Alternative Personnel Systems In Practice and A Guide to the Future

Working for America

FOREWORD

The Federal Government's successful experience with alternative personnel systems provides a clear path for improving key systems that are critical to the strategic management of our human capital. Achieving a Governmentwide results-driven, market-based pay system is within reach, as these performance-based alternative pay systems clearly indicate.

The material presented here summarizes that experience. In addition, this report provides a look at how performance management systems throughout Government have been upgraded and are being judged against stringent standards. The Office of Personnel Management is working hard to ensure the key infrastructure will be in place and operating effectively to support further transformation of Federal pay systems. As shown here, the results of these efforts to address agency readiness are encouraging, but more work will be required to implement a strategic compensation system as the Administration's legislative proposal envisions. Planning and preparation are essential, and this report concludes with an outline of the steps to be taken.

This material should prove useful in gaining a more in-depth appreciation of how far the Federal Government has already come with respect to using performance-based pay and how we are prepared to proceed in the future.

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PERFORMANCE-BASED ALTERNATIVE PAY SYSTEMS IN THE FEDERAL GOVERNMENT

Alternative pay systems with performance-based pay have existed for 25 years and today cover over 90,000 Federal employees. Taken together, these systems represent a steady progression away from the current Governmentwide classification and pay systems toward alternative approaches where market rates and performance are central drivers of pay. These alternative pay systems apply to the same kinds of work and workers that the current Governmentwide General Schedule and executive pay systems cover. The alternative systems vary in some of their technical details, but share many common objectives and practices.

Reviewing what happened when agencies implemented performance-based alternative pay systems surfaces five significant conclusions about their common experience:

- **Agencies discarded the General Schedule in favor of more practical classification and market sensitive pay.**
- **Performance – not time – drives pay.**
- **Success depends on effective implementation.**
- **Employees have come to support alternative pay systems.**
- **Agencies funded their systems out of existing budgets.**

These observations are supported by many years of cumulative data found in both internal and external evaluation reports. That support is not unqualified, and progress in some organizations has been slower, as would be expected with experiments. Nonetheless, the evidence presents clearly positive trends.

Although each performance-based alternative system is unique in some respects, they can be grouped in three categories: Demonstration Projects, Independent Systems and Governmentwide Executive Pay. Figure 1 shows the breakdown of employees across the three categories.

Figure 1. Employees in Performance-Based Alternative Pay Systems

Independent Systems 32,441

Demonstration Projects 52,892
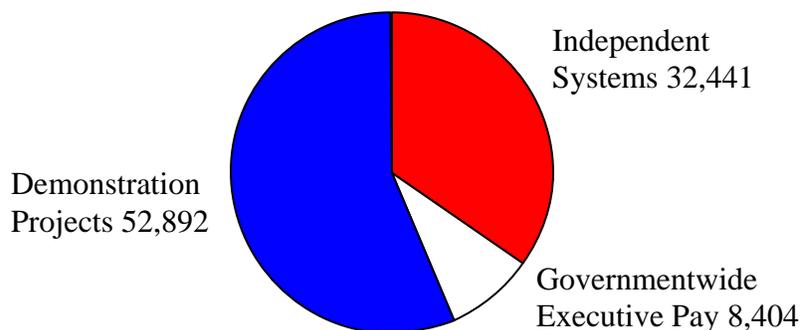
Governmentwide Executive Pay 8,404

Table 1 on the next page provides an at-a-glance view of all of the performance-based alternative pay systems identified by the Office of Personnel Management (OPM). The current numbers of covered employees are based on March 2005 data from the Central Personnel Data File, except for the Government Accountability Office (GAO) data, which are as of 2003.

Table 1. Performance-Based Alternative Pay System Profiles[1]

Agency	Start Date	Total Number of Employees Covered	Types of Employees Covered		
			Bargaining Unit Employees	Non-Supervisory/ Non- Bargaining Unit Employees	Managers
Demonstration Projects		**52,892**			
Navy "China Lake"	1980	10,581	X[2]	X	X
Commerce – NIST	1988	2,681	X	X	X
Commerce – various components	1998	4,242	X	X	X
DoD – Acquisition Workforce (AcqDemo)	1999	10,419	X	X	X
DoD Laboratory Demonstration Program (Lab Demos)		24,969			
– Air Force Research Laboratory (AFRL) – twenty locations	1997	2,379	X	X	X
– Army Aviation and Missile R/D/E Center (ARMDEC) – AL	1997	2,145	X	X	X
– Army Research Laboratory (ARL) – MD	1998	1,953	X	X	X
– Army Medical Research & Materiel Command (MRMC) – MD	1998	955	X	X	X
– Naval Sea Systems Command Warfare Centers (NAVSEA)	1998	12,065	X	X	X
– Army Engineering R/D Center (ERDC) – MI	1998	1,632	X	X	X
– Naval Research Laboratory (NRL) – seven locations	1999	2,595	X	X	X
– Communications Electronic Command (CECOM) – NJ	2002	1,245		X	X
Independent Systems		**32,441**			
Federal Aviation Administration	1996	17,987		X	X
Internal Revenue Service	2001	1,981			X
Government Accountability Office	2002[3]	3,261	N/A	X	X
"FIRREA Agencies"		12,473			
– Office of Thrift Supervision	1989	892	X	X	X
– Office of the Comptroller of the Currency	1991	2,695	X	X	X
– National Credit Union Administration	1992	889	X	X	X
– Federal Deposit Insurance Corporation	2003[4]	4,736	X	X	X
Governmentwide Executive Pay		**8,404**			
Senior Executive Service	2004	7,046	N/A	N/A	N/A
Senior Foreign Service	2004	1,038	N/A	N/A	N/A
Grand Total		**93,737**			

[1] We categorized a pay system as "performance-based" if the system provides at least two levels of performance-based pay increases for employees rated Fully Successful or higher under a regular pay adjustment cycle. We did not include systems that provide the opportunity for higher base pay increases for top performers only on an irregular or ad hoc basis, such as the opportunity to receive quality step increases under the General Schedule. We note that other alternative pay systems apply to other groups of Federal employees (e.g., Department of Veterans Affairs title 38 pay system, Securities and Exchange Commission, DOD Dependent Schools, and portions of the Federal Aviation Administration, to name a few). These systems are not included in this table because we did not identify them as meeting our definition of "performance-based."

[2] At their request, this project was expanded to include bargaining unit employees in the Clerical Career Path only.

[3] GAO has used a broadbanded performance-based pay system since 1980, but the system described here was substantially revised and implemented in 2002.

[4] FDIC has had independent authority to set employee compensation for more than 70 years and has used alternatives to fixed-step, time-driven pay systems for more than a decade; the system described here was implemented in phases beginning in 2003.

DEMONSTRATION PROJECTS

OPM and Federal agencies have invested 25 years in implementing pay-for-performance demonstration projects[5] by developing, approving, testing, and evaluating various approaches to alternative classification, pay and performance management systems. Much of the detailed knowledge about alternative systems – not just "what" was implemented, but "how" the project was developed, as well as its results – has come in the last 8 years through development and evaluation of demonstration projects in the Department of Defense (DoD) Laboratory Demonstration Program (Lab Demos). Demonstration projects have clearly yielded positive results. This conclusion has been further supported by reviews conducted by the Government Accountability Office and the National Academy of Public Administration, among others (see pages 28–30 for References).

RESULTS

OPM maintains an archive of individual and summative evaluation data that spans 25 years of progress. For purposes of this document, data analysis has focused on strategic compensation and effective performance management. Results in these areas are evidence that performance-based pay systems can work in the Federal Government with proper attention to change management and effective leadership practices.

STRATEGIC COMPENSATION. In departing from the General Schedule, demonstration projects are driven by mission needs, particularly to attract and retain top performers by offering competitive salaries and using pay to emphasize that performance matters.

Highest rated performers are paid the most.
- Employees in the demonstration projects reported a much stronger link between pay and performance than under the GS system.
- Demonstration projects were designed to provide higher pay increases to high performers, and results show increasing differences in pay between high and average or low performers over time.
- After 4 years, in the AFRL Lab Demo, performance accounted for 25% of differences in pay, compared to 0% under the GS system.
- In the Navy demonstration projects (loosely labeled "China Lake"), there was a 40% difference in pay between average and high performers after 10 years.
- Annual pay increases ranged from 0% for low performers to as much as 20% for top performers.

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[5] Enacted as part of the Civil Service Reform Act of 1978 and codified in chapter 47, Research and Demonstration, of title 5, United States Code, this authority enables OPM to establish up to ten demonstration projects, each of which may cover up to 5,000 employees for 5 years, with possible extensions to permit further evaluation. The original intent of this law was that on the basis of evaluation findings, a successful policy enhancement would be proposed for Governmentwide application. Over time, Congress has enacted some variations of this basic approach including making some demonstration projects permanent and granting the Secretary of Defense authority to establish the DoD Laboratory Demonstration Program, which applies the basic chapter 47 requirements.

Performance – not time – drives pay.

- Performance-driven pay progression replaced statutory waiting periods of 1 to 3 years for step increases and career-ladder promotions.
- In the majority of projects, the annual general increase was at risk and not granted to poor performers. Where unions objected, the General Schedule practice was followed and the general increase was guaranteed, regardless of performance.
- Even where employees did not report high levels of support for the demonstration project, they still reported increased pay satisfaction and a stronger link between pay and performance than under the GS system.

Costs are controllable.

- Through its research OPM has identified six major cost-control factors:
    - (1) method of converting pay rates for individual employees to their rates in pay bands
    - (2) policy on starting salaries
    - (3) type of pay progression and system of performance management
    - (4) size and mix of salary and bonus budgets
    - (5) choice of full-performance level pay rates
    - (6) overall number and distribution of positions established across bands and work levels
    GAO, in its review of demonstration projects, noted a similar set of factors.
- By far the most important cost-control factor relates to the fourth listed above. Experience has proven that using a predetermined percentage of payroll for performance-based pay increases is a much more effective and accepted cost control method than linking predetermined pay increases to different performance assessments, subject to a maximum rate for a given range of pay rates. Under the latter approach, costs are controllable chiefly by enforcing distributions of performance assessments, which in the Federal Government's merit-based culture can be considered harmful to trust and credibility and is generally avoided.
- The fifth cost-control factor listed above derived from an important lesson learned about setting the range of pay rates covering work classified at the full performance level. In an early demonstration project, pay rates more appropriate for work classifiable at the senior expert level were included within the full performance range. As a consequence, full performance work came to be paid at much higher rates than necessary or appropriate from a market perspective, and costs rose significantly. Such effects can be prevented by taking care in setting the range of pay rates for full performance work.
- The average percentage of payroll for base pay increases was about 2 to 2.4% and ranged from a high of 2.9% (NIST, during its early years) to 1.4% (NAVSEA-NUWC Lab Demo).
- Bonus budgets were also similar to the GS system – averaging about 1% of payroll and ranging from a low of 0.6% to a high of 1.96% (NAVSEA-NUWC, supplementing the low base pay percentage).
- For the nine Lab Demos, average pay was about ½ step higher after 4 years than under the GS system. The Lab Demos used many different banding schemes, and there was no indication one scheme was more or less costly than another, because pay progression and promotion policies still influenced movement within and between bands.
- After 14 years, salaries at the Navy China Lake demonstration projects were about one GS step (3%) higher than for GS employees at the control sites.

Work levels are broadly defined.
- Demonstration projects consolidated the 15 narrowly-defined grades of the General Schedule into three to five bands or work levels that more realistically reflect the way work is organized in modern work settings, typically defining levels of work as entry, development, full performance, senior expert, and managerial levels.
- Satisfaction with classification procedures increased and was 59% for the Lab Demos, compared to 41% under the GS system.
- Classification authority based on broader definitions of work levels was delegated to managers.
- The time required to classify positions decreased dramatically, and the number and length of position descriptions decreased.
- Some demonstration projects used competencies to define the factors applied in classifying positions and assessing performance/contribution.

Demonstration projects allow for sensitivity to locations and occupations.
- Pay banding facilitates more strategic use of compensation to recruit and retain high-performing employees.
- Pay can be more competitive in two ways: first, by offering starting salaries at higher levels of a band, and second, by paying high performers commensurate with their performance, increasing their retention.
- After 8 years, salaries for NIST demonstration project employees were about 10% above the GS control groups. Since NIST hires top-level scientists, they were able to maintain more competitive salary levels than agencies under the GS system.
- Largely as an administrative convenience, all demonstration projects adopted the locality pay percentages already used in the GS system to establish geographic pay supplements.

EFFECTIVE PERFORMANCE MANAGEMENT. Making a pay system more performance oriented requires credible performance appraisal. Formal distinctions in measured performance must have recognizably different consequences. Such credibility and transparency is attained through education, strategic alignment, due process, and – most important – accountability.

Managers are held accountable.
- In the demonstration projects, increased managerial discretion was balanced with a number of accountability mechanisms.
- In most demonstration projects, there was a reconciliation process, where managers of different organizational units jointly reviewed their rating distributions and employee accomplishments and reached agreement on relative performance rankings.
- Rating distributions were always reviewed at higher levels to insure fairness and consistency across organizations.
- Rating reconsideration procedures were provided in all demonstration projects and grievance activity was monitored.
- Formal evaluations were another accountability tool. Periodic surveys were administered including questions about procedural fairness, demonstration project support, and employee trust in supervisors. While employee perceptions of fairness and trust generally improved over time, the challenge of expanding a sense of fairness and trust remained.

- Trust is critical in effective performance-based pay systems. Demonstration project results show that trust levels in general remained high and in some cases increased when pay was linked to performance, managers were accountable, and due process safeguards were available.

Managers, HR staff and employees are trained.
- All demonstration projects provided extensive training and orientation in the new systems to managers, HR staff and employees to ensure they understood the new systems and were able to administer them.
- Training in compensation and performance management was often repeated in the second year.
- Demonstration project results show understanding of the systems increased significantly after the first year.

Managers set expectations and provide meaningful feedback.
- Communicating clear expectations and providing constructive feedback is necessary to help employees direct their efforts and improve their performance.
- Results vary across demonstration projects and indicate that although performance-related communication improved, it is a function of how well managers communicate in general. This is one area where continuing improvement is needed.
- Communication was found to be a factor critical to the success of the demonstration projects. Measures of effective communication were positively correlated with demonstration project support, satisfaction with performance management, perceptions of fairness, and organizational commitment.

Meaningful performance distinctions are made.
- When comparing the before (1996) and after (2000) demonstration project implementation rating distributions, there was generally more spread after implementation of pay-for-performance. Figure 2 illustrates changes in ratings distributions over time for four Lab Demo sites:

Figure 2. Ratings Distributions at Four Lab Demos
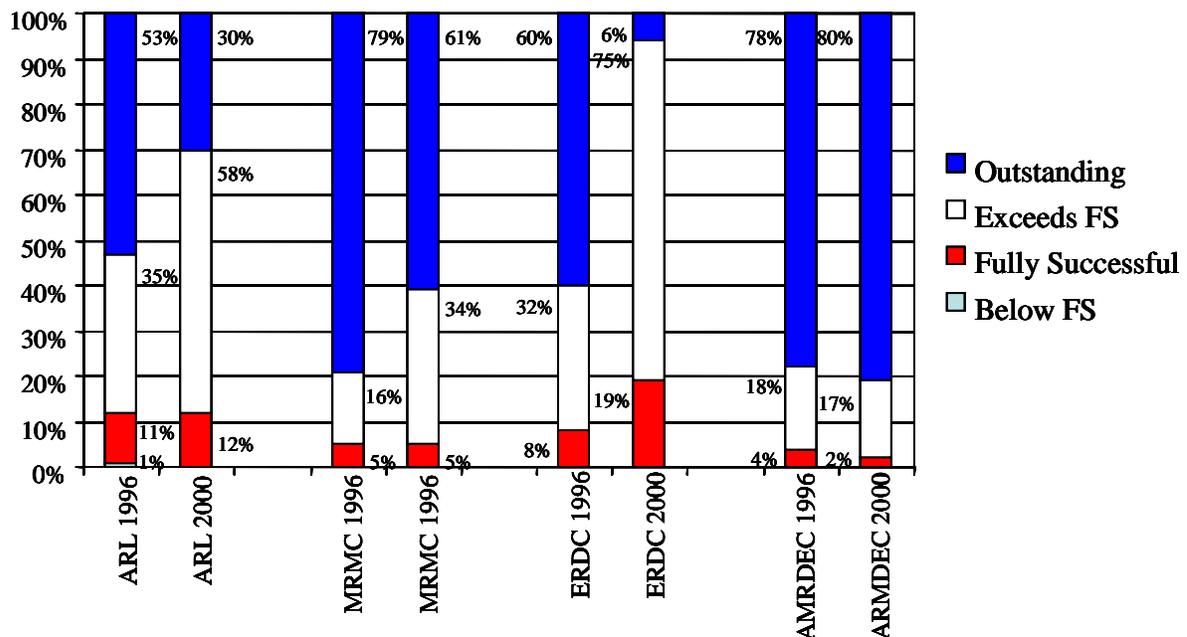
__Overall results were better when systems met effectiveness standards.__
- Analysis of Lab Demos against widely accepted criteria for effective pay-for-performance systems[6] showed labs that met most of the criteria tended to have higher levels of support for the project.
- Overall results of Lab Demos that met most of the effectiveness criteria also show they scored higher in surveys that measured procedural fairness, the link between pay and performance, and pay satisfaction.

__Best performers stay__.
- Demonstration projects were more effective in rewarding high performers and dealing with poor performers than the GS system.
- Results show reduced turnover of outstanding performers, as illustrated by the data in Table 2 for four Lab Demo sites.

Table 2. Turnover Rates Pre/Post Demonstration

Lab Demo	Year	Among Employees Rated Outstanding	
		Annual Turnover Rate	**Percentage Change**
ARL	1996 2000	56% 29%	↓ 48%
MRMC	1996 2000	75% 37%	↓ 51%
ERDC	1996 2000	53% 19%	↓ 64%
AMRDEC	1996 2000	65% 58%	↓11%

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[6] The effectiveness criteria used in OPM evaluation studies of performance-based alternative pay systems are shown below. They are derived from the research and writings of Dr. Edward E. Lawler III, one of the most highly regarded academics and thinkers in the United States about human resources management, compensation practices and organizational effectiveness.
  1. significant rewards can be given and tied to performance
  2. information is communicated to employees about how rewards are given
  3. supervisors are willing to explain and support the reward system
  4. rewards can vary widely, depending on performance
  5. meaningful performance appraisal sessions can take place
  6. performance can be objectively and inclusively measured
  7. high levels of trust exist or can be developed between supervisors and employees

IMPLEMENTATION

Evaluations of agency demonstration projects have established that Federal agencies successfully changed their pay and performance management systems to be modern, effective, validated, credible, and transparent – criteria repeatedly cited by the Government Accountability Office as essential for achieving results-oriented pay reform. Congress has since enacted such criteria as required design elements for any pay-for-performance demonstration project and other performance-based pay systems. In this regard, funding, leadership, and oversight are critical in implementing such systems and meeting these criteria successfully.

FUNDING. As with any compensation system, agencies were naturally constrained to ensure the pay features of their demonstration projects were affordable. The cost and funding implications of any pay system changes had to be considered carefully.

Agencies funded their demonstration projects out of their existing budgets. Agencies using the demonstration project authority funded design, communication, automation enhancements, training, and conversion into the new system, as well as ongoing salary management, and formal evaluation. Both the design of the pay system and the manner of implementation can have an impact on aggregate payroll costs. In its studies of demonstration projects, OPM identified six key cost factors:

- Whether buy-ins granted to employees at conversion were lump sum or base pay
- How starting salaries are set
- How movement through a band is determined
- Size and mix of salary increase and bonus budgets
- The minimum and maximum pay rates that define the pay band for full-performance level work
- Overall position management and effects of turnover

Project costs include start-up costs and ongoing salary costs.

Start-Up Costs—
- Startup costs included training, information technology (IT) investments in automated classification and compensation systems, conversion of payroll and personnel systems, and converting employees to the demonstration projects. Costs varied across demonstration projects because of different approaches to implementation. A governmentwide project would be more cost effective since design and certain elements of implementation are standardized. There would still be factors to consider such as agency training costs. However, in many respects these are important investments that the Government is making already in its strategic management of human capital.
- GAO reports that total costs relating to designing, installing, and maintaining automation and data systems ranged from $125,000 at NAVSEA's Dahlgren division to an estimated $4.9 million at AcqDemo. While the laboratories used their own staff for project development, many contracted for support in developing software for the new classification and pay-for-performance systems.

On-Going Salary Costs—
- In general, salary cost management for organizations covered by demonstration projects is no different than for agencies covered by the General Schedule (GS) pay system.

- Organizations covered by demonstration projects typically spend approximately the same amount of funds on structural pay increases as do agencies covered by the GS system. That is, demonstration project employees typically receive structural pay increases that are about the same as the base pay and locality pay increases received by GS employees.
- Similarly, organizations covered by demonstration projects typically spend approximately the same amount on performance-based pay increases as do agencies covered by the GS system. That is, performance-based pay increases for demonstration project employees are approximately equal to the within-grade increases, quality step increases, and "career-ladder" promotions received by GS employees.
- Structural pay increases (whether for organizations covered by demonstration projects or for agencies covered by the GS pay system) result in new salary costs, both in the year granted and in all future years, since structural increases in base pay become the base upon which subsequent structural pay increases are paid.
- When combined with normal turnover in the workforce, performance-based pay increases under demonstration projects typically do not result in an aggregate increase in overall salary costs. This is also true for GS employees, since newly hired GS employees generally are placed at lower grades and steps than departing employees. Thus, the cost of within-grade increases, quality step increases, and "career-ladder" promotions for current GS employees is offset by the lower salary costs attributable to newly-hired GS employees.
- Pay pools established under demonstration projects effectively control the cost of performance-based pay increases under such systems by limiting the amount distributed through that mechanism to a fixed amount ranging from 2.0 to 2.4%, depending on the occupational and demographic distribution of the covered workforce. Agencies covered by the GS pay system historically have spent about 2.0% of payroll on within-grade type increases.*
- In the early history of demonstration projects, some – like NIST – did not use a fixed pay pool. Decisions regarding funding level, choice of full performance pay band (e.g., GS-13/14 for administrative staff), pay progression formulas, and distribution of performance ratings also affected the degree of salary growth experienced by such projects. This represents a significant "lesson learned" from the Government's experience with demonstration projects.
- Finally, some demonstration project agencies operate on a reimbursable business basis. Thus, the need to keep prices competitive acts as a funding constraint for these agencies.

LEADERSHIP. Sustained, committed leadership – at all levels of the organization – is needed to develop and ensure support for a demonstration project. Leaders must engage stakeholders, dedicate resources, motivate staff, provide direction, promote and reinforce change, and create a strong performance culture.
- Support for the demonstration projects increased over time. Initially many employees were skeptical, which was to be expected with such major cultural changes that eliminated for these selected employee groups entitlements the vast majority of Federal employees still

*Correction— The following sentence contains an error: "Agencies covered by the GS pay system historically have spent about 2.0% of payroll on within-grade type increases." The words "2.0% of payroll" should instead read "1.4% of basic payroll." If a demonstration project involved the banding of GS grades, the pay pool could also include additional funds saved by the elimination of promotion pay increases between grades placed within the same band.

received. As experience and understanding developed, the overall level of support as measured by employee surveys generally reached a very satisfactory level of around 66%.

- Internal champions are critical in developing, communicating, and advancing these projects. They are persistent, persuasive, trusted, and visible. Every successful project can identify such individuals.
- Support for the demonstration projects can be tied to effective leadership practices and conversely, low support is not a result of poor design, but rather ineffective leadership practices. Support was high (80% vs. 26% at the lowest lab) in Lab Demos where more employees:[7]
  - − understood how pay decisions were made   (70% vs. 58%)
  - − viewed pay administration as fair   (73% vs. 43%)
  - − saw a link between pay and performance   (71% vs. 58%)
  - − reported good communication by supervisors   (55% vs. 40%)
  - − reported trust in their supervisor   (76% vs. 55%)
- Concerns that increased management discretion over pay decisions would negatively impact job satisfaction and morale proved unfounded. Given concerted communication and training efforts and strong leadership from the top, demonstration projects achieved improvements in both areas.
- Management communication was closely related to employee satisfaction with performance management and supervision. It was also related to trust, which is essential for acceptance of pay-for-performance systems. None of the Lab Demos scored high initially on assessments of communication effectiveness, but all improved over time.
- In its report on broadbanding in nine Federal agencies, the National Academy of Public Administration (NAPA) concluded that agencies emphasized communication, but wished they had done more – even though in some respects they had saturated their audiences with information.
- All projects undertook extensive communication efforts by using a variety of modes including: mass emails, newsletter, websites, meetings, public hearings, etc.
- Transitions in leadership can inhibit effectively carrying out changes in human resources management.
- Strong leadership assures consistent practices and results especially with decentralized approaches to implementing human resources management change. According to NAPA, such leadership is necessary to maintain a consistent level of training and management support for change.
- Leadership in gaining union support is a joint responsibility of labor and management. Managers play a critical role in the success of the demonstration projects and those managers who communicate honestly and effectively are most likely to gain trust and support for the project. Unions, on the other hand, need to be open and willing to experiment with new pay-for-performance systems and give the demonstration projects time to prove themselves. The demonstration projects showed the most effective approach has been to involve unions early to gain their support. In the absence of union support, some of the Lab Demos implemented their projects for non-bargaining unit employees only. To date:
  - − The Aviation and Missile Research, Development and Engineering Center (AMRDEC), which had high demonstration project support (70%) and trust levels (76%), provides a

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[7] Percentages show "best to worst" comparison in lab demos survey results

good example of a project that worked successfully with its union. As a result, after reviewing external evaluation results, the Executive Board of AFGE Local 1858 approved a 5-year extension of the demonstration project.

−   In some Lab Demos, unions agreed to test the interventions for a certain number of years but required management to renegotiate continuation with the unions.

−   At the Department of Commerce, employees of the two bargaining units within the Offices of the Chief Financial Officer and Assistant Secretary for Administration requested participation in the Commerce Project.

OVERSIGHT. Oversight consists of ongoing internal and external review during the development and implementation of these projects, as well as formal program evaluation at key points.

- Development and approval pertain to the formal recommendation of a project, consistent with legal requirements, under chapter 47 of title 5, United States Code, for establishing a demonstration project. Such requirements involve development of a plan specifying purpose, coverage, methodology, duration, training, anticipated costs, and periodic evaluation; publication in the *Federal Register*; public hearings; and advance notification to employees and the Congress. The process of development in general took 2 years and an additional 5 or more years to fully implement. Such extensive up-front time investments that demonstration projects require reflect the fact that they must generate the support necessary to single out an organization for atypical treatment and to design the specific, unique features of that treatment.

- For the Lab Demos, internal evaluation activities were generally performed by project staff and if contracted out were about $150,000 per year. Five-year external evaluation costs were shared by the laboratories and ranged from an annual cost of $14,000 (small lab) to $42,000 (large lab) in the first year, and $16,000 to $85,000, respectively, in the final year.

- The role of OPM varied from chapter 47 programs in which OPM approval was necessary for implementation to certain programs (i.e., Lab Demos) that by law later excluded OPM from the approval process.

- The Lab Demos used three DoD committees outside the local laboratories to oversee the demonstration project development process. Meetings were attended by individual project managers, OPM demonstration project staff, and members of the external evaluation team and DoD staff.

- Employee surveys played a key role in understanding the impact of demonstration projects. All projects used some kind of survey.

INDEPENDENT SYSTEMS

The second group of alternative pay systems are agency-specific and were established under independent authority Congress granted the agency in its authorizing legislation or as a specific authority to implement separate compensation systems. The specific agencies and employee populations covered by the systems reviewed here are listed in Table 1 on page 2.

Several agencies in this group obtained their special pay and classification authorities as Congress acted in response to a crisis, such as the situation in the banking industry that led to passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). In such circumstances, agencies have successfully argued that any improvement Congress expects in recruiting and retaining top-flight talent would be seriously impeded by continued coverage under the General Schedule's outmoded classification scheme and below-market salary ranges for their mission-critical occupations.

In contrast to demonstration projects, these independent systems may proceed without partnering with OPM to facilitate design and implementation, nor in most instances are any particular evaluations required. As one consequence, far less systematic data is available about the implementation and results for these systems. Nonetheless, they constitute an important category and their experience is also instructive.

RESULTS

STRATEGIC COMPENSATION. In many instances, these agencies won their independent compensation authorities as essential means to achieve improvements in meeting specific mission objectives and strategic outcomes. They recognized the role more up-to-date compensation programs could play to support those efforts.

Market sensitivity drives pay.
- To a great extent, agencies used their independent pay-setting authority to move beyond the limitations of the General Schedule salary rates and offer more competitive salaries to attract and retain mission-critical talent.
- Although the FIRREA agencies in particular used their pay authority to set competitive salary levels, several of them retained the strong internal equity value from the General Schedule and adjusted the salary ranges for all occupations, irrespective of their strategic value. In other words, they did not use their available flexibility to set and adjust pay levels only for mission-critical occupations and leave salaries for other more general occupations at normal Governmentwide levels.

Performance – not time – drives pay increases.
- Most independent systems grant within-range increases annually, rather than using multi-year waiting periods.
- Even for systems covering bargaining unit employees, any general structural increase to the underlying pay structure is granted only to employees who meet basic performance requirements.

Highest rated performers are paid the most.
- In most systems, the size of the overall pay increase is related to an assessment of the employee's performance. In some cases, however, the formal ratings of record are summarized at only two levels with other assessment information applied to make further distinctions among the employees who meet basic performance requirements.
- Some FIRREA agencies kept the basic grades of the General Schedule classification system, but expanded their pay rate ranges beyond the narrow 30% General Schedule range to allow stronger pay differentiation for better performers.
- Some FIRREA agencies have used "control points" within their broad pay ranges to ensure that rates of basic pay in the highest portions of a range are restricted to employees with the most highly rated performance.

EFFECTIVE PERFORMANCE MANAGEMENT. Many of the agencies with independent pay systems are not subject to the performance appraisal requirements of most Federal agencies. Nonetheless, they have implemented employee performance assessments to link to pay decisions, and many of their results are similar to the demonstration projects.

Managers are trained and accountable.
- Introducing a substantially new performance management system is often a key element of implementing a more performance sensitive pay system. Both the IRS and GAO concentrated on ensuring managers were thoroughly trained and that effective use of the new techniques became an important aspect of their own performance assessments.

Competencies are assessed.
- GAO uses core competencies as a central common element in its performance management system to ensure integration and strategic alignment throughout the agency. Each employee is clear about how those competencies apply in his or her own performance and expectations. Introducing these core competencies was a central feature of the major overhaul of the broadbanded pay system GAO had already had in place for many years and for which lenient performance ratings had been problematic for many years.

Meaningful performance distinctions are made.
- Through a combination of integrated drivers – including cost control, the objective of creating pay differentiation, and holding managers accountable – several independent systems have successfully maintained rigor in the distributions across their performance assessments, as illustrated in Figure 3 for four independent systems. To some degree, this may reflect the fact that such rigor is commonplace in the private sector organizations that comprise the principal competitive labor market, particularly for the financial regulatory agencies.

Figure 3. Ratings Distributions for Four Independent Systems
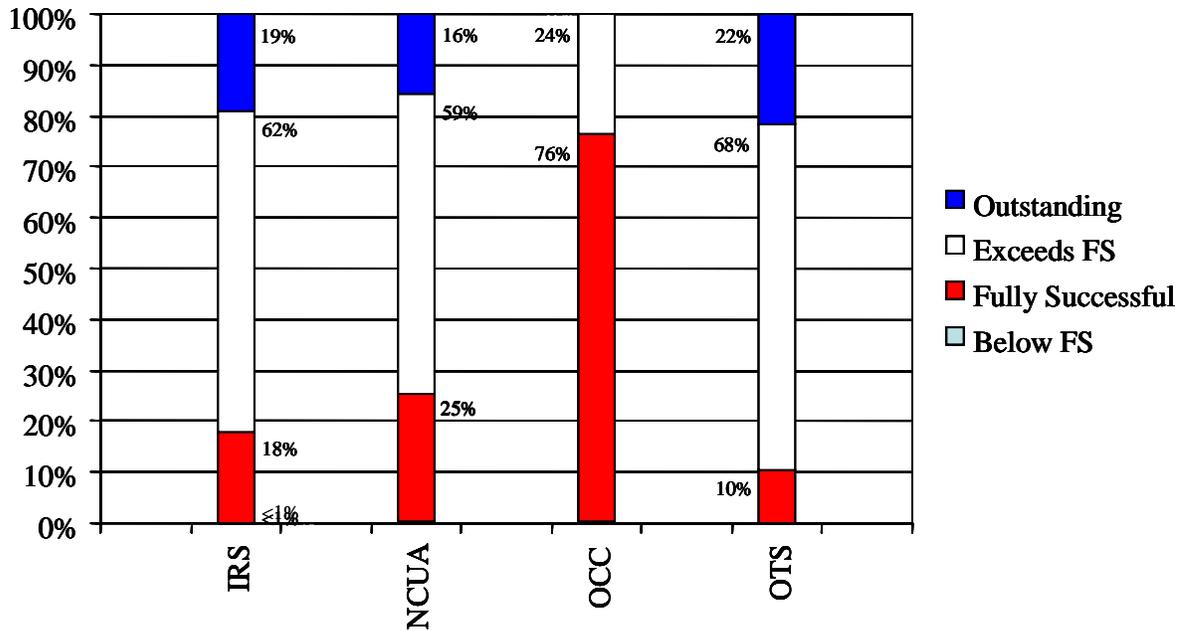
IMPLEMENTATION

FUNDING. The agencies with independent classification and pay authority faced many of the same funding challenges as demonstration project agencies. However, in several cases, access to resources was somewhat more flexible.

- Several agencies were not seriously constrained by the limitations annual appropriations impose because they could control their revenue through such means as setting user fees.
- IRS delayed an expansion of its broadbanding system for managers until funding to finance "buy ins" could be identified.
- FIRREA included a statutory requirement that each FIRREA agency "shall seek to maintain comparability with other Federal bank regulatory agencies." This requirement can sometimes put pressure on an individual agency to develop a larger salary increase budget than might have been anticipated. The FIRREA agencies use an informal "comparability committee" to share information about planned pay increases.
- GAO reported spending $1.5 million on the design and implementation of its competency-based performance management system and its performance-based compensation system, including training for management and staff.

LEADERSHIP. Although their independent authority meant these agencies did not have to coordinate and produce the extensive plans demonstration projects require, most still relied on strong leadership to direct the effort and sustain support.

- GAO's overhaul of its 20-year-old broadbanding system was a primary management goal of Comptroller General David Walker. His singular commitment to developing a robust

performance management system and transforming the agency's culture to focus on core competencies and market-based pay was essential to the success achieved to date.

- Leaders made a strong commitment to employee communication. In its report on broadbanding in five states and nine Federal agencies, NAPA concluded that all organizations emphasized the importance of fostering communication, but wished they had done more, despite saturating their audiences with information.
    o FAA used mass emails, monthly newsletters, briefings, mandatory training, brochures, website and follow-up training. FAA established a communications group with a broad representation of agency managers and employee representatives to consider a corporate approach to communications on all subjects.
    o IRS used focus groups, briefings, satellite broadcasts, a web-based calculator and executive communications packages.
    o GAO used constant communication and collaboration with employees at all affected levels, distributed hard-copy material, and placed it on the GAO intranet, solicited employee views and suggestions, held listening sessions and teleconferences, and provided manager-conducted training when the system was implemented.
- In several FIRREA agencies that are led by corporate boards, those boards have an ongoing leadership role, particularly with respect to setting compensation philosophy and objectives, as well as setting merit budgets and determining affordability. Those boards in some instances directed an overhaul of some aspect of the pay for performance system, e.g., to make it simpler, more performance sensitive, or add cost controls.

OVERSIGHT. Because these agencies were exempt from title 5, oversight varied and was not systematic. In nearly all cases, they were not required to conduct evaluations of their new systems, although several did perform general program evaluations, particularly when new leadership raised questions about their systems.

- Despite their independence from title 5, most of these agencies are subject to Executive Order 13197 on Governmentwide Accountability for Merit System Principles. Compliance with this Order entails establishing accountability systems that meet standards established by OPM.
- The failure to establish standards, indices and time frames by which a change effort is assessed early in the process not only makes success difficult to determine but makes implementation problematic. Although the FAA clearly identified five major objectives for changes in human resources management systems, it did not initially develop an evaluation plan with standards or gather baseline data by which the success of the interventions could be assessed. FAA subsequently did establish comprehensive evaluation plans for its system, conducted multiple evaluations and reviews, compiled baseline data, and established specific measures of success.
- GAO paid special attention to providing due process and safeguards to promote employee acceptance and trust. They established a special reconsideration process to offer employees the opportunity to get their performance assessments examined by independent reviewers.
- External evaluations played a role in most projects, although NAPA found that GAO did not use external evaluation.
- For FIRREA agencies, the "comparability committee" provides some cross-agency accountability.

GOVERNMENTWIDE EXECUTIVE PAY

Because executive pay is based on pay-for-performance systems the employee numbers are included in Table 1. The material supplied in the next section has more information about SES pay system implementation and the results of executive appraisal system certification. Since January 13, 2004, all SES members have been covered by the Federal Government's enhanced performance-based pay system for executives and now *any* increase in a senior executive's rate of base pay must be linked to performance. In addition, the enhancement established an expanded open-range for setting and adjusting base pay. A similar, but separate authority granted by Congress in 2005 covers the Senior Foreign Service.

OVERALL SUMMARY

The Federal Government – through a set of landmark demonstration projects, independent agency systems, and the Governmentwide executive pay system – has made considerable progress in recognizing what works and what does not work when it comes to implementing performance-based pay systems. OPM focused attention on many of these lessons learned as the Department of Homeland Security and the Department of Defense planned and began to implement their systems. The challenges must be addressed, but the rewards are significant. When performance-based alternative pay systems are closely scrutinized, the results are clear: better performers get higher pay, agencies can control costs and compete for and retain top-flight talent, and training and accountability result in effective performance management systems that make meaningful distinctions and support agency mission.

PERFORMANCE MANAGEMENT IMPROVEMENT AND AGENCY READINESS

Over the last three years OPM has been working with agencies on performance management improvements to ensure robust performance management systems – a critical requirement for successful performance-based pay systems – are in place or being put in place for a significant portion of each agency's workforce, beginning with the Senior Executive Service. (See Table 3 on page 24.)

PERFORMANCE MANAGEMENT FOR SENIOR EXECUTIVES

Executives are the most important change agents when it comes to enhancing or replacing performance management systems. The Office of Personnel Management (OPM) has had a year of leadership and oversight experience implementing new certification requirements for agency Senior Executive Service (SES) performance appraisal systems. The entire SES is under an enhanced performance-based pay system. Pay changes are based totally on performance. Stronger distinctions in performance are being made, with previous cases of extremely high and implausible percentages of *Outstanding* ratings declining so that the "outstanding" description can truly carry its intended connotation of "stands out as an exception." Base pay increases in higher amounts and greater proportion are going to higher performing executives. As a further enhancement and incentive to improve performance management practices and results, agencies that meet OPM and congressionally mandated requirements for effective appraisal systems may offer higher rates of base pay to their senior executives.

RESULTS

OPM has seen diligent, thoughtful, and rigorous implementation of the new system. For most agencies, the SES performance-based pay system is their first experience with a system where base pay is set and adjusted using an open pay range without fixed rates or steps.

STRATEGIC COMPENSATION.

Pay adjustments and awards are based on performance.
- Performance Review Boards are using the results of the appraisal system to make recommendations about awards; some are also engaged in recommending pay adjustments.
- In general, results show executives rated *Outstanding* receive higher pay adjustments than executives rated at a lower level.

EFFECTIVE PERFORMANCE MANAGEMENT.

Agencies are holding executives accountable for achieving results that are clearly tied to organizational goals.
- Information about the linkage between mission goals and individual executive accountability is reviewed during the certification process. Executives are now actively incorporating into their performance plans specific business results with clear measures of performance.
- Performance plans that merely hold executives accountable for "providing leadership" or "managing a program" do not meet the certification criteria without also including specific organizational goals and targets to be achieved, with measurable standards.
- With respect to rating distribution, OPM looks for a relationship between the rating distribution and the performance of the agency, as determined through the agency's Performance and Accountability Report (PAR), results of applying the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) on agency programs, or other organizational performance reports the agency provides.

Agencies are assessing organizational unit performance, communicating that performance to rating officials, and ensuring their rating distribution reflects the unit's performance.
- OPM and OMB review organizational performance information during the certification process.
- OPM is no longer seeing agencies with 100 percent of their executives rated at the highest level allowed by their system while the agency is failing to meet its performance targets.

Agencies are making distinctions in levels of performance.
- Many agencies that were not previously making *any* distinctions across levels of performance are now making those distinctions and are identifying and rewarding their top performers. In addition to being clearer and more beneficial to the executives themselves, providing such differential feedback makes the overall system more credible and useful to customers and other stakeholders.
- The average percentage of executives rated at the top performance level used by their systems went from 80.6 percent in 2001 to 55.5 percent in 2004. Agency-specific changes are shown in Table 4 on page 25. While agencies have continued to make progress, there is still more work to be done.

Agencies are holding executives accountable for the performance management of subordinates.
- This new requirement established in the certification regulations ensures that leadership and supervisory responsibilities are among the performance elements upon which an executive is rated, demonstrating the importance of that aspect of executive responsibility.
- OPM reviews executive performance plans to ensure that this element is included.

Agencies are establishing oversight and accountability systems for their SES performance-based pay system.
- During the certification process, agencies must describe to OPM their oversight and accountability systems.

- A high-level official at the headquarters level within an agency is held accountable for the implementation and operation of the system.

An agency example of how improvements are being made to performance management for senior executives follows:

IMPROVING RESULTS-FOCUSED SES PERFORMANCE MEASUREMENT

OPM works with agencies to improve their SES performance plans, particularly in the way performance measures are established. In 2004, OPM's review of performance plans from the Environmental Protection Agency (EPA) showed they needed to improve the results focus and measures of performance. As a result, EPA refined its approach to assessing executive performance. Previously, EPA appraised executives solely on critical elements, mirroring the Governmentwide Executive Core Competencies (ECQs). These critical elements had only fixed requirements, except for "Results Driven" – which is one of the six general ECQs – - which, in addition, tried to capture business results in commitments developed by each executive. After consultation with OPM, EPA revised its performance plans to place more emphasis on these commitments:

- The first part of each plan has fixed elements and requirements that focus on the ECQs.
- The second part is titled "Individual Commitments" and focuses on specific business results to be achieved by the executive and the organization for which he or she is accountable.

To help executives strengthen their commitments, EPA's website now contains some "model" performance plans as well as guidance (including examples from OPM) for developing good commitments. This new approach is intended to better balance executive focus on competencies and achieving results.

Example of EPA's old and new approach to establishing executive performance elements and requirements:

Original Element and Requirement	Revised Element and Requirement
Results Driven, Individual Commitments: Demonstrates leadership in implementing the Water Quality Accountability in collaboration with States. [Stated in part; full plan included additional requirements]	*Results Driven, Individual Commitments:* Eighty percent of the Division's grants are awarded within 60 days of receipt of a complete application. The backlog of Congressional earmarks is reduced by 50 percent.

IMPLEMENTATION

The implementing regulations issued jointly by OPM and OMB in 2004 for appraisal system certification requirements recognized the variation found in the quality of SES appraisal systems Governmentwide, and OPM established a process for providing provisional as well as full certification. This gave agencies access to pay increases while working to enhance their appraisal systems further. OPM also issued the regulations implementing the new pay system and its more stringent requirements for linking performance and pay. OPM held several forums for agencies to announce and review the certification criteria and pay regulations.

FUNDING.
- Implementing the executive performance-based pay systems in the agencies entails very little startup investments or costs.
- Agencies establish internal pay policies for making pay adjustment and award determinations, under general Governmentwide regulations and limitations.
- Agencies fund their performance-based pay increases and awards out of their existing budgets.

LEADERSHIP.
- The head of the agency or designee must have oversight and accountability for the appraisal and pay of executives.
- All recommended ratings and awards – and in most agencies pay adjustment recommendations – are reviewed by agency Performance Review Boards, which make the final recommendations to the agency head (or designee), who makes the final decisions. This process ensures rating and reward distinctions are fair and credible.
- During the certification process, OPM ensures that the agency system provides for oversight and accountability.
- Agencies have demonstrated their serious commitment to effective implementation of the executive performance-based pay system. The imperative to establish and maintain credible, transparent systems clearly aligned to agency mission is clear.
- Agencies have worked cooperatively to share best practices and to apply OPM feedback and technical assistance to improve their appraisal system features and operations.

OVERSIGHT.
- Internal and external oversight and accountability is a critical requirement for executive performance-based pay systems.
- OPM as the gatekeeper grants agencies provisional or full certification based on a stringent examination of the case the agency puts forward describing how its system meets the regulatory criteria. OMB must concur in the certification decision. To date only one agency, the General Services Administration, has received full certification for its SES appraisal system.
- SES appraisal system certification criteria require an agency to have an oversight and accountability system for their performance appraisal system.
- The process for certifying agency SES appraisal systems has required OPM to conduct thorough reviews of the systems, including detailed review of a sample of executive performance plans.

- During calendar year 2004, OPM reviewed the appraisal system and 10 percent of the executive performance plans (proportionately distributed across the agency) for each agency requesting certification.
- Agencies requesting recertification of their systems for a successive calendar year are subjected to another complete certification review. In particular, OPM analyzes the results of linking performance ratings to pay decisions – both for base pay and for performance bonuses – to ensure that the appraisal results are applied in a meaningful way.

PERFORMANCE MANAGEMENT FOR THE GENERAL WORKFORCE

Agencies have exercised the strong senior level leadership necessary to:
- Replace pass/fail appraisal systems with multi-level systems
- Renegotiate union contracts as needed to allow for stronger performance management systems
- Consolidate disparate approaches into unified agency-wide systems
- Communicate new expectations in their agencies
- Link appraisal to agency and program mission, goals, and outcomes
- Hold employees accountable for results
- Differentiate among various levels of performance
- Provide consequences based on performance

Status of General Workforce Performance Management Systems in 2005 that meet the above requirements and are therefore considered to be "robust performance management systems" (see Table 3 on page 24):
- Seventeen agencies with statutory Chief Human Capital Officers – encompassing 34 percent of the non-DOD, non-DHS large-agency workforce – have all managers and at least 60 percent of their non-manager workforce under such systems.
- The remaining agencies, encompassing 66 percent of the non-DOD, non-DHS CHCO Act agency workforce, have specific plans and timetables in place to put all managers and at least 60 percent of their non-manager workforce under such systems.
- DOD and DHS are taking the necessary steps to cover 819,000 non-SES employees by implementing performance management and performance-based pay systems in accord with their separate statutes and regulations.

With this strong foundation in place, OPM significantly raised the bar for performance management systems for FY 2006 by requiring that all managers be competent in and – in their own performance plans and ratings – be evaluated on effective management of employee performance. In addition, OPM is requiring agencies to assess the effectiveness of all their performance management and awards programs utilizing a Performance Appraisal Assessment Tool to help guide them through their assessments. The guidelines for assessment include a consolidated set of criteria that are consistent with the SES system certification criteria, and design elements the Congress established as required for any pay-for-performance demonstration project established under chapter 47 of title 5, United States Code.

Effective appraisal programs must provide for the following:

- **Alignment.** Employee performance plans align with and support organizational goals.
- **Results-focus.** Employee performance plans hold employees accountable for achieving results appropriate to their level of responsibility.
- **Credible measures.** Employee performance plans provide for clear measures of expected results.
- **Distinctions in levels of performance.** The appraisal program provides for multiple levels to appraise performance and rating officials use those levels to clearly describe distinctive levels of performance and appropriately rate employee performance.
- **Consequences.** The result of appraisal is used for recognizing top performers and addressing poor performance.
- **Employee Involvement.** Employees are involved in the design of the appraisal program and in the development of their performance plans.
- **Feedback and Dialogue.** The appraisal program establishes a performance feedback process that ensures a dialogue between supervisors, managers, and employees throughout the year.
- **Training**. The appraisal program requires that executives, managers, supervisors, and employees receive adequate training and retraining on the performance appraisal program.
- **Oversight and Accountability.** The head of the agency or designee has oversight of the results of appraisals and awards, ensures that the program operates effectively and efficiently, and ensures that appraisals and awards are based on performance. In addition, managers and supervisors are held accountable for the performance management of their subordinates.

In addition, each agency will designate a beta site where there is demonstrable evidence that all the criteria listed above have been meet. Each agency must also demonstrate that they are working to include all agency employees under such systems.

OPM will evaluate the agencies' assessments and provide a Governmentwide evaluation of agency readiness for implementing performance-based pay systems, as well as to lead appropriate efforts to improve agency performance management systems where necessary.

An agency example of how improvements are being made to performance management follows:

Improving the Strategic Alignment of Employee Performance Plans

OPM reviewed non-SES performance plans to see whether they aligned with organizational goals, focused on results, and provided for making distinctions in levels of performance. Within the Department of Agriculture (USDA), the review showed the performance plans for employees in the Natural Resources Conservation Services (NRCS) held employees accountable for results that were hard to measure and not focused on the results they needed. Based on OPM's recommendation, NRCS took steps to change their elements to include measurable objectives that link to agency mission and demonstrate quantifiable results.

Example of the effect of adding measurable objectives to NRCS performance elements:

Original Element	Revised Element
Element: Demonstrates support for agency strategic goals and initiatives within own organizational unit and contributes to the achievement of overall agency initiatives. Stresses accountability and continuous improvement to employees/team member, makes timely and effective decisions, and produces results through strategic thinking and decisive action. Ensures a high degree of responsiveness…..	**Element:** Mission Results Will achieve X # of wetlands acres for part of the Area (links to Measure #7 of National Performance Report) Will achieve X# of acres of agricultural land managed for the protection and enhancement of habitat for species with declining population for part of Area (links to Measure #21 of National Performance Report) (Plus 27 other like objectives)

AGENCY READINESS

OPM uses five indicators to assess agency readiness for the Working for America Act:

- Agency have received Full or Provisional status for their SES Appraisal System
- Agency differentiate between various levels of performance
- At least 60 percent of employees are covered by "robust performance management systems" as outlined by the performance management (culture) section of the PMA Strategic Management of Human Capital
- Human capital readiness assessment based on OPM internal evaluation of the agency from the perspective of both human capital leadership and merit system accountability
- Agency desire to implement alternative personnel systems

Based on analysis of agency positions on the indicators above and their progression on performance management improvement, the Department of Labor, Department of Justice and General Services Administration are examples of agencies who are well positioned to implement the requirements of the Working for America Act (WFAA). There are over 80,000 employees in these agencies who, if WFAA is enacted, could be moved to pay-for-performance systems in 2007. The next section provides further information about WFAA implementation steps.

OPM continues to provide guidance and support for agencies and will be looking for improvements in their 2006 PMA results and SES Certification submissions.

Table 3. August 2005 Status of SES and Non-SES Employees Covered Under "Robust Performance Management Systems"

Agencies	Number of SES Covered (100%)	SES Appraisal System Certification Status for CY2005	Number of Managers Covered (100%)	Total Number of Non-SES Employees Covered
Agencies Scored Under the President's Management Agenda				
Agriculture	322	Provisional	11,501	11,501
Commerce*	342	Provisional	3,530	24,997
Defense	1,201	Pending	73,936	73,936
DHS	281	Provisional	19,163	19,163
Education*	93	Provisional	486	2,865
Energy*	431	Provisional	1,264	9,241
EPA	277	Provisional	1,432	1,432
HHS*	385	Provisional	5,340	40,013
GSA*	103	Full	1,822	8,150
HUD*	98	Provisional	1,259	6,423
Interior	259	Provisional	9,644	9,644
Justice*	606	Provisional	16,660	68,651
Labor*	181	Provisional	1,979	10,040
NASA*	426	Provisional	1,358	11,788
NSF*	84	No current request	35	769
OMB*	69	Provisional	79	322
OPM*	59	Provisional	314	3,201
SBA*	51	Provisional	516	2,580
Smithsonian	N/A	N/A	790	790
SSA*	140	Provisional	4,988	41,698
State*	168	No current request	3,053	15,754
Transportation*	202	Provisional	6,469	35,833
Treasury	430	Provisional	11,063	11,063
USAID*	21	No current request	662	1,642
VA	279	Provisional	18,544	18,544
Agencies Not Currently Scored Under the President's Management Agenda				
Certified	326	9 Provisional	N/A	N/A
Not Certified	212	No current request or Pending	N/A	N/A
Total	**7,046**		**195,887**	**430,040**

* Agency has met OPM 2005 requirements for performance culture (see page 5)

Totals for SES		*Number of SES*	*Percentage*
Appraisal System Certified	25 Provisional, 1 Full	4,892	**69%**
Appraisal System Not Certified	All other agencies	2,154	**31%**
Total		7,046	

Total for All Non-SES Employees in PMA-Scored Agencies	Total w DOD/DHS	*Percentage*	Total w/o DOD/DHS	*Percentage*
Agency Meets '05 Requirements	430,040	**24%**	336,941	**34%**
In Progress	1,389,017	**76%**	661,619	**66%**
Total	1,819,057		998,560	

Table 4. Senior Executive Service Performance Ratings 2000, 2001 and 2004

Agencies	2000 Percent at Highest Rating Level	2001 Percent at Highest Rating Level	2004 Percent at Highest Rating Level
Agriculture	37%	36%	44%
Commerce	84%	80%	49%
Defense	98%**	99%**	99%
DHS	Not Applicable	Not Applicable	85%
Education	100%*	100%*	99%
Energy	100%*	99%*	44%
EPA	86%	85%	61%
GSA	96%	92%	28%
HHS	91%**	91%**	52%
HUD	100%*	99%*	45%
Interior	100%*	100%*	22%
Justice	91%	91%	62%
Labor	68%	61%	45%
NASA	73%	76%	76%
NRC	100%*	100%	9%
NSF	83%	89%	81%
OMB	88%	20%	33%
OPM	91%	37%	47%
SBA	76%	82%	70%
SSA	100%*	100%*	56%
State	100%	99%	86%
Transportation	99%*	100%*	33%
Treasury	54%	63%	44%
USAID	95%	79%	53%
VA	56%	56%	64%

* Agency used a "pass/fail" system, with no level above Fully Successful available
** Most but not all of the agency was under a "pass/fail" system

WFAA IMPLEMENTATION PLAN

The strategic compensation system to be established under the Working for America Act (WFAA) includes three key elements: (1) a core classification system, (2) a core market-based pay system, and (3) a performance appraisal and performance-based pay system. The first two elements would be designed and managed by OPM for general applicability to all covered Federal agencies and employees. The third key element, however, would be managed and applied by each Federal agency based on Governmentwide policies established by OPM.

The following chart shows the key steps contemplated by the Administration to establish and maintain the WFAA strategic compensation system through the development of "Government-wide Policies and Guidance" and by providing "Agency-by-Agency Implementation Support". Each of the various steps also indicates *who* is responsible, *when* the work must be done, and whether the step entails *leadership* and/or *oversight*, as follows: Leadership implies the OPM role in leading the effort or setting the standard; Oversight implies OPM responsibility to monitor results.

	WHO		WHEN		WHAT	
	OPM	Agency	Start-up	On-going	Leadership	Oversight
Governmentwide Policies and Guidance						
Core Classification and Market-Based Pay System						
• The core classification and market-based pay system would be developed and administered centrally by OPM in consultation with OMB and the Federal Pay Council	X		X	X	X	X
• OPM establishes, maintains, and refines the "Governmentwide" core classification and market-based pay system	X		X	X	X	X
• After consultation with the Federal Pay Council, OPM and OMB determine minimum and maximum rate range adjustments, local market supplement adjustments, and any amounts needed to supplement annual performance pay increases	X			X	X	
Performance Appraisal and Performance-Based Pay System						
• In consultation with CHCO Council and appropriate stakeholders, OPM develops Governmentwide regulations and/or appropriate guidance to implement new performance appraisal systems	X		X		X	
• OPM develops a performance management training model and templates for implementation, communication and training	X		X		X	
• OPM develops strong metrics for agencies to use in their accountability systems and for OPM use in monitoring agency results	X		X	X	X	X
• For 5 years after WFAA enactment, OPM would determine amounts authorized for performance pay increases	X		X			
• After first 5 years, each agency would determine the amount authorized for performance pay increases, subject to any minimum OPM establishes	X	X	X			

	WHO		WHEN		WHAT	
	OPM	Agency	Start-up	On-going	Leadership	Oversight
Agency-by-Agency Implementation Support						
Preparing the Way.						
• OPM helps agencies implement or improve their results-oriented performance cultures based on OPM criteria (ongoing since 2003)	X	X	X		X	
• OPM helps agencies assess their existing performance management systems and making improvements in performance culture	X	X	X		X	
• OPM provides coordination and oversight of agency usage of human resources management flexibilities	X			X	X	X
• OPM applies the pre-approval and oversight to agency performance appraisal systems	X			X	X	X
• OPM provides technical assistance on deploying human capital metrics	X			X	X	X
Creating a Foundation for Change Management.						
• Agency executives and OPM meet to determine implementation, training and communication strategies	X		X		X	
Developing an Infrastructure for Agency Readiness.						
• Agency executives work with OPM to determine expectations and readiness criteria	X	X	X		X	
Supporting Agency Implementation						
• OPM supports agency in planning and implementing with technical assistance, guidance, tools, and templates	X			X	X	
• OPM exercises its basic oversight and compliance authorities under 5 U.S.C. 1104 and Executive Order 13197, including ensuring agency performance adjustment plans are fully compliant	X			X		X
OPM Certification						
• OPM develops rigorous certification criteria for performance adjustment plans	X		X		X	
• Agencies publish proposed performance adjustment plans in a *Federal Register* notice with a 30-day comment period, and meet and confer with labor organizations	X	X	X		X	X
• OPM certifies performance adjustment plans before implementation	X		X			X

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