

Broad Banded Performance Pay System (GS-linked) [8]

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 linked to General Schedule rate ranges. Progression through the band range would be based on performance using pay pools and a share formula methodology. 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.

- DHS would group occupations into job families (no more than 20). DHS would determine levels of work and appropriate bands (consisting of 1 or more GS rate ranges) for each job family, using GS classification standards or modified standards.
- GS locality pay would apply. Staffing supplements would replace special salary rates.
- Band ranges would move in tandem with the General Schedule.
- Individual increases would be delinked from structural increases. Below-acceptable performers would not receive the general increase (or would receive only half of the general increase under a sub-option). Other employees would receive 75% of the structural increase as a general increase, with the remaining 25% allocated to the performance pay pool. (See sub-options in 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.
- Employees could appeal reductions in band or denial of the full general increase, but appeals would be handled within DHS. (See sub-options for external appeal rights in Detailed Description section.)
- DHS would establish a departmental level Compensation Committee to consider department wide policies and issues related to pay, classification, and performance management. The Compensation Committee would include management representatives from the major DHS components.
- 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

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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.)

- Create a band that is equivalent to a grade above GS-15. This band would be reserved 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 positions in this band may be limited. The band 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:

- 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

- This option builds on the existing General Schedule and makes changes similar to those made in various demonstration projects; thus, the transition effort should be less difficult and less risky than some other options.
- The provision to provide 75% of the structural increase as a general increase to all but below-acceptable performers provides a degree of stability while freeing up a limited amount of additional funds for the performance pay pool. Since the performance pay pool will provide additional increases beyond the general increase, it is likely that all but below-acceptable performers would receive a total pay increase that exceeds the structural increase.
- 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 broadbanding 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.
- Since the system remains linked to the General Schedule and uses GS locality pay, it should not create intragovernmental competition problems. (If the GS system is reformed--e.g., to provide more occupation-sensitive locality pay, the DHS broadbanding system would be changed in tandem with the GS changes.)
- Greater flexibility in pay administration (e.g., pay setting for new hires, promotion rules) would allow

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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 considerable flexibility for DHS components to design performance management programs tailored to the given workforce and work conditions, while at the same time establishing a general framework that applies department wide and supports a common culture.
- 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.
- 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

- Making pay more performance sensitive may concern employees who value the stable, predictable nature of GS pay increases. The lack of guaranteed increases and the proposed allocation of 25% of the GS general increase towards a pay-for-performance pool 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 broadbanded 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 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 or that distinctions based on individual performance are not possible in some positions given the mission and nature of the work. (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.

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- Some employees with acceptable performance may end up being paid less than they would have
- 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 grouping of jobs 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.
- Limiting the ranges for the pay bands to the current GS pay rates may be viewed as not providing meaningful opportunity for pay increases for employees who are currently at or near the top of their current GS pay rate. However, a broadbanding system offers the opportunity to create bands for nonsupervisory senior experts (dual career track), where appropriate. Also, providing bonuses for capped employees through the performance-based pay program may also help address this concern.
- 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.
- If employees receive a significant general increase separate from the performance pay increase, this limits the amount of the pay differences for employees in different performance categories; thus, to the extent that amount of money (as opposed to recognition) is the driving factor in motivating improved performance, the motivating effects of the performance pay system may be limited.
- Does not address problem that GS locality pay program is not occupationally sensitive; still provides same locality percentage payment to all occupations in a given location, regardless of labor market differences among occupations at the same grade level.
- Current employees who are in a career ladder and who have not yet reached the journey level will be adversely affected when converted to the new system, as they will not receive the significant pay

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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. (Note: The option allows for the possibility of special pay boosts for employees at entry/developmental levels. Also, there is a sub-option to enhance the pay adjustments for employees in entry/developmental levels by boosting their shares. See Table B, sections 3 and 4.)

- 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 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

- Based on demonstration projects with similar features, it is possible for such a broadbanding system to cost approximately the same as the GS system. Actual costs depend on how jobs are grouped and grades are banded, and on the amounts authorized for pay pools. Through banding, some jobs will end up with higher pay potential than under the GS, which will have long-term cost implications. 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.
- 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. Those costs could be recovered by reducing performance pay pools during the first year or two; however, this might lessen employee acceptance of the new 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

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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.

Limitation of pay bands rates to the parameters of the current GS rates may result in the continuation of the current practice of promoting top performers and experts to supervisory or management positions as a means of reward or recognition, which may not maximize their contribution to the agency mission. However, a broadbanding system offers the opportunity to create bands for nonsupervisory senior experts (dual career track), where appropriate. Also, providing bonuses for capped employees through the performance-based pay program may also help address this concern.

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.

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. Broader pay bands with open ranges are consistent with contemporary HR practices in the private sector. 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 the system operation 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 (associated with a band or pay range), but there would be fewer work levels requiring classification distinctions. 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). Once again, the fairness of the pay and classification rests on the credibility and fairness of the underlying performance management system.

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Transition & Implementation:

- Transition and implementation tasks would include developing job family categories, determining bands for each category, updating or developing a performance management system with employee input, developing computer programs to support the share formula methodology, etc.

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 and OPM would issue regulations providing a framework for development of a broadbanding pay system linked to the General Schedule. (See also Table C.) • 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). • DHS would determine the number of levels of work it wishes to establish for each job family (e.g., entry/developmental level, journey level, senior expert level, 1st-level supervisor, 2nd-level manager). • DHS would assign levels of work to broadbands consisting of 1 or more GS rate ranges using OPM classification standards for GS positions, except as modified (after consultation with OPM). • Band rate range minimum and maximum rates would be linked to GS minimum and maximum rates. Banding of GS grades would be subject to criteria in DHS/OPM regulations, similar to the criteria established by OPM for the Internal Revenue Service broad-banding systems. (See 65 FR 79433, December 19, 2000.) Law enforcement officers (LEOs) would be placed in separate job families and band ranges would be linked to LEO special rates at grades GS-3 through GS-10. DHS could include non-LEOs with significant law enforcement duties in the same LEO band ranges, consistent with modified classification criteria. <ul style="list-style-type: none"> <i>Sub-option:</i> Construct bands for LEOs using the same GS rate ranges that apply to other employees. GS rate ranges would be assigned to LEOs using modified classification criteria that give greater credit for LEO work at lower grades, consistent with the LEO special rates in effect at grades GS-3 through GS-10. For example, LEO work at GS-3 and 4 could be reevaluated to link to GS-6; LEO work at GS-5 could be reevaluated to link to GS-7; LEO work at GS-6 and 7 could be reevaluated to link to GS-8; and LEO work at GS-8 and 9 could be linked to GS-9. Since LEO special rates are just 1 step higher than regular GS rates (2.6% higher maximum) at GS-9 and GS-10, employees at step 10 of those grades would not fit in the regular GS rate ranges unless (1) the band maximum is based on a higher grade or (2) the regular GS-9 and GS-10 rate ranges are increased for all employees. <i>Sub-option:</i> Create a framework of ranges to be used in creating broadbands in place of the current General Schedule but still based on it. For example, create extended 40% GS ranges by reducing the minimum rates by 2.5% and increasing the maximum by 5%. This would facilitate putting LEOs in bands that are linked to the same ranges that apply to other employees. • The DHS system would be covered by the GS locality pay program. Locality pay would be paid on top of base rates, subject to applicable caps. <ul style="list-style-type: none"> <i>Sub-option:</i> Roll locality payments into basic rates. DHS/OPM regulations would

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		<p>establish formulas for increasing or decreasing basic pay upon movement to a different locality pay area. (This is similar to the approach used in Commerce Department demonstration projects). This would allow DHS to prevent below-acceptable performers from automatically receiving locality adjustments.</p> <ul style="list-style-type: none"> • Categories of employees covered by GS special salary rates would be entitled to “staffing supplements” that are linked to GS special rates established by OPM. Staffing supplements would be percentage add-on payments administered similar to locality payments—e.g. they would be computed as a percentage of base pay, they would be treated as base pay for retirement purposes, and they would not be covered by pay retention when an employee left a covered category. DHS and OPM could jointly approve new or modified staffing supplements for categories of DHS employees. <ul style="list-style-type: none"> <i>Sub-option:</i> Provide DHS with authority to provide staffing supplements at its own discretion (with approval at the department headquarters level). <i>Sub-option:</i> Require DHS to establish staffing supplements only after approval by an interagency pay coordination committee. <i>Sub-option:</i> If locality pay is rolled into basic rates, roll special rates into basic rates as well. DHS/OPM regulations would provide formulas for adjusting basic pay when an employee moves to a position covered by a different pay schedule.
2	Adjustment of pay ranges	<ul style="list-style-type: none"> • Band minimum and maximum rates of basic pay would be adjusted in tandem with adjustment in GS rates (i.e., “structural increase”). • Locality payments would be adjusted in tandem with GS locality payment changes. • Staffing supplements would be adjusted in tandem with corresponding GS special rate adjustments (based on change in maximum special rate for grades in a given band), or if the staffing supplements are unique to DHS, adjusted by the GS general increase percentage unless DHS and OPM jointly authorize a lesser or greater increase. <ul style="list-style-type: none"> <i>Sub-option:</i> If locality pay and staffing supplements are rolled into basic rates, then DHS/OPM regulations would provide rules and formulas for adjusting band rate ranges when GS rates change. • 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. • When basic pay ranges are adjusted annually (structural adjustment), individual employee rates of basic pay would receive a “general increase” equal to 75% of the structural adjustment, unless the employee is found to be below the established acceptable level of performance. The remaining 25% would be allocated to the pay-for-performance pool, to be used as described below. (This could be justified on the basis that the Economic Cost Index used to determine the GS increase does not represent an average of across-the-board increases granted by surveyed employers, but instead represents the increase in average salary, which reflects varying individual increases given to employees.) <ul style="list-style-type: none"> <i>Sub-option:</i> Provide DHS with discretionary authority to allocate up to 25 percent of the structural increase to the pay-for-performance pool to be used as described above. (This would give DHS flexibility to respond to possible GS reforms—for example, if the GS system were later reformed so that Congress provides a structural increase and a separate fixed percentage for performance-based pay adjustments, then DHS could decide to rely on the allocation determined by Congress and provide the structural increase to all acceptable performers as a

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		<p>general increase.)</p> <p><i>Sub-option:</i> Provide a “general increase” equal to the 100% of the structural adjustment to all employees except those found to be below the established acceptable level of performance. This means that employees would automatically maintain their position in the range before considering any performance-based increases.</p> <p><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.</p> <p><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 could be given a zero increase.)</p> <ul style="list-style-type: none">● A below-acceptable performer who brings his/her performance up to an acceptable level would begin to receive the full general increase after a 12-week period, but thereafter the increase must be permanently removed if the employee’s performance again is determined to be below acceptable during that same year. (See also Table P, section 3.)● 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 general increase. DHS/OPM regulations would establish a framework for establishing a performance-based within-band pay progression plan. This framework would include the following:<ul style="list-style-type: none">○ 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 and quality step increases would be available to fund base pay increases through the pay pool. Also, under this option, funds equal to 25% of the structural increase would be included in the pay pool.) (See Attachment.)○ 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 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:
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Allowed Rating Patterns	Allowed Share Allocation Patterns		
3 levels	3 – 1 – 0	2 – 1 – 0	3 – 2 – 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.)

- Based on the distribution of ratings, the share formula would produce a percentage increase factor for each performance level. (See Attachment.) The applicable percentage factor would be multiplied by the employee's base rate (after applying any general increase). Thus, the overall increase—before considering any locality pay or staffing supplement adjustment—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/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.
- DHS would have discretionary authority to provide for adjustment of shares for 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).)

Sub-option: Give DHS authority to also adjust shares for employees at journey level or higher based on position in the range. For example, DHS could establish share distribution matrix tables that give more shares—and thus larger pay increases—to employees in the lower portion(s) of a band range (based on the learning curve concept). DHS could define position in range based on halves, terciles, links to GS steps in maximum GS grade in the given band, etc.

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		<p><i>Sub-option:</i> Give DHS authority to increase the shares allocated to employees in a journey-level or higher band—e.g., by 50-100%—if the employee has been in the band for a limited time and is in a specified lower portion of the band.</p> <p><i>Sub-option:</i> Give DHS authority to establish controls on progression within the upper portion of a band range. For example, pay increases could be capped so that an increase may not exceed 50 percent of the difference between the employee’s pre-increase rate and the salary maximum. Or, DHS could limit movement into or progression within a fixed top portion of the band to employees with the highest performance rating. Also, for employees in such a top portion of the band who do not maintain the highest performance rating, DHS could allow for loss of position in range, but no actual reduction in pay, by withholding one-half of general increase.</p> <ul style="list-style-type: none"> ○ 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 (or only half the general increase under a sub-option), 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/OPM regulations would provide that locality pay and location-sensitive staffing supplements may be increased or decreased in the event of a geographic move (same as GS). Employees would be entitled to the applicable locality payment or staffing supplement for the new official duty station.</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>

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		<p><i>Pay Reduction.</i> The plan would include no provision for absolute reductions in basic pay (excluding locality payments or staffing supplements) unless an employee is reduced in band level, in which case DHS may allow for a reduction in basic pay subject to any established limitations (e.g., limit reduction to 5 percent or 10 percent). However, as described in section 3, an employee could receive a zero or partial general increase, which would cause an employee to regress in terms of position in range.</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>Sub-option:</i> Require that a retained rate be adjusted by the full general increase percentage for any general increase occurring during the 1-year period after the retained rate was established, unless the employee has a below-acceptable performance rating.</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 equal to the GS step 1 rate for the higher grade, whichever is higher.</p>
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. However, nonsupervisory employees with high-level or exceptional skills may 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. <p><i>Sub-option:</i> Allow DHS to restrict the top portion of a band rate range to supervisors or managers only.</p> <p><i>Sub-option:</i> Allow DHS to pay a supervisory differential (e.g., 5 or 6-percent) to</p>

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		<p>supervisors and managers that share a band with nonsupervisory employees.</p> <p><i>Sub-option:</i> Allow DHS to extend bands (e.g., by 5%) and allow only supervisors and managers to occupy the extended portion of the range.</p> <p><i>Sub-option:</i> Establish a band with a rate range between the GS-15 rate range and the SES rate range. (See major sub-option regarding possible band above GS-15.)</p> <ul style="list-style-type: none"> • SES members would not be covered.
6	Appeals	<ul style="list-style-type: none"> • Employees may appeal internally the denial of the general increase (or half the general increase under a sub-option) based on a below-acceptable performance rating. <ul style="list-style-type: none"> <i>Sub-option:</i> Allow employees to appeal externally in cases involving 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 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.)
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.

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. • 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

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		<p>ranges (i.e., bands). (See Table B.) These job families will differ from the occupational groupings that exist in the General Schedule classification system.</p>
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, senior expert level, 1st-level supervisor, 2nd-level manager). DHS would assign levels of work to broadbands consisting of 1 or more GS rate ranges using OPM classification standards for GS positions, except as modified (after consultation with OPM). <ul style="list-style-type: none"> <i>Sub-option:</i> Require that OPM approve modifications to classification standards. <i>Sub-option:</i> Do not require consultation with OPM or OPM approval regarding modification of classification standards. Law enforcement officers (LEOs) would be placed in separate job families and band ranges would be linked to LEO special rates at grades GS-3 through GS-10. DHS could include non-LEOs with significant law enforcement duties in the same LEO band ranges, consistent with modified classification criteria. <ul style="list-style-type: none"> <i>Sub-option:</i> Reevaluate LEO work at lower grades using modified classification criteria that give greater credit for such LEO work, consistent with the LEO special rates in effect at grades GS-3 through GS-10. For example, LEO work at GS-3 and 4 could be reevaluated to link to GS-6; LEO work at GS-5 could be reevaluated to link to GS-7; LEO work at GS-6 and 7 could be reevaluated to link to GS-8; and LEO work at GS-8 and 9 could be linked to GS-9. (See related sub-options in Table B, section 3.)
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 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> Employees may appeal internally (1) an involuntary reduction in band level based on reclassification or (2) the occupation series to which they are assigned. However, employees could appeal externally an involuntary reduction in band level based on performance or misconduct. Employees may not appeal other classification decisions (but could file an administrative 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.

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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 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. If an employee is appraised as being below-acceptable (i.e., needs improvement rating), the employee is denied the general increase (or half the increase under a sub-option). The employee would be given 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

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P		Performance Management System
System elements:		Summary description:
		<p>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 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 (or half of the increase under a sub-option). <i>Sub-option:</i> Allow employees to appeal externally in cases involving 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. <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).

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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.