factor provides for more rapid progression and higher pay rates in the later years). This advantage is not reflected in a straight average of within-grade increases; however, this advantage is based on the presumption that all employees start at step 1. In fact, available data indicates that about 40% of GS employees who are newly hired or newly promoted start above step 1. Also, under this option, DHS would have the ability to provide additional "quality performance increase" to good performers. Thus, DHS could ensure that good performers advance more quickly in the early years. Furthermore, the option provides that DHS may establish special performance criteria for awarding "quality performance increases" to employees who are recently hired or promoted.