

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

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

### Summary Description:

This option would create a modified performance-based General Schedule (GS) system for Department of Homeland Security (DHS) employees currently under the GS. The 15-grade structure would be retained; however, rate ranges would be broadened from 30% to 40% (by reducing the minimum rate by 2.5% and increasing the maximum rate by 5%). Ranges would be “open” with steps eliminated. In addition to general increases, employees would be eligible for variable performance-based adjustments paid out annually from a fixed pay pool using a share formula.

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

### Key Features:

#### Coverage

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

- 15 grades with pay ranges of 40 percent. The current 30% GS range would be broadened by reducing the current minimum rate by 2.5% and increasing the current maximum rate by 5%. Ranges would be linked to GS rate ranges and adjusted in tandem with GS adjustments.
- Open ranges with no fixed step rates.
- All employees at an acceptable level of competence receive general increases equal to GS structural increase. Employees with a below-acceptable performance rating would receive a zero general increase.
- Employees would receive variable performance-based pay adjustments annually. These performance-based adjustments would be directly linked to the employee’s overall performance appraisal. Performance pay increases would be determined using a share formula that distributes the finite funds in a pay pool based on shares assigned to different levels of performance. The pay pool would consist of funds that could have been expended under the GS system for within-grade increases (including quality step increases).
- 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 below-acceptable rating. Thus, there would be at least two ratings to describe acceptable or above performance.
- GS locality pay would apply. GS special rates would apply.
- Would apply title 5 provisions governing GS classification and performance management. (See sub-option below regarding modifying GS classification so that DHS has control over grades and qualifications for entry and developmental jobs.)
- The design of the pay system would not be subject to collective bargaining. System administration rules in DHS/OPM or DHS regulations would not be subject to collective bargaining.

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

### Sub-Options:

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

### Relation to Other Options:

- The General Schedule is a pay and classification system. It could work with almost any performance management option that provides for at least three summary performance rating levels.
- This system could work with any labor relations, discipline and appeal system.

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

#### Possible Advantages/Benefits

- This option retains the 15-grade GS structure; thus, the transition to a new system should be less difficult and disruptive.
- The provision to provide a general increase equal to the structural increase to all but below-acceptable performers will provide some reassurance to employees.
- Places more emphasis on performance by providing variable performance pay increases using a pay pool and share formula. This could help promote a more performance-oriented culture in DHS. Making base pay more performance-sensitive could provide more equitable treatment of employees based on their contributions and a more strategic use of payroll dollars (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.
- Since the system establishes ranges that are close to GS rate ranges 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 modified GS system would be changed in tandem with the GS changes.)
- Provides all base pay increases at a single point in time each year, which makes the increases more significant and perhaps more appreciated.

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

- Supports internal equity through the classification system, while also providing more emphasis on individual equity based on performance, consistent with the merit principle of equal pay for work of substantially equal value.
- 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 may lessen acceptance of the system.
- If this system results in employees receiving less compensation than they would have received under the General Schedule, it may lessen acceptance of the system.
- Giving DHS authority to determine the size of the pay pools may raise the risk that the program will be inadequately funded when budgets are tight.
- The computation of the annual performance-based pay adjustment is more complex than some other approaches. This complexity may lessen employee understanding and acceptance.
- Although the maximum rate is increased by 5%, some high-performing employees may hit the maximum rate sooner than they would have under the GS. Motivating capped employees may be a problem (but could be addressed by bonuses).
- May be viewed by some as not placing enough emphasis on individual equity (i.e., performance). Almost all employees receive the annual across-the-board GS increase regardless of performance or contribution to agency mission.
- 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.)
- Maintenance of GS classification system with so many categories and levels of work requires considerable resources, which generally are not provided. (See major sub-option above that would

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

limit centralized classification control to journey level and higher grades.)

- 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.)
- 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 within the pay pool. 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.
- May not place enough emphasis on market (external) equity. The core GS system is not sensitive to the labor market for specific occupations. In a given location, the same locality pay percentage applies to all employees regardless of grade or occupation. Use of special rates authority is more cumbersome than a change to the core system that allows occupation-sensitive pay ranges.
- Raising the grade maximum rate by 5% may give DHS a competitive advantage over other Federal agencies, which could result in the movement of employees from other agencies to DHS. (This might be offset by the fact that the DHS system provides variable performance pay increases, which creates uncertainty that might reduce its competitive advantage with respect to some employees.)
- Raising the grade maximum rate by 5% has long-term cost implications. (A sub-option would limit progression into and within the top 15% of the range to top-rated performers, which would control costs to some extent. The top 15% portion of a 40% range basically covers the range extension beyond the current GS range.)
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation or that such distinctions based on individual performance is 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.)
- 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.

### Other Implications

- Unless the current labor relations system is modified, a DHS independent pay system, including rates

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

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

- 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. If necessary, these buy-out 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.
- Costs depend on the amounts authorized for pay pools. While the 5% range extension has long-term cost implications, the increase is relatively modest, especially if the range extension is limited to top performers. Since the costs associated with the current GS system depend, in part, on the extent to which quality step increases are granted at management discretion, cost comparisons should consider the fact that DHS could choose to be more generous in awarding quality step increases if it remained under the GS system.

### **Evaluation in Terms of Guiding/Design Principles:**

#### Mission Centered

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

By retaining the GS grade structure and locality pay, this option does not address a perceived weakness in the GS system of not being sufficiently sensitive to occupational differences in the labor market, which could have mission implications (in terms of strategic use of limited payroll dollars and the quality of workforce). Providing DHS employees with 5% higher pay ranges than the GS workforce could have mission implications for other agencies, which could 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 higher performers. Poor performers would be held accountable through the loss of base pay adjustments.

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## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

### Contemporary and Excellent

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

### Generate Trust and Respect

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

### Based on Merit System Principles and Fairness

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

### **Transition & Implementation:**

- Transition and implementation tasks would include ensuring that performance management systems are in place that can support the pay-related distinctions that will be made and developing computer programs to support the share formula methodology.

### **Detailed Description By System Component and System Element**

<b>B</b>		<b>Base Pay System</b>
System elements:		Summary description:
1	Structure of pay ranges	<ul style="list-style-type: none"> <li>• Same as 15 grades as GS system under title 5.</li> <li>• GS rate ranges are extended from 30% to 40% by reducing the minimum rate by 2.5% and increasing the maximum rate by 5%. Law enforcement officer (LEO) special rate ranges at GS-3 through GS-10 would be adjusted using the same percentage factors, but the ranges would be less than 40% since the current LEO ranges are less than 30%. <i>Sub-option:</i> Revise the special basic pay ranges for law enforcement officers (LEOs) at grades GS-3 through 10 so that all the LEO special pay ranges are also 40%. (Some LEO special rate ranges are as narrow as 24-25%. Thus, increasing the pay range to 40% could increase the maximum rate by up to 10%)</li> </ul>

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

		<ul style="list-style-type: none"> <li>• GS locality pay would apply. Locality pay would be paid on top of base rates, subject to applicable caps.</li> <li>• Categories of employees covered by GS special salary rates would be entitled to same supplements as GS special rate employees.</li> </ul>
2	Adjustment of pay ranges	<ul style="list-style-type: none"> <li>• Same as GS system under title 5 (i.e., same structural increase, same locality pay adjustment, same special rate adjustment).</li> <li>• See section 3 below regarding linkage between pay range (structural) adjustments and individual pay adjustments.</li> </ul>
3	Pay progression methodology	<ul style="list-style-type: none"> <li>• Open ranges with no fixed step rates.</li> <li>• All employees at an acceptable level of competence receive a general increase equal to GS structural increase. Employees with a below-acceptable performance rating would receive a zero general increase. <ul style="list-style-type: none"> <li><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.</li> <li><i>Sub-option:</i> Allow managers discretion to give a below-acceptable performer one-half of the general increase instead of a zero increase. (For example, an employee who has never before been rated as below acceptable could be given a half increase, while an employee who has been rated below acceptable within the last 3 years could be given a zero increase.)</li> </ul> </li> <li>• A below-acceptable performer who is denied a general increase will be given a 12-week opportunity to bring his/her performance up to an acceptable level. The 12-week evaluation period would begin on the effective date of the general increase. After the 12-week period, the employee's performance would be reappraised (if the employee is still on board). If performance remains at the below-acceptable level, the denial of the general increase will remain in effect for the remainder of the year. The supervisor will continue to take appropriate action to deal with the performance problem. If the performance is appraised to be at an acceptable level or higher, the employee would receive the general increase effective on the first day of the first pay period beginning immediately after the 12-week evaluation period. However, the general increase would be paid on a conditional basis for the remainder of the year. The general increase must be permanently removed if the employee's performance again is determined to be below acceptable during that same year.</li> <li>• Additional within-grade 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 <b>framework</b> for establishing a performance-based within-grade pay progression plan. This framework would include the following: <ul style="list-style-type: none"> <li>○ 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</li> </ul> </li> </ul>

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

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. 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	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. For this purpose, use the base rate in effect on the day immediately before effective date of the increase—i.e., the same base rate against which the general increase percentage is multiplied. This means that the general increase percentage and the performance pay increase percentage may be summed to show an employee’s overall percentage increase.
 

*Sub-option:* Apply the performance pay increase to the employee’s base rate after applying the general increase. Under this alternative approach, the overall increase is a compounded increase that must be computed by multiplying (1 + general increase) times (1 + performance pay increase) and subtracting 1.)
- DHS/OPM regulations would require that any allowed share allocation pattern established by DHS must provide a zero share and a zero percentage increase for an employee in the below-acceptable performance category.
- Employees who cannot receive the full amount of the share-based payout as a base pay increase because they have reached the grade 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 pool. (See Attachment.)



**15 GS-Linked Grades with 40% Open Ranges (share system) [10]**

		<ul style="list-style-type: none"> <li>○ An employee's rate may not fall below the minimum rate of his or her grade. (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 grade.)</li> <li>○ 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. <ul style="list-style-type: none"> <li><i>Sub-option:</i> Give DHS authority to also adjust shares for employees 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 rate range (based on the learning curve concept). DHS could define position in range based on halves, terciles, links to GS steps, etc.</li> <li><i>Sub-option:</i> Give DHS authority to provide increased shares to employees in the lower portion of the rate range who have been at the given grade level for a limited time (e.g., 1-2 years).</li> <li><i>Sub-option:</i> Give DHS authority to limit movement into or progression within the top 15% of the range to employees with the highest performance rating. Also, for employees in such a top portion of the rate range 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 the general increase.</li> </ul> </li> </ul>
4	Pay administration rules	<ul style="list-style-type: none"> <li>● <i>New Hire.</i> Same as GS system under title 5 (i.e., minimum step unless agency uses the "superior qualifications" authority based on the unusually high or unique qualifications of the new employee or on a special need of the Government for the employee's services).</li> <li>● <i>Promotion.</i> The employee's post-promotion rate would be the higher of (1) the minimum rate of the new grade or (2) the rate resulting from increasing the current rate by 7%. (This is similar to the GS system which provides a two-step promotion increase of approximately 6.7% of the minimum rate; however, under the GS system, the increased rate must be slotted into a step rate for the higher grade, resulting in an additional increase.) DHS/OPM regulations may address situations where the 7% promotion rule would not apply—e.g., employees who are being promoted to a grade they recently held.</li> <li>● <i>Geographic Movement.</i> Same as GS system under title 5 (i.e., locality payment may be increased or decreased).</li> <li>● <i>Use of Past Rates.</i> Same as GS system under title 5 (i.e., discretionary use of highest previous rate).</li> <li>● <i>Pay Reduction.</i> Same as GS system under title 5 (i.e., no within-grade pay reductions). As under the GS system, locality pay and special rates may be reduced. An employee's pay could be reduced if he/she is reduced in grade level. <ul style="list-style-type: none"> <li><i>Sub-option:</i> Allow for reductions in unadjusted basic pay for below-acceptable performers in conjunction with general and locality pay increases, as long as employee's adjusted basic pay is not reduced.</li> </ul> </li> </ul>

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

		<ul style="list-style-type: none"> <li>• <i>Pay Retention.</i> Same grade and pay retention as under title 5, except that special rates would not be basic pay for pay retention purposes except as specified in DHS/OPM regulations. (An employee who moves to a non-covered position—e.g., position change or geographic move—would not be eligible to retain a special rate designed for a particular category of positions. Pay retention would apply if a special rate schedule is reduced or terminated.) <ul style="list-style-type: none"> <li><i>Sub-option:</i> Eliminate 2-year grade retention. Provide pay retention as described above. (Variation: Could modify pay retention to provide for retained rate adjustment equal to 100% of change in maximum rate of grade for 2-year period, instead of the regular 50% adjustment.)</li> <li><i>Sub-option:</i> If a sub-option is adopted to restrict the top 15% of the rate range to top performers, then adopt special pay retention rules that keep employees in pay retention status if they enter the top range through pay retention. These employees would receive one-half of the general increase, unless they receive a top performance rating (which would end pay retention status).</li> </ul> </li> <li>• <i>Conversion to New System.</i> Employees on board at the time the new system is established who have accrued service toward a within-grade increase would receive the prorated value of the within-grade increase as a base pay adjustment at the time of conversion, as long as their performance is currently at an acceptable level. If the period of time between conversion and the effective date of the first annual performance pay adjustments under the new system is less than 1 year, DHS may prorate the first set of performance pay adjustments.</li> </ul>
5	Managerial compensation	<ul style="list-style-type: none"> <li>• Same as GS system under title 5 (i.e., supervisors and managers are covered under the same pay system and rules as other employees unless their position is classified above the GS). (See major sub-option regarding possible GS-16 grade.)</li> </ul>
6	Appeals	<ul style="list-style-type: none"> <li>• Employees may appeal internally the denial of all (or half) of the general increase. This would actually be an appeal of the employee's below-acceptable performance rating, which was the reason behind the denial of the general increase. <ul style="list-style-type: none"> <li><i>Sub-option:</i> Allow employees to appeal externally the denial of base pay adjustments based on a below-acceptable performance rating.</li> </ul> </li> <li>• Employees may appeal internally a performance rating for acceptable or higher performance; however, this appeal would be handled under the regular internal grievance procedure. <ul style="list-style-type: none"> <li><i>Suboption:</i> Allow DHS to establish a separate internal appeal process to handle disputes about an acceptable or higher performance rating.</li> </ul> </li> </ul> <p>Note: If an employee alleges a prohibited personnel action in connection with a performance rating, the normal title 5 rights of appeal apply.</p>
7	Evaluation	<ul style="list-style-type: none"> <li>• Collect data on salary costs, average salaries, distribution of pay increases, etc.</li> <li>• Use employee surveys to collect information on employee views on fairness of the base pay system.</li> </ul>
8	Other compensation	<ul style="list-style-type: none"> <li>• Bonus money would be funded at a fixed percentage of base payroll (e.g., 2%) but DHS could withhold bonuses from low-performing organizations or approve additional bonus money for high-performing organizations. DHS may establish controls or guidelines that relate to bonus distribution to individual employees.</li> </ul>

### 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).

## 15 GS-Linked Grades with 40% Open Ranges (share system) [10]

### 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.