

Broad Banded Performance Pay System (share system) [6]

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 provide for a DHS broadbanding pay structure with pay ranges for each job family that would be set by DHS based on labor market data, mission requirements, budget limitations, and other relevant factors. Pay bands for each job family would be set using a common substructure of 40% base pay ranges to provide some stability and to facilitate comparisons across job families. Those 40% “primary” ranges could be combined to produce broader pay bands for a job family. Progression through the band range would be based on performance using a fixed pay pool and a share formula. Performance management programs would be developed in a decentralized way so that they could be tailored to specific occupations or work conditions. However, performance-based pay would be administered within a centrally designed framework that allows for choice among a range of payment options.

Key Features:

Coverage

The DHS broadbanding system would cover DHS employees currently covered by the General Schedule (GS) classification and pay system and any DHS employees that might be covered by the SL/ST system in the future. (Currently, DHS has no SL/ST employees paid under 5 U.S.C. 5376.)

- DHS would group occupations into job families (e.g., 10-20) based on occupational similarities and labor market factors.
- For each job family, DHS would determine levels of work and appropriate bands (consisting of 1 or more 40% “primary” ranges), based on labor market data, mission requirements, budget limitations, and other appropriate factors. Generally, there would be three nonsupervisory bands for any job family—entry/developmental level, journey level, and expert level.
- The substructure of 40% primary base pay ranges would be built using the current GS rate ranges as a starting point, so that if current pay levels are appropriate for a category of employees, current salaries can easily be accommodated within a band. The substructure would consist of 20 “primary” ranges (A-T) with 9-10% between each primary range. These primary ranges would be building blocks for constructing job family bands. (For example, combining two adjacent 40% primary ranges with a 10% inter-range differential produces a band with a 54% range.) The substructure of primary ranges would be adjusted by the same percentage as the GS structural adjustment.
- DHS would determine locality adjustment factors that are applied to increase the band ranges for each job family in any given location, based on labor market data and other factors. Different locality adjustment factors could apply to different job families as appropriate. DHS would use the current GS locality payment percentages as a starting point (to facilitate conversion) but would adjust those percentages over time to phase in more market- and occupational-sensitive pay. Since the band ranges are based on primary ranges that are adjusted by the same percentage as the GS, the band ranges would increase by at least the amount of the GS increase, unless the locality pay factors for a job family are reduced. Locality pay factors may not be reduced to the extent that they would cause the band minimum and maximum rates to be reduced—after taking into account the GS-based increase.
- There would be no separate locality payment as part of employee salaries. GS locality-adjusted rates would be converted to straight salary rates under the new system. However, upon geographic movement, an employee’s salary would be adjusted upward or downward (based on the locality adjustment factors applicable to the employee’s job family and band). Locality adjustment funds would

Broad Banded Performance Pay System (share system) [6]

be placed in the pay-for-performance pool.

- If GS special salary rates cannot be accommodated within the applicable band, the band would be extended for employees in the special rate category. DHS may establish new band extensions as necessary to address temporary staffing problems. (If staffing problems appear to be of a permanent nature, DHS can adjust a given band to be linked to a higher primary range.)
- Band range (structural) adjustments would be delinked from general increases to employee salaries. DHS would determine the general increase policy. (See Table B, section 3.)
- Individual pay increases in addition to the general increase would be based on individual performance. Performance pay increases would be determined using a share formula that distributes the finite funds in a pay pool based on the shares assigned to different levels of performance.
- DHS would prescribe a limited number of performance rating patterns and share allocation patterns that components could use. At least three performance levels would be required (no pass-fail). There would be only one “negative” rating—i.e., below acceptable or below expectations.
- Employees could appeal reductions in band or denial of the general increase, but appeals would be handled within DHS. (See sub-options for external appeal rights in Detailed Description section.)
- 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 the DHS broadbanding system. TSA would be subject to DHS headquarters control in administering the system in the same manner as other DHS components are subject to DHS headquarters.
- The DHS Secretary could direct EP&R (formerly FEMA) to adopt a system that is identical to the DHS broadbanding 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.)

Relation to Other Options:

- This option covers the pay, classification and performance management systems.
- It 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

- While this option provides for dramatic changes, those changes provide the flexibility to respond to mission-based needs and requirements. DHS would be in a position to expend salary dollars more strategically based on labor market factors or other appropriate considerations, rather than based on rigid one-size-fits all rules. DHS will have the flexibility to make tailored band range adjustments for specific bands in specific job families. This could help keep pay competitive with the external labor market in a targeted way. Since individual employees' salaries would not be automatically increased in tandem with band range adjustments, much of the benefits of higher band ranges would be directed toward higher performers.

Broad Banded Performance Pay System (share system) [6]

- Provides a common structure for both the pay system and the performance management system. The common substructure of “primary” ranges should provide reasonable alignment to market rates while providing a universal structure that provides a common frame of reference across job families. Such an approach should provide greater stability since it limits efforts to seek undue precision in an area where precision is not practical. The common framework for the DHS performance management system supports a common culture and provides a mechanism for DHS headquarters to keep components accountable. At the same time, it provides considerable flexibility for DHS components to design performance management programs tailored to the given workforce and work conditions.
- Could help promote a more performance-oriented culture in DHS. Linking base pay to performance may help the entire workforce focus on performance issues and encourage communication regarding individual and organizational performance. Base pay will be more performance-sensitive, which could provide more equitable treatment of employees based on their contributions and a more strategic use of payroll dollars (assuming the system for evaluating employee performance is fair and reasonable). 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.
- Pay for top performers would be more competitive in the labor market.
- A broadbanded pay structure with a limited number of job families can simplify the classification system, provide more flexibility in work design and career paths (job mobility, dual career tracks, etc.), support efforts to flatten the organizational hierarchy, and allow pay progression to be based more on performance and contributions.
- Greater flexibility in pay administration (e.g., pay setting for new hires, promotion rules) would allow managers to make decisions based on mission requirements, rather than rigid rules.
- Can provide all base pay increases at a single point in time each year, which makes the increases more significant and perhaps more appreciated.
- Provides mechanisms to manage payroll costs (e.g., pay pool, share formula) without resorting to forced distribution of performance ratings. One view is that a share formula is a fair way to distribute limited funds since it allows all employees to get the rating to which they are entitled but adjusts the base pay increase to reflect the distribution of ratings. While the amount of the increase for any performance category is not certain, the relationship among performance categories is certain; thus, employees know that a significant performance differential is available. Under a local pay pool/share formula approach, salary increase funds for different organizations would not be distorted by differences in rating distributions. Each pool has the same percentage of payroll allocation, and salary increases are distributed based on individual performance. Final ratings are approved by a pay pool committee of managers in an effort to ensure that all employees within the pay pool are treated as equally as possible.
- While the raising of base pay ranges by roughly 5% may have some long-term cost implications, those costs will not appear immediately since the option allows for changes to be made in a phased manner over time. For example, initially, the system will use GS locality pay factors but then can provide different adjustments to meet targeted needs over time. Also, DHS is in a position to make pay decisions that will produce offsetting savings (e.g., by providing lesser locality pay increases to ranges that are already competitive).
- 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

Broad Banded Performance Pay System (share system) [6]

a third party.

- This option could be viewed as a model for other Federal agencies to follow. Concerns about intra-Government competition could be alleviated by moving all agencies to a similar system and giving OPM or an interagency group some control over assignment of primary ranges to job family bands.

Possible Problems/Challenges

- Making pay more performance sensitive may concern employees who value the stable, predictable nature of GS pay increases. DHS discretion to determine the amount of any annual increase may lessen acceptance of the system.
- Giving DHS authority to determine the size of the pay pools may raise the risk that the program will be inadequately funded when budgets are tight.
- Transitioning to a labor market-based broadbanding system could be a difficult administrative challenge and may be disruptive and cause attention and resources to be diverted from core mission responsibilities.
- The computation of the annual performance-based pay adjustment is more complex than some other approaches. This complexity may could lessen employee understanding and acceptance.
- For some types of jobs, it may be difficult to make distinctions in individual performance because of the nature of the work or the degree of interdependence. (Note: The share formula approach allows the flexibility to give almost all employees the same rating, if that is appropriate.)
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation. (However, unlike forced distribution approaches, a share formula approach does not prescribe limits on the number of employees who may receive a given rating, thus employees are not competing over a performance rating slot. Also, this concern could be addressed, in part, by ensuring that individual performance measures take into account an employee's support of and contributions to team efforts.)
- 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.
- Depending on the pay pool size, if a significant number of employees receive the top performance rating, employees in the lowest positive rating category may receive pay increases that are significantly less than what they received under the GS system. (Recent Governmentwide data (for 2001) show that in agencies using the most common rating pattern (5 levels with 3 positive levels), about 43% of employees were rated at the top (outstanding) level.)
- Employees who are in the high steps of GS grades (with 3-year waiting periods for step advancement) may generally experience faster pay progression than they would have under the GS. Some employees may hit the maximum band rate sooner than they would have under the GS.
- The grouping of jobs into job families, each with a common banding structure, means that some jobs will have a higher pay potential than they would have under the GS. This has long-term cost implications, even if there are pay pool controls. This could give DHS a competitive advantage over other agencies in some instances.
- The proposed "primary ranges" increase pay potential generally (by roughly 5% on average), which could have long-term cost implications. However, the mission-related benefits (e.g., more competitive pay) could be viewed as outweighing the costs.
- DHS could have a competitive advantage over other Federal agencies as it uses its flexibility to increase pay for various categories of employees over time. Other agencies could lose employees to DHS.

Broad Banded Performance Pay System (share system) [6]

- Since pay levels would be higher, more criminal investigators would likely hit the premium pay cap as 25% availability pay is added on top of the higher base rate. Raising the premium pay cap would require legislation and could create increased pay compression vis-à-vis Senior Executive Service and Executive Schedule officials.
- The grouping of job into job families, and the creation of pay bands, will require a considerable amount of work. The lack of any mechanism for employee or union involvement in this effort may raise concerns about accountability for these determinations and may cause employees to question the legitimacy of the job family groupings and banding levels.
- Determining labor market rates to establish the pay structure and occupational groupings may be difficult, particularly for occupations that may have few matches in available salary survey data or where DHS dominates the market for a particular occupation.
- The use of a share formula to allocate base pay increases based on performance may be criticized as not providing certainty with respect to the amount of the increase for any performance category, since the increase amounts will depend on the distribution of ratings. Also, a share approach means that employees in the different pay pools who have the same rating can get different pay increases based on differences in distribution, unless pay pools are somehow aggregated before determining pay increase amounts. However, such an aggregation would mean that pay pools with lower rating distributions would end up getting less total salary increase funds than others, which could also be viewed as unfair since it would provide more funds to organizations that are more generous in assigning ratings. Thus, an aggregation approach could encourage rating inflation.
- 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. In systems that already have multiple positive ratings as part of the appraisal system, connecting the appraisal to base pay adjustments may generate more complaints and thus impose additional administrative burdens.
- Current employees who are in a career ladder and who have not yet reached the journey level could be adversely affected when converted to the new system, as they may not receive the significant pay increases that they would have received when promoted under the General Schedule. In addition, new hires with similar skills or qualifications could be brought in at higher salaries within the pay band. These factors may adversely affect retention of current employees in career ladder positions.
- Some believe that pay for 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.
- 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 not providing external appeal rights to an independent third party could reduce management accountability and may lessen acceptance of the system. (See sub-option in Table B, section 6, which would allow external appeal when an employee is denied any base pay adjustment due to below-acceptable performance.)

Other Implications

- Unless the current labor relations system is modified, a DHS independent pay system, including rates of pay, 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, managers, and pay pool committees. Employee

Broad Banded Performance Pay System (share system) [6]

perceptions of the program will be colored by the degree of confidence they have that management officials will rate 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

- Actual costs depend on (1) how jobs are grouped into families, (2) how primary ranges are assigned to job family bands, (3) the amounts authorized for pay pools, and (4) the controls DHS might establish to limit pay progression in the upper portion of a band. 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.
- In particular, raising pay potential through the proposed general increase in range maximums, or by placing occupations in job families with higher pay potential, could have long-term cost implications unless DHS manages the system to produce offsetting cost savings.
- 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. However, those costs are limited if there is a full year between the buyout (upon conversion to the new system) and the first pay pool payouts under the system.
- There will be transition-related administrative costs associated with training and communications.

Evaluation in Terms of Guiding/Design Principles:

Mission Centered

This option places greater emphasis on individual performance, which may help improve organizational performance. It would 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. The strategic allocation of limited payroll dollars based on individual performance may help retain higher-level performers and increase their motivation. DHS would have a great amount of flexibility to design the performance program and to tailor goals, standards, etc. to the specific mission of each category of employee.

The option also allows DHS to make pay more competitive where needed, which could help DHS attract and retain better employees. On the other hand, this could have negative implications for the missions of other Federal agencies that might lose employees to DHS.

Performance Focused

This option requires distinctions to be made among employees with acceptable or higher performance. Larger base pay adjustments will be provided to the top performers. Poor performers would be held accountable through the loss of base pay adjustments. The broader pay ranges will provide higher pay potential for many employees, which can be realized through high performance. There is a risk that a poorly designed or managed performance management system could harm morale, motivation, and performance. Also, to the extent that employees who are doing an acceptable job meeting all performance standards receive lower pay increases than under the current system, those employees may be demotivated.

Broad Banded Performance Pay System (share system) [6]

Contemporary and Excellent

The ability to give larger pay increases to top performers could help DHS retain those employees. The system will provide more flexibility than the GS system in setting and adjusting pay. Setting pay ranges based on occupation-specific market data is consistent with contemporary HR practices in the private sector, as is having broader pay bands with open ranges. Pay progression based on individual performance is 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 the system operation so that weaknesses or misperceptions can be corrected.

DHS flexibility in setting and adjusting pay ranges and employees' rates may raise trust issues with employees who feel they are not being treated fairly compared to other categories of employees. DHS must be able to provide rational explanations to support its decisions.

Based on Merit System Principles and Fairness

Within any job family, employees are placed in a band based on standardized criteria. 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) and on market equity. Once again, the fairness of the pay system rests on the credibility and fairness of the underlying performance management system. Any limitation of employee appeal rights may be perceived by some as reducing management accountability for performance and pay determinations, and may lead to negative employee perceptions about the credibility and fairness of these determinations.

Employees may raise fairness concerns when employees in different job families receive different pay increases. However, even in the GS system, we have provisions for higher and varying special rates for different job categories based on market and staffing considerations. Again, DHS must be able to provide rational explanations to support its pay decisions.

Transition & Implementation:

Transition and implementation tasks would include developing job family categories, assigning of primary ranges to job family bands, developing a salary survey program, developing a performance management system with employee input, developing computer programs to support the share formula methodology, etc.

Broad Banded Performance Pay System (share system) [6]

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"> • DHS would group occupations into job families (e.g., 10-20) based on occupational similarities and labor market factors. All occupations in a job family would share the same banding structure. • For each job family, DHS would determine levels of work and appropriate bands (consisting of 1 or more 40% “primary” ranges), based on labor market data, mission requirements, budget limitations, and other appropriate factors. Generally, there would be three nonsupervisory bands for any job family—entry/developmental level, journey level, and expert level. • The substructure of 40% primary base pay ranges would be built using the current GS rate ranges as a starting point, so that if current pay levels are appropriate for a category of employees, current salaries can easily be accommodated within a band. The substructure would consist of 20 “primary” ranges (A-T) with 9-10% between each primary range. These primary ranges would be building blocks for constructing job family bands. (For example, combining two adjacent 40% primary ranges with a 10% inter-range differential produces a band with a 54% range.) • An example of a possible DHS substructure of primary ranges is shown below. This structure is a mathematical construct consisting of 40% ranges with a constant 10% between ranges A-J and constant 9% between ranges J-T. The current GS-11 range was used as the starting point for construction. The GS-11 minimum rate was reduced by 2.5% and the maximum rate was increased by 5% to increase the range from 30% to 40%. The 10% and 9% inter-range differentials were then applied to construct the rest of the schedule. Compared to GS maximum rates, most of the corresponding DHS primary range maximums would be 4-6% higher. The substructure adds ranges between GS grades 11-15 to allow for closer fits to the labor market, where appropriate. Since the inter-range differentials are only 9-10% across the substructure, the ranges should provide reasonable alignment to market rates while providing a universal structure that provides a common frame of reference across job families and greater stability.

Broad Banded Performance Pay System (share system) [6]

Comparison of General Schedule to Possible DHS Primary Ranges					
2003 General Schedule Minimum and Maximum Rates (excluding locality pay)			Possible DHS Substructure of 40% Primary Ranges with 10% Inter-Range Differential for A-J and 9% Inter-Range Differential for J-T		
GS Grade	Step 1	Step 10	Primary Range	Minimum	Maximum
GS-2	17,106	21,527	A	17,771	24,880
GS-3	18,664	24,262	B	19,548	27,368
GS-4	20,952	27,234	C	21,503	30,105
GS-5	23,442	30,471	D	23,653	33,115
GS-6	26,130	33,969	E	26,018	36,427
GS-7	29,037	37,749	F	28,620	40,070
GS-8	32,158	41,806	G	31,482	44,077
GS-9	35,519	46,175	H	34,630	48,485
GS-10	39,115	50,851	I	38,093	53,334
GS-11	42,976	55,873	J	41,902	58,667
			K	45,673	63,947
GS-12	51,508	66,961	L	49,784	69,702
			M	54,265	75,975
GS-13	61,251	79,629	N	59,149	82,813
			O	64,472	90,266
GS-14	72,381	94,098	P	70,274	98,390
			Q	76,599	107,245
GS-15	85,140	110,682	R	83,493	116,897
			S	91,007	127,418
SL/ST	102,168	134,000*	T	99,198	134,000*

- Base pay would be capped at Executive Schedule Level IV (\$134,000 in 2003). Thus, the T band would not necessarily provide a 40% range.
Sub-option: Do not cover SL/ST. Establish primary range R or S as the top range.
- The bands for a job family would consist of 1 or more primary ranges. For example, a job family might have three nonsupervisory bands: entry-developmental level: F-J, journey level: L-N, expert level: P-Q.
- Employees receiving law enforcement officer (LEO) special rates at grades GS-3 through GS-10 would be incorporated with the same banding system as non-LEOs. GS LEOs at grades 3-10 could be placed in bands consistent with their current pay levels. For example, using the rates shown in the above table, LEOs at GS-5 (\$28,909-\$35,938) could be covered by a band corresponding to the primary range E (\$26,081-\$36,427) and LEOs at GS-7 and 8 (\$32,909-\$43,950) could be covered by a band corresponding to the primary range G (\$31,482-\$44,077). DHS could include non-LEOs with significant law enforcement duties in similar band ranges, based on its analysis of labor market data, mission requirements, and other factors.
- DHS would determine locality adjustment factors that are applied to increase the band ranges for each job family in any given location, based on labor market data and other relevant factors. Different locality adjustment factors could apply to different job families as appropriate. DHS would use the current GS locality payment percentages as a starting point (to facilitate conversion) but would adjust those percentages over time to phase in more market- and occupational-sensitive pay.
Sub-option: Require that DHS use the same locality adjustment factor for all job families in a given geographic location. These adjustments could vary from GS

Broad Banded Performance Pay System (share system) [6]

		<p>locality adjustments. DHS could address nationwide pay problem specific to a job family by assigning higher primary ranges to the job family bands. Or it could address nationwide or local staffing problems by using “special band extensions.” (See below.)</p> <ul style="list-style-type: none"> • The locality-adjusted band ranges could not exceed Executive Schedule Level III (\$142,500 in 2003). <i>Sub-option:</i> Allow DHS to set band ranges up to Executive Schedule Level II (\$154,700 in 2003) for specified locations (e.g., San Francisco, New York, Los Angeles). • There would be no separate locality payment as part of employee salaries. GS locality-adjusted rates would be converted to straight salary rates under the new system. However, upon geographic movement, an employee’s salary would be adjusted upward or downward (based on the locality adjustment factors applicable to the employee’s job family and band). Among other things, this would allow DHS to prevent below-acceptable performers from automatically receiving locality adjustments. • If GS special salary rates cannot be accommodated within the applicable band, the band would be extended for employees in the special rate category—i.e., a “special band extension.” DHS may establish new special band extensions for specific categories of positions as necessary to address temporary staffing problems. (If staffing problems appear to be of a permanent nature and are nationwide, DHS can adjust a given band to be linked to a higher primary range.) Temporary staffing problems could also be addressed using retention allowances, which are not basic pay.
2	Adjustment of pay ranges	<ul style="list-style-type: none"> • The substructure of primary ranges would be adjusted at the same time and by the same percentage as the GS structural adjustment. • Band ranges would be adjusted to reflect the combined effect of the GS structural adjustment and any change in the applicable locality pay factor. Since the band ranges are based on primary ranges that are adjusted by the same percentage as the GS, the band ranges would increase by at least the amount of the GS increase, unless the locality pay factors for a job family are reduced. • DHS would determine the appropriate adjustment in the locality pay factors used to establish the band ranges for each job family in a given geographic area. While DHS would use the current GS locality payment percentages as a starting point (to facilitate conversion), future adjustments would not be linked to GS locality pay adjustments. DHS would adjust locality pay factors to make band ranges more market- and occupational-sensitive over time. Locality pay factors may not be reduced to the extent that they would cause a band’s minimum and maximum rates to be reduced—after taking into account a simultaneous GS-based structural increase. <i>Sub-option:</i> Do not allow DHS to reduce the locality pay factors in effect at the time the system is established. Guarantee that all employees—except below acceptable performers—receive same percentage adjustment as the GS general increase (but not the locality adjustment). DHS could still freeze locality pay factor for a particular job family band and not apply future GS locality pay adjustments. • DHS would determine the appropriate adjustment of any “special band extensions” for categories of jobs presenting significant recruitment and/or retention problems. • See section 3 below regarding linkage between pay range adjustments and individual pay adjustments.
3	Pay progression methodology	<ul style="list-style-type: none"> • Band pay ranges would have no fixed step rates.

Broad Banded Performance Pay System (share system) [6]

- Band range (structural) adjustments would be delinked from general increases to employee salaries. DHS would determine the general increase policy, but any general increase must take effect at the same time as the structural increase. Increases in the locality pay factors for a band would not be automatically passed on as increases in individual employee salaries but would generate funds to be included in the pay-for-performance pool (described below). Delinking would allow DHS to deny the general increase to below-acceptable performers. Also, it would allow DHS to give all acceptable and above performers the same general increase received by GS employees. It would allow DHS to give a general increase that is less than the GS increase for employees in job family bands where the locality adjustment factor is being reduced.

Sub-option: If DHS is not allowed to reduce the locality pay factors in effect at the time the system is established, then DHS could also be required to guarantee that all employees—except below acceptable performers—receive the same percentage adjustment as the GS general increase (but not the locality adjustment). Employees would not be entitled to the GS locality pay adjustment.

Sub-option: Require DHS to deny general increases to below-acceptable performers but to allow such an employee who brings his/her performance up to an acceptable level to begin to receive the full general increase after 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.

- Additional within-band pay progression would be based on an individual's performance or contributions with the possibility of a zero adjustment. These performance pay increases would take effect at the same time as the structural increase. DHS would establish a **framework** for establishing a performance-based within-band pay progression plan. This framework would include the following:
 - Performance-based pay would be funded using multiple pay pools (each covering a cluster of employees). Each year, DHS headquarters would determine the amount of the pools by approving a pay pool factor—i.e., a percentage factor to be multiplied by the sum of annualized base pay salaries for employees covered by a pay pool. (Note: Money previously directed toward GS within-grade increases, quality step increases, promotions between grades that are now banded (as appropriate), and funds for locality adjustments would be available for this pool. Also, to the extent that the general increase provided automatically to all acceptable performers is less than the primary range structural increase, that unused money could also be included in the pay pool.)
 - Pay pool funds would be distributed using a "share formula" which would link the employee performance rating (represented by number of shares) to his/her pay increase. (See Attachment.) DHS would use a "share formula" to provide for management of payroll costs without the need to resort to forced distribution of

Broad Banded Performance Pay System (share system) [6]

ratings. Through the performance appraisal system, each employee would be placed in a performance rating category or level. (See Table P.) DHS would establish the set of possible share allocation rules that might be used with each possible rating pattern.

- For example, if DHS provided that 3-level and 4-level rating patterns were permissible, then it might establish a table as follows:

Allowed Rating Patterns	Allowed Share Allocation Patterns		
	3 levels	3 – 1 – 0	2 – 1 – 0
4 levels	4 – 2 – 1 – 0	3 – 2 – 1 – 0	5 – 3 – 2 – 0

The share allocation would determine the relative value of the performance ratings. For example, under a 4 – 2 – 1 – 0 share allocation pattern, an employee with the top (4 shares) rating would receive a pay pool payout that is twice the payout for an employee with 2 shares and the employee with 2 shares would receive a payout that is twice the payout for an employee with 1 share. (Note: Since all employees with an acceptable rating also receive a general increase, the pay pool payout accounts for only part of the base pay increase an employee receives. Thus, the relative difference between the total base pay increases received by employees with different performance ratings will not be as great as suggested by the share allocation rules above.)

- DHS/OPM regulations would require that any allowed share allocation pattern established by DHS must provide a zero share for an employee in the below-acceptable performance category.
- Based on the distribution of ratings, the share formula would produce a percentage increase factor for each performance level. (See Attachment.) The percentage factor would be multiplied by the employee's base rate (after applying any general increase). Thus, the overall increase is a compounded increase that is computed by multiplying (1 + general increase) times (1 + performance pay increase) and subtracting 1.

Sub-option: Multiply the applicable performance pay increase percentage by the employee's base rate in effect on the day immediately before the effective date of the performance pay increase. Since this is the same base rate used in computing the employee's general increase, the two increases may be simply added together to show the employee's overall percentage increase.

- DHS would have discretionary authority to increase the shares allocated to employees in entry/developmental bands to allow for faster progression—for example, double the normal shares. (DHS would need to consider whether enhanced shares are warranted given the level of starting salary, the labor market, the speed at which valued skills are learned, the appropriateness of keeping pay lower until skills are obtained and demonstrated, and the availability of alternative ways of boosting pay of entry/developmental level employees, such as special one-time adjustments after initial basic and on-the-job training (e.g., after 1 year).)
- DHS would have discretionary authority to increase the shares allocated to employees in a journey-level or higher band—e.g., by 50-100%—if the employee

Broad Banded Performance Pay System (share system) [6]

		<p>has been in the band for a limited time and is in a specified lower portion of the band.</p> <ul style="list-style-type: none"> ○ DHS would have discretionary authority to provide additional pay pool funding in connection with the establishment of a special band extension, with increased shares given to employees to whom the special band extension applies. In other words, employees would have their normal share allocation increased by a fixed percentage. This would allow DHS to increase pay for employees in categories with staffing problems in a manner that is consistent with the regular performance pay adjustments. ○ DHS would have discretionary authority to establish controls on progression within the upper portion of a band range. For example, DHS could limit movement into or progression within a fixed top portion of the band to employees with the highest performance rating. ○ Employees who cannot receive the full amount of the share-based payout as a base pay increase because they have reached the band maximum rate would be entitled to a bonus payment equal to the unused portion of the share-based payout. These bonuses would be funded by a separate bonus fund, not by the base pay adjustment pool. (See Attachment.) ○ An employee's rate may not fall below the minimum rate of his or her band. (Since employees with below-acceptable performance receive no base pay increase, their position in range will regress when the pay structure is adjusted. Thus, absent this rule, an employee's pay could fall below the minimum rate of the band.) ○ DHS would have discretionary authority to integrate a bonus award within the share formula. In other words, shares would yield a total payout that would be split between base pay and bonus pay using a predetermined percentage that reflects the relative amounts of base pay and bonus pay in the pay pool (subject to band range limits on base pay).
4	Pay administration rules	<p><i>New Hire.</i> DHS would have discretionary authority on pay setting for new hires, subject only to some broad principles stated in DHS/OPM regulations.</p> <p><i>Promotion.</i> DHS would have discretionary authority on setting pay upon promotion but would be required to have a consistent department-wide policy.</p> <p><i>Sub-option:</i> Provide DHS discretionary authority but limit the amount of any promotion increase to a maximum of 10% (unless a greater increase is necessary to set pay at the minimum of the band).</p> <p><i>Geographic Movement.</i> DHS would adjust employees' salary rates upward or downward based on movement to a geographic area where different locality pay factors apply or where different special band extensions apply. For example, if an employee moved from a band with a locality pay adjustment factor of 1.16 to a band with a locality adjustment factor of 1.12, the employee's rate would be reduced by multiplying the old rate by a factor equal to $1.12 \div 1.16$. If a special band extension applies, the factor would be derived by dividing the new band maximum rate by the old band maximum rate. These conversion formulas allow an employee to maintain his/her relative position vis-à-vis the band maximum rate. This rate conversion would be done before applying any other simultaneous pay action (e.g., a promotion). (This same approach is used in the Commerce Department</p>

Broad Banded Performance Pay System (share system) [6]

		<p>demonstration projects.)</p> <p><i>Use of Past Rates.</i> DHS would have discretionary authority on setting policy on whether and how to take past Federal or non-Federal rates into account in setting pay.</p> <p><i>Increases in Connection with Higher Starting Salaries:</i> If DHS approves a higher minimum starting salary for a category of positions, it may adjust the salary of recently hired employees so that they are not leapfrogged by new hires.</p> <p><i>Increases in Connection with Special Band Extensions:</i> At the time a special band extension is established to address recruitment and retention problems, DHS may adjust the rate of pay for employees to whom the special band extension applies. If this adjustment is not made through the regular pay pool process (by providing increased shares), DHS may make adjustments that are consistent with the share allocation factors used in the last pay pool and the employee's last performance rating.</p> <p><i>Pay Reduction.</i> The plan would include no provision for absolute reductions in basic pay except when (1) an employee is reduced in band level or (2) the employee moves to a location or position where different locality pay factors or special band extensions apply</p> <p><i>Pay Retention.</i> DHS/OPM regulations would include provisions providing pay retention in certain involuntary circumstances, such as reduction in force. DHS could prescribe additional circumstances in which pay retention could apply. Band retention would not be provided. A retained rate would be created only if the employee's rate does not fit in the newly applicable rate range. DHS/OPM regulations would establish basic rules on adjusting a retained rate and any time limits, which would be supplemented by DHS policies. A retained rate would generally be adjusted by 50 percent of any increase in the maximum rate of the employee's rate range. However, an employee with below-acceptable performance would be denied any increase, consistent with the rules governing general increases.</p> <p><i>Conversion to Broadbanding System.</i> Employees on board at the time the broadbanding 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 annual performance pay adjustments under the new system is less than 1 year, DHS may prorate the first set of performance pay adjustments. No increases would be provided for accrued career ladder promotions; instead, DHS could address this issue by providing extra pay pool shares to employees in entry/developmental grades, as described in section 3 of this table.</p> <p><i>Sub-option:</i> Provide a prorated promotion increase based on time accrued toward a "scheduled" career-ladder promotion, if the higher grade is encompassed in the same band as the employee's current grade and if the employee is currently performing at an acceptable level.</p> <p><i>Sub-option:</i> Provide a one-time pay adjustment for employees who are "scheduled" to receive a career-ladder promotion within 1 year of the conversion date, if the higher grade is encompassed in the same band as their current grade. The one-time adjustment would take effect on the date the career ladder promotion would have taken effect and would be sufficient to provide a 7% increase or to reach a rate in the band</p>
--	--	--

Broad Banded Performance Pay System (share system) [6]

		equal to the GS step 1 rate for the higher grade, whichever is higher.
5	Managerial compensation	<ul style="list-style-type: none"> • GS-equivalent managers would be covered by the broadbanding plan. Managers would be recognized through their band level. (Note: The proposed “primary range” substructure provides for additional ranges that might be used for supervisors and managers between GS-11 and GS-15, and above GS-15.) However, nonsupervisory employees with high-level or exceptional skills could be in the same level as supervisors or managers (i.e., dual career tracks). Supervisors and managers may be recognized through more generous bonus payments. • Any SL/ST employees would be covered. • SES members would not be covered.
6	Appeals	<ul style="list-style-type: none"> • Employees may appeal internally the denial of the general increase based on a below-acceptable performance rating. <i>Sub-option:</i> Allow employees to appeal externally in cases involving the denial of the general increase. • Employees may appeal internally a performance rating for acceptable or higher performance that affects the employee’s base pay adjustment; however, this appeal would be handled under regular internal grievance procedures. <i>Sub-option:</i> Require that DHS establish a separate internal appeal process to handle disputes about an acceptable or higher performance rating. <i>Sub-option:</i> For bargaining unit employees, allow employees to appeal a covered issue under negotiated grievance procedures. (Covered issues could be limited to the specific actions cited in this section.)
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. Bonus payouts to individual employees could be integrated with base pay adjustments (as explained in section 3) or could be distributed through a separate process. DHS may establish controls or guidelines that relate to bonus distribution. • Since the premium pay caps under 5 U.S.C. 5547 still apply (tied to higher of GS-15, step 10, or Executive Schedule Level V) and since this option provides for higher pay levels than the GS, more employees would hit the premium pay cap. In effect, capped employees become salaried employees with no entitlement to additional premium pay. In particular, more high-level criminal investigators receiving availability pay will hit the biweekly premium pay cap. <i>Sub-option:</i> Allow DHS to establish a special base pay supplement of up to 5% for criminal investigators receiving availability pay that is capped. The supplement could vary by band level or by the degree to which availability pay is not payable. [Legislation may be necessary.] <i>Sub-option:</i> Raise the premium pay cap for DHS employees to equal the applicable locality-adjusted maximum rate for primary rate range R or EX-V, whichever is higher. [Legislation would be necessary.]

Broad Banded Performance Pay System (share system) [6]

C		Classification System
System elements:		Summary description:
1	Functions	<ul style="list-style-type: none"> • Same purposes as General Schedule—setting pay ranges for jobs, workforce planning, etc. • Under this broadbanding plan, DHS generally would not seek to make distinctions in work level among employees at the entry/developmental level. DHS could also allow two journey level (or higher) grades to be banded if the work level distinctions are not viewed as significant and if performance is viewed as a better approach to measuring an employee's value to the organization.
2	Categorization of type of work	<ul style="list-style-type: none"> • DHS would use existing OPM occupational series to identify type of position, but could add new series with OPM's concurrence. • DHS would identify a limited number (no more than 20) groupings of GS occupations (i.e., job families or career groups), which would share a common set of broad rate ranges (i.e., bands). (See Table B.) These job families will differ from the occupational groupings that exist in the General Schedule classification system.
3	Work valuation method	<ul style="list-style-type: none"> • DHS would determine the number of levels of work it wishes to establish for each job family (e.g., entry/developmental level, journey level, advanced expert level, 1st-level supervisor, 2nd-level manager). • DHS would assign levels of work to bands consisting of 1 or more "primary" ranges based on labor market factors, mission criticality, etc. LEOs in grades GS-3 through 10 would be assigned to bands that provide ranges consistent with their LEO special rates, unless DHS determines that higher ranges are appropriate based on relevant factors. For example, LEOs at GS-5 could be covered by a band corresponding to the primary range E and LEOs at GS-7 and 8 could be covered by a band corresponding to the primary range G. (See Table B, section 3.) DHS could include non-LEOs with significant law enforcement duties in similar band ranges, based on its analysis of relevant factors.
4	Qualifications	<ul style="list-style-type: none"> • DHS would establish qualification standards for levels of work. • DHS would establish its own rules on qualifying for promotion (e.g., any time-in-band or experience requirements).
5	Applying system	<ul style="list-style-type: none"> • There would be no position description detailing position requirements and duties, but just a position "cover sheet" that summarizes basic information regarding the position. The position would be further defined by the standard work level definitions and the performance standards. • Managers would be responsible for making classification decisions. HR staff would serve as consultants. Significant issues regarding proper use of classification authority could be submitted to a departmental level Compensation Committee.
6	Appeals	<ul style="list-style-type: none"> • Employees may appeal any kind of involuntary reduction in band internally. <ul style="list-style-type: none"> <i>Sub-option:</i> Allow employees to appeal externally an involuntary reduction in band level based on performance or misconduct. <i>Sub-option:</i> Allow employees to appeal internally their occupational series assignment. • Employees may not appeal other classification decisions (but could file an administrative

Broad Banded Performance Pay System (share system) [6]

		grievance for any covered actions).
7	Evaluation	<ul style="list-style-type: none"> • DHS would monitor distribution of employees by occupation and work level. • DHS would collect information from employee surveys on perceived fairness of the classification system.

P Performance Management System		
System elements:		Summary description:
1	Purpose	<ul style="list-style-type: none"> • The performance management system (PMS) would serve multiple purposes, including linkage of employee performance to organizational goals, communication of expectations, employee development, identification of poor performers, the support of a pay-for-performance system, use as a factor in promotion decisions, etc.
2	Measures	<ul style="list-style-type: none"> • In measuring performance, DHS would focus on results/contributions and behaviors that demonstrate desired skills and competencies. DHS could also include performance in acquiring/mastering new skills and competencies. • DHS would leave development of specific performance measures to agency components (generally no mandated centralized department-wide measures). However, DHS could require that individual performance plans include organizational goals and values and specific performance standards should reflect those goals and values. (For example, the current TSA performance plans include a written commitment to organizational goals and values.)
3	Appraisal	<ul style="list-style-type: none"> • DHS/OPM regulations would provide broad flexibility in the area of performance appraisal with some minimal requirements such as annual appraisal periods, the use of at least three performance rating levels, and the use of only one rating level for below-acceptable performance. • Employees would sign a written individual performance plan. The plan would include organizational goals and values (including any DHS-wide goals and values). • DHS would establish a limited number of acceptable rating patterns. For example, DHS could allow components to use 3 or 4 rating levels. The placement of an employee at a given rating level could be described using narrative labels—e.g., under a 3-level rating pattern, an employee could be rated as an Exceptional Contributor, a Valued Contributor, or as Needs Improvement. Alternatively, the rating level could be described by the number of shares an employee is credited with, consistent with the established share allocation rule—e.g., under a 3-level rating pattern with a 4 – 2 – 0 share allocation rule, an employee in the top rating level would earn 4 shares. (See Table B, section 3.) • Before a rating is issued, employees would have an opportunity to share their views (orally and/or in writing) regarding their personal performance with their first-line supervisor/manager. The supervisor/manager would review employees' performance against their performance plan and propose a rating. In applying performance standards that are nonquantitative, the supervisor/manager may appropriately consider the relative performance levels of other employees in reaching a judgment as to a given employee's level of performance. • Appraisal ratings for employees in a given pay pool would be reviewed and adjusted by a

Broad Banded Performance Pay System (share system) [6]

P		Performance Management System
System elements:		Summary description:
		<p>pay pool committee of managers before the ratings are finalized. In addition, DHS or component headquarters would monitor ratings given by managers and could establish guidelines if they determine that ratings are inflated. Supervisors and managers would be evaluated on their performance in giving fair and objective ratings.</p> <p><i>Sub-option:</i> Require that DHS must provide a 12-week performance improvement period when an employee is appraised as being below-acceptable (i.e., needs improvement rating) and is denied the general increase. The employee would be entitled to a new appraisal after a 12-week period beginning on the effective date of the general increase (if the employee is still on board). If performance is appraised to be at the 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. (See same sub-option in Table B, section 3.) If performance remains at the below-acceptable level, the supervisor may take appropriate action to deal with the performance problem.</p>
4	Communication vehicles	<ul style="list-style-type: none"> • Each employee would receive and sign a written individual performance plan. The plan would include organizational goals and values (including any DHS-wide goals and values) as well as specific performance standards. • Employees would have an opportunity to provide input (orally and/or in writing) regarding their performance prior to the issuance of the rating. • After an employee's rating has been finalized, the first-line supervisor/manager would meet with the employee to discuss the employee's performance and inform the employee of his/her performance rating.
5	Appeals	<ul style="list-style-type: none"> • Employees may appeal internally a below-acceptable performance rating that resulted in the denial of the general increase. <ul style="list-style-type: none"> <i>Sub-option:</i> Allow employees to appeal externally in cases involving the denial of the general increase. • Employees may appeal internally an acceptable or higher performance rating that affects the employee's base pay adjustment; however, this appeal would be handled under the regular internal grievance procedures. <ul style="list-style-type: none"> <i>Sub-option:</i> Require that DHS establish a separate internal appeal process to handle disputes about an acceptable or higher performance rating that affects the employee's base pay. <i>Sub-option:</i> For bargaining unit employees, allow employees to appeal a covered issue under negotiated grievance procedures. (Covered issues could be limited to the specific actions cited in this section.)
6	Evaluation	<ul style="list-style-type: none"> • Collect data on performance rating distribution, appeals and resolution of appeals, etc. • Use employee surveys to collect information on employee views on fairness of the performance management system. • Review a rotating sample of performance plans for alignment with organizational goals and focus on results.

Share Formula Methodology

For each pay pool, pay pool managers would take the pay pool factor established by DHS to determine the size of the pay pool (i.e., a virtual fund used to distribute point-in-time base pay increases) by using the following formula:

$$PP = F \times \text{SUM}(\text{SAL})$$

where . . .

- PP = pay pool in dollars
- F = pay pool percentage factor
- SAL = individual employee salary (i.e., annualized base rate of pay)
- SUM (SAL) = the sum of all salaries for all employees in the pay pool

Then, based on the shares assigned to individual employees and their individual annual rates of base pay, the pay pool managers would determine the value of a share (expressed as a percentage of an employee's annual base rate of pay) by using the following formula:

$$SV = PP \div \text{SUM}(\text{SAL} \times N)$$

where . . .

- SV = share value (i.e., value of a share as percent of base pay)
- N = number of shares
- SUM(SAL × N) = the sum of the products of multiplying each employee's salary by the number of shares earned by the employee

Once the share value for the pay pool is determined, multiply the share value by the number of shares associated with a performance rating. For example, if the share allocation pattern is 4 – 2 – 1 – 0, then the pay increase percentage factors would be determined as follows:

- Pay increase percentage factor for employee with 4 shares = $4 \times SV$
- Pay increase percentage factor for employee with 2 shares = $2 \times SV$
- Pay increase percentage factor for employee with 1 share = $1 \times SV$
- Pay increase percentage factor for employee with 0 shares = 0

The applicable pay increase percentage factor would be multiplied by the employee's annual rate of basic pay to determine the employee's performance payout from the pay pool.

If some employees cannot receive the full amount of their pay pool payout as a base pay adjustment because they reach the maximum rate of the rate range, the remaining amount of the payout is paid as a lump-sum bonus. These bonus payments would not be funded out of the pay pool.

While the underlying computations are fairly complicated, the bottom-line results that are presented to employees are relatively simple. A percentage increase factor is assigned to each performance category. Employees will see that the percentage differences among the factors are consistent with the percentage differences among the corresponding shares (e.g., 4 shares is 100% above 2 shares).

Broad Banded Performance Pay System (share system) [6]

Pay Pool and Pay Pool Factor

The pay pool (PP) is an accounting mechanism used to allocate base pay adjustments. The pay pool establishes a virtual fund for annual base pay increases that take effect at a single point in time. The amount of the pay pool does not equal the annual salary budget, since it only controls these particular point-in-time adjustments. It does not capture other salary activity during the year such as savings from salaries for separated employees, costs of salaries for new employees, promotion increases, etc.

The pay pool factor (F) is used to calculate the pay pool. The pay pool factor is a percentage to be multiplied against the sum of the annualized rates of base pay for all covered employees at a fixed point in time. That percentage will not equal the value of the actual base pay increases awarded through the share formula described above, since some employees will reach the range maximum and not receive the full amount of the payout as a base pay increase. However, in setting the pay pool factor, DHS will take the effect of capped employees into account. Thus, DHS will control the value of actual base pay increases by adjusting the pay pool factor as appropriate. DHS would set the pay pool factor so that the estimated actual value of the point-in-time annual base pay increases is not less than 1.5% of total annualized base payroll for all DHS employees in the pay system. (OPM data show the Governmentwide average annual value of these increases to be about 1.4% of total base pay payroll.) DHS would set the pay pool factor after all employees have been assigned a performance rating and shares so that it can model accurately the effect of a selected pay pool factor. For example, DHS may find that a pay pool factor of 1.75% may result in actual base pay increases whose value is 1.5% of total annualized base payroll DHS-wide. (Again, the difference is attributable to the fact that capped employees do not receive the allotted increase as a base pay adjustment.)

Even though DHS would use a single pay pool factor for all pay pools, the value of actual base pay increases (as a percentage of total annualized base pay payroll for covered employees) would vary by pay pool, depending on the number of capped employees. This methodology ensures that uncapped employees in pay pools with a disproportionate number of capped employees do not receive significantly larger average base pay increases than uncapped employees in other pools.