

**STATEMENT OF  
THE HONORABLE LINDA M. SPRINGER  
DIRECTOR  
U.S. OFFICE OF PERSONNEL MANAGEMENT**

**before the**

**SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,  
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA**

**COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS**

**on**

**PAY FOR PERFORMANCE IN THE FEDERAL GOVERNMENT**

**JULY 22, 2008**

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you to discuss the progress to date in the implementation of pay-for-performance for members of the Senior Executive Service, National Security Personnel System and others in Government. I want to thank you Chairman Akaka and Senator Voinovich, for the continuing support you and the other Members of the Subcommittee have demonstrated for effective performance management. Since my last appearance before you on this topic, the Office of Personnel Management (OPM) has continued its work with agencies to implement effective performance-based pay systems. We continue to evaluate these systems and have published three major reports in 2007 on system implementation progress. In May 2007, OPM issued two comprehensive reports assessing the implementation and progress of the Department of Defense National Security Personnel System and the Department of Homeland Security Alternative Personnel System. In December 2007, a status report on all performance-based pay systems was published. These reports can be found at <http://www.opm.gov/aps/reports/index.asp>.

Today I would like to characterize the evolution of pay-for-performance in the Federal Government in three major phases – the 25 plus years of alternative personnel systems prior to 2004, the 3 major legislative performance-based pay initiatives occurring after 2004, and current activities.

## **Alternative Personnel Systems Prior to 2004**

OPM, under chapter 47 of title 5, U.S. Code, is permitted to establish and evaluate personnel management demonstration projects to test whether specific changes in Governmentwide human resources management policies and practices would result in improved Federal personnel management. Congress has also, in certain instances, established agency-specific alternative personnel systems under independent statutory authority. These include pay-for-performance systems at the Internal Revenue Service, the Government Accountability Office, the Intelligence Community, and others.

Since the implementation of the first demonstration project in 1980, OPM has maintained an archive of evaluation data on strategic compensation and effective performance management. In 2005, we issued a report summarizing the 25 years of successful experience with all existing alternative pay systems. The report also provided a look at how performance management systems throughout Government have been upgraded and judged against stringent standards. The conclusions were significant: agencies were discarding the General Schedule in favor of more practical classification and market sensitive pay; performance – not tenure – drives pay; success depended on effective implementation; over time, covered employees supported alternative pay systems; and, agencies funded their systems out of existing budgets. It was noted that “progress in some organizations has been slower, as would be expected with experiments. Nonetheless, the evidence presents clearly positive trends.”

## **Major Legislative Performance-Based Pay Initiatives**

### **Senior Executive Service**

Members of the Senior Executive Service (SES) have been covered by a pay-for-performance system since 2004, when Congress provided for their appraisal systems to be certified as making meaningful distinctions in performance. OPM, with concurrence by OMB, makes these certification decisions. Agencies must have certified appraisal systems in order to pay their senior executives above the rate for Executive level III (now \$158,500), up to the rate for level II (\$172,200). Certification is also required for agencies to be able to apply a higher aggregate pay limitation, equal to the Vice President’s salary.

Between 2004 and 2007, coverage of SES members under certified appraisal systems rose from 76 percent of all SES members to 99 percent. By the end of 2007, 46 SES appraisal systems met the criteria for certification.

As implementation of certified appraisal systems has broadened, measurable goals tightly linked to mission requirements are much more prevalent and agencies are assessing performance of organizational units, communicating that performance to rating officials,

and ensuring their rating distribution reflects the unit's performance. Earlier this year OPM conducted a survey of career SES members which revealed that 61 percent of SES members are satisfied with their pay. Additionally, 93 percent of the SES believe their pay should be based on performance and 91 percent responded that they should be held accountable for achieving results. Today we are releasing the annual Senior Executive Service Pay for Performance report for fiscal year 2007 which shows that agencies are distributing higher performance awards and pay adjustments to their top performers.

While these achievements are a testament to the hard work of agency personnel, more can be done to improve the process. OPM continues to work closely with the Chief Human Capital Officers Council and the agencies to ensure progress is achieved.

As you know, the Chief Human Capital Officers Council has been an important partner in our efforts to implement pay-for-performance. The Council's Subcommittee on Performance Management worked with OPM on the development of the SES Performance Appraisal Assessment Tool (SES-PAAT). Agencies use the PAAT to audit their own SES appraisal systems and performance plans against certification criteria to ensure their systems have sufficient rigor. A CHCO Council Training Academy was held to solicit agency feedback on the tool. Additionally, the Subcommittee held a session on pay-for performance best practices where agency leaders shared information with others. Finally, just last week, at its July 14 meeting, CHCO Subcommittee members discussed lessons learned from the interviews OPM conducted with agencies regarding the survey of the SES. In addition, we plan to showcase lessons learned from those agencies that scored well on the SES survey during our August CHCO Council Training Academy Session. The Council and OPM are continuing to collaborate on identifying and sharing best practices and supporting the continued success of the program.

#### National Security Personnel System (NSPS)

OPM and the Department of Defense (DoD) have been partners in developing and revising the National Security Personnel System since Congress authorized its creation as an alternative personnel system when it enacted the National Defense Authorization Act for fiscal year 2004. Since then approximately 180,000 civilian employees have converted to this system. Under NSPS, jobs are placed in broad pay bands based on the nature of the work being performed and required competencies. Pay increases are based on performance. In addition to strengthening the link between pay and performance, this system gives DoD more flexibility in assigning employees new or different work, and the ability to promote broader skill development and advancement opportunities within pay bands.

NSPS has strengthened communication between employees and managers reinforcing accountability at all levels. We also have seen widespread agreement among employees and supervisors that they now have a better understanding of expected performance and how their jobs align with the mission of their organization and a strong link between employee performance ratings and pay. Annual raises and bonuses under NSPS are

based on performance, and higher pay increases are provided to the highest performers. Under NSPS, the quality of performance plans and assessments is improving. Continuous program evaluation provides a mechanism for routine feedback and system enhancements in areas such as protocols.

Regulations governing NSPS are being updated jointly by OPM and DoD to conform to statutory changes made in the National Defense Authorization Act for fiscal year 2008 and to make necessary adjustments based on lessons learned. These changes include excluding blue-collar employees from coverage under NSPS and requiring all employees with a performance rating above “unacceptable” to receive at least 60 percent of the annual Governmentwide General Schedule pay increase, as well as changes related to matters other than pay and performance management. Proposed regulations were published in the Federal Register on May 22, 2008. We are currently reviewing comments and we expect to publish final regulations this fall.

#### Department of Homeland Security (DHS)

In May 2007, OPM published a report on the status of the DHS alternative pay system. While DHS has not implemented a pay-for-performance program for its employees at DHS Headquarters, the Transportation Security Administration (TSA), a component of DHS, has initiated the Performance Accountability and Standards System (PASS) program for its Transportation Security Officers (TSO) and many other TSA employees. This pay-for-performance initiative provides at a minimum a Comparability Equivalent Increase (CEI) equal to the cost-of-living increase mandated by Congress in the Consolidated Appropriations Act of 2008 to be paid to all DHS employees. Additional PASS benefits above and beyond the CEI are based upon individual performance. A summary of the pay for performance payout has been provided in the testimony submitted to the Subcommittee today by TSA.

#### Current Activities

##### Demonstration Projects

There has been continued interest in performance-based pay systems. Four new demonstration projects have been proposed within the last year. OPM has given final approval for a demonstration project at the National Nuclear Security Administration at the Department of Energy, and preliminary approval to the Veterans Health Administration at the Department of Veterans Affairs, the Office of Federal Student Aid at the Department of Education, and the Food Safety and Inspection Service at the U.S. Department of Agriculture. At this time there are a total of five demonstration projects underway, including the DoD Acquisition Demonstration Project. The Department of Commerce demonstration project was converted to a permanent alternative personnel system in March of this year.

## **Latest Findings**

As I mentioned in the beginning of my remarks, OPM issued a report last year on the status of all performance-based pay systems. At that time, nearly 300,000 Federal employees were working under performance-based pay systems. Since then, approximately 50,000 additional employees have been brought under the Department of Defense's NSPS.

Our report concluded that pay-for-performance systems continue to be successful, based on numerous evaluations and a demonstrably stronger link between pay and performance than under systems where pay is based on longevity. Successful implementation of performance-based pay has come only after substantial effort, but has resulted in transformed performance cultures that are much more results-oriented than previously. It should come as no surprise that these pay-for-performance systems are better able to recruit and retain a high-quality workforce.

I remain firmly convinced that pay-for-performance is critical for attracting a 21<sup>st</sup> Century workforce. Results demonstrate that given time and proper implementation, performance-based pay systems can be effective for the Federal workforce.

Mr. Chairman, thank you again for the opportunity to be here today. I'd be happy to answer any questions you or other Members may have.