General Schedule (status quo) [1]

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 continue coverage of Department of Homeland Security (DHS) white-collar employees under the **General Schedule** (GS) classification and pay system, which is a centralized system based largely in statute and administered by the Office of Personnel Management (OPM). The GS system classifies all positions at one of 15 grade levels based on fundamental classification criteria set in law. Grading standards for individual occupations are established by OPM. The GS pay structure consists of 15 pay ranges corresponding to the 15 grades. For each grade, there are 10 possible step rates. These pay rates are set and adjusted annually by statute. Step progression within a grade is based on completion of specified waiting periods coupled with a determination that an employee is performing at an acceptable level of competence; in practice, these increases are granted routinely. Locality payments are added on top of the GS base rates.

Key Features:

Coverage

This option is designed to cover all "white-collar" DHS employees who are now covered by chapter 53 of title 5, and, additionally, all "white collar" TSA employees under the authority provided by law to the TSA Administrator.

Classification System

- Grades defined in statute and differentiated by complexity of work and level of responsibility.
- Positions classified using classification standards issued by OPM.
- Classification standards are narrative or use point factor method.

Pay System

- 15 grades with pay ranges of about 30 percent.
- Each grade has 10 steps and an employee's pay is fixed at one of these steps.
- Base pay range for a given grade (and for each step within that grade) is the same for all agencies and occupations; however, varying locality payments are added depending on geographic location.
- Annual pay comparability increases are provided each January, as provided by law.
- Progression through steps based on a determination that employee is performing at an "acceptable level of competence;" since this is achieved by approximately 99% of employees, the result is a strong correlation between pay progression and length of service.
- Some pay flexibility allowed by (1) authority to set starting pay up to the maximum rate of a grade based on superior qualifications, (2) special pay rates for an occupation due to serious recruitment and/or retention problems, and (3) acceleration of step movement for a high-performing employee by awarding a Quality Step Increase. (*See Base Pay System – Other Compensation for additional pay flexibilities)*

Sub-Options:

- Require 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.
- Require 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.

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 summary performance ratings (for within-grade and quality step increase purposes).
- 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

- Keeping the GS system prevents temporary disruption of mission focus that might occur if the system is changed.
- Avoids dissension that might result from giving some employees more favorable treatment than others.
- GS step progression system is simpler to administer than more performance-sensitive systems. Places minimal burden on supervisors and managers.
- Step progression is generally not subject to complaints of discrimination or favoritism since they occur routinely at set time intervals.
- Supports internal equity across agencies and occupations.
- Supports one aspect of the merit principle of equal pay for work of substantially equal value, through a classification system designed to recognize that positions with more difficult/complex responsibilities should be assigned a higher grade, with corresponding higher pay.
- Minimizes disputes regarding pay since virtually all employees receive base pay and standard step increases. Provides appeals rights to employees who are denied a step increase.
- Would not impose the burdens associated with creating and implementing a new system.
- Managers would retain their current ability to establish, and change, when necessary, the performance standards employees must meet to qualify for regular step increases, quality step increases, and career ladder promotions.
- Includes features that address external equity such as (1) annual changes to GS structure based on changes to nationwide Employment Cost Index (ECI), (2) locality pay adjustments, and (3) special salary rates for categories of positions based on recruitment and retention difficulties.
- Provides ability to set starting pay up to the maximum rate of a grade based on superior qualifications.
- Provides ability to reclassify positions to a higher grade when job complexity and/or responsibilities increase.

General Schedule (status quo) [1]

Possible Problems/Challenges

- May not place enough emphasis on market (external) equity. The core GS system is not sensitive to the labor market for specific occupations. The same pay ranges apply to employees at the same grade in any occupation. Use of special rates authority is more cumbersome than a change to the core system that allows occupation-sensitive pay ranges.
- May not place enough emphasis on individual equity (i.e., performance). All employees receive the annual across-the-board GS increase regardless of performance or contribution to agency mission. Also, regular progression through the rate range for a grade is based almost exclusively on time in step, which reflects an assumption that the value of employees at same grade is best measured by years of experience. In terms of base pay, individual performance or contributions can only be addressed through the award of Quality Step Increases (QSIs). Decisions to grant or deny step increases are all-or-nothing determinations. No flexibility to differentiate pay based on performance by granting less than a full step increase.
- Underutilization of more performance-sensitive pay system features may de-motivate top performers and may communicate the message that individual performance or a high performance culture is not valued.
- Managers have limited flexibility in adjusting pay, which reduces their accountability. HR specialists who administer centralized rules have dominant role.
- Some supervisors view that imposing a pay consequence on poor performers is a difficult and time-consuming process and therefore often take no action. However, this challenge may be addressed to some extent by additional training and HR support for managers.
- Maintenance of GS classification system with so many categories and levels of work requires considerable resources, which generally are not provided.
- The stringent qualifications requirements of the current GS classification system may limit hiring flexibilities.
- Does not sufficiently ensure that available tools to recognize and reward performance are effectively utilized (e.g., budget limitations severely restrict the number of QSI's granted – thus requiring creation of selection criteria which may not be uniform, nor understood by employees).

Other Implications

Cost

No cost implications (unless suboption 1 is selected). No administrative costs associated with conversion to new system. No new operating costs since no change in system.

Evaluation in Terms of Guiding/Design Principles:

Mission Centered

- The GS system provides a stable system that reduces the risks of favoritism and bias in treatment of employees. This could help the workforce remain focused on mission rather than on internal management issues. Moving toward a pay system that places more emphasis on individual performance could create unhealthy employee competition and contention and would require significant administrative resources, which could be a detriment to the agency mission.

- Some believe if implemented and funded as intended (5 U.S.C. 5301), the GS system could provide competitive pay levels that would allow the Government to maintain a high quality workforce, which would tend to enhance mission accomplishment. However, the GS locality pay system does not take into account differences across occupations. As a result some occupations may be paid above the market and others below the market. Mission accomplishment may be better served by directing resources to provide occupation-specific, market-based compensation.
- The GS system has flexibilities that support mission accomplishment, such as the ability to establish special salary rates for a category of jobs experiencing serious recruitment and retention problems. Also, GS pay can be supplemented by awards, performance bonuses, retention and relocation bonuses, and retention allowances.
- Administering the 15-grade classification system for hundreds of job categories requires resources which might otherwise be directed towards mission accomplishment (depending on the design of any alternative system).
- The GS system's emphasis on internal equity (across jobs) can come at the expense of individual equity (based on performance or contributions) and external equity (based on the labor market), which has implications for mission accomplishment. For example, because of internal equity concerns, the approval of special rates is an exception process requiring considerable scrutiny.

<u>Performance Focused</u>

- The GS system has certain performance-based features. Regular within-grade increases are provided to all employees at an acceptable level of competence, which is tied to a performance rating of record of Fully Successful or higher. Quality step increases (QSIs) may be given to top performers. Promotion decisions also take into account performance. GS pay may also be supplemented by performance rating-based lump-sum awards.
- Since granting regular within-grade increases is an all-or-nothing determination with no provision for partial increases and since less than 1 percent of employees are denied an increase, regular within-grade increases are of limited utility as a performance-sensitive reward tool. However, one point of view is that the regular within-grade increase provision is an appropriate way to recognize the value of experience and that other tools are available to recognize performance. An alternative view is that movement through a rate range based almost exclusively on time in step is not equitable nor an efficient use of payroll dollars.
- QSIs can provide recognition for individual performance, but their actual usage in the GS system has been limited due to budget pressures and management policies. While funding and management policies can be changed to increase usage of QSIs, the current authority provides limited flexibility in that the increase must equal a one-step increment.

<u>Contemporary and Excellent</u>

- Due to inherent inflexibilities, the present GS system does not lend itself to making adjustments needed to more effectively compete with external/internal competition. Although the current system contains market-based features, these have not been fully implemented and are not occupation specific, which impedes the ability to compete for high-demand occupations and high-caliber employees.
- Present classification system is restrictive and impedes the ability to easily move from one occupational series or career ladder to another without loss of pay and/or grade.

General Schedule (status quo) [1]

Generate Trust and Respect

- The GS system is understandable and easy to use. The basic rules are simple – for example, time-in-grade generally dictates one's placement within the pay schedule. Employees know their rate of pay and level of pay increase if they perform at an acceptable level, and pay determinations are therefore not generally the result of subjective determinations. However, in many cases, employees may not have sufficient incentive to perform at higher levels, due to inadequate assurance of how they will be recognized or rewarded for such higher-level performance.
- Lack of transparent standards for distribution of QSIs could lessen employee trust and respect for the system.

Based on Merit System Principles and Fairness

- Provides for distinctions based on grade level and, to a degree, protects against favoritism in receiving base pay increases. Classification and grading system designed to implement the merit principle of requiring equal pay for work of equal value (5 U.S.C. 2301(b)(3)). Classification determinations are outside the scope of bargaining and negotiated grievance procedures. Employees may appeal the classification of their positions within the agency and have a statutory right to appeal the classification to the Office of Personnel Management.
- Inconsistent treatment of seemingly similar occupations with respect to classification, premium pay, and retirement systems creates barriers between positions and tends to could lessen the credibility of these systems. These discrepancies also interfere with integration of functions and the creation of a single organizational culture and can lead to competition for employees between agencies within DHS. However, since the foundational premise of the entire system is equal pay for work of equal value, these flaws might be corrected by application of rules that provide the employee with greater ability to appeal and challenge pay and classification issues.
- Granting regular within-grade increases based almost exclusively on time in step may raise questions of fairness on the part of higher performing employees, particularly if they are not otherwise recognized through QSIs and/or performance awards. Recognizing individual performance supports the merit system principle of equal pay for work of equal value, since that principle includes the requirement that appropriate incentives should be provided for excellence in performance. (See 5 U.S.C. 2301(b)(3).)

Transition & Implementation:

- No transition or implementation required to continue GS coverage, unless DHS decides to cover other white-collar positions under the GS system—e.g., TSA position, Stafford Act positions in EP&R.
- If legislation is enacted to cover non-GS employees under the General Schedule:
  - Legislation must provide authority to set pay upon conversion. Conversion could be accomplished without a reduction in base pay. Many employees' pay would increase as they are slotted into the lowest GS step that equals or exceeds their current base rate. Some employees would have a retained rate.
  - Positions would need to be classified using GS standards.

Detailed Description
By System Component and System Element

B		Base Pay System
System elements:		Summary description:
1	Structure of pay ranges	• Common 15-grade classification and pay structure applies to all covered employees across all occupations. (See Classification System.) Does not cover senior executives and certain other senior officials. Pay ranges originally fixed in law and then adjusted as required by law. Grade and pay range based on statutory factors related to difficulty and responsibility associated with the work. Pay ranges are 30 percent from minimum (step 1) to maximum (step 10). Pay ranges overlap. At lower grades, difference between grades is about 10 percent. At higher grades, difference is about 20 percent. GS rate may not exceed level V of the Executive Schedule ($125,400 in 2003). • Higher rates of basic pay are established for law enforcement officers (LEOs) in grades GS-3 through GS-10. These rates are 1 to 7 GS steps higher than regular GS rates (resulting in increases ranging from 3 to 23% depending on grade and step). Since all steps rates are increased by a constant dollar amount at each grade, the resulting LEO ranges are less than 30% in width (as low as 24% at GS-5). These special LEO base rates are used as the base in computing locality pay. • Locality pay supplements apply in the 48 contiguous States and in Washington, DC. Locality pay is basic pay for retirement and certain other purposes. Locality pay amounts are based on BLS surveys, Presidential actions, or specific law. Same locality pay percentage applies to all GS employees stationed in the same locality pay area, regardless of occupation or grade. Thus, survey data consolidated to produce a single percentage payment for each area. Unions have advisory role as part of the Federal Salary Council. Locality-adjusted GS rate may not exceed level IV of the Executive Schedule ($134,000 in 2003). (Note: In the Boston locality pay area, a 16% geographic adjustment applies to LEOs instead of the regular GS locality pay—currently 15%.) • OPM may establish special salary rate schedules for groups of employees in positions experiencing significant recruitment or retention problems. Thus, Government can adjust rates to be more competitive with the labor market, as necessary. • While GS rates are expressed as annual rates, the annual rates are converted to hourly rates (using a 2087 divisor) and employees are paid on an hourly basis.
2	Adjustment of pay ranges	• General Schedule base rates are adjusted each January by a statutory formula based on changes in the Employment Cost Index (ECI) or by specific Presidential action or specific law. The statutory ECI adjustment is 0.5 percentage points less than ECI change for private industry workers' wages and salaries. (Compare 3rd quarter ECI in year before preceding year to 3rd quarter ECI in second year before preceding year.) • Locality payments are adjusted each January based on BLS surveys and on Presidential action or specific law.
3	Pay progression methodology	• Each grade has 10 pay steps with fixed dollar increment (equal to about 3.3 percent of the step 1 rate) between steps. Based on specific statutory rules, any employee who is at an acceptable level of competence is entitled to a step increase or within-grade increase (WGI) after satisfying prescribed waiting periods (52 weeks to advance to

		steps 2, 3, and 4; 104 weeks to advance to steps 5, 6, and 7; and 156 weeks to advance to steps 8, 9, and 10). Thus, individual pay adjustments are largely based on longevity with recognition of the learning curve by providing faster step progression at the lower part of the range. • Agencies may provide a "Quality Step Increase" (QSI) for outstanding (or equivalent) performance. Only one QSI may be granted in a 52-week period. QSIs do not trigger the commencement of new waiting period but may result in next regular WGI being pushed back 1 year because waiting period for the new next step is 1 year longer.
4	Pay administration rules	• *New Hire*. For newly hired employees, the default rule is to set pay at step 1 of the applicable grade. However, an agency may set pay at a higher step (up to step 10) using a "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. • *Promotion.* The general rules for setting pay upon promotion are (1) boost the current rate by the value of two step increases for the current grade; (2) compare that boosted rate to the rate range for the new, higher grade and set pay at the lowest step rate that equals or exceeds the boosted rate. In many cases, this means a promotion increase of roughly 6 percent; however the increase may be considerably greater if the employee is at a low step when promoted and/or if it is a two-grade promotion, since the new rate must at least equal step 1 of the new grade. • *Geographic Movement.* Base pay does not change upon geographic movement; however, the locality payment may change based on the new duty station. Thus, adjusted base pay may be increased or reduced upon geographic movement. • *Use of Past Rates.* Upon reemployment, transfer, reassignment, promotion, demotion, or change in type of appointment, the agency may apply the "maximum payable rate rule." Under that rule, an employee's base rate may be set based on his/her highest previous rate received as a Federal employee. • *Pay Reduction.* An agency may not reduce an employee's base rate through downward step progression; however, a poor performer could be reduced in grade and thereby reduced in pay. • *Pay Retention.* In certain cases when an employee's grade or base pay is reduced by a management action (not for personal cause), grade or pay retention may apply. A grade can be retained for 2 years in certain circumstances connected to a reduction in force or a reclassification action. Under pay retention, the former rate is either slotted into the new rate range or an above-range retained rate is created. A retained rate is adjusted by 50 percent of any change in the maximum rate of the employee's grade.
5	Managerial compensation	• Supervisors and managers are covered under the same pay system and rules as other employees (unless their position is classified above the General Schedule). Generally, supervisors and managers are at a higher grade than subordinates but exceptions are possible. There are no supervisory differentials except in the case of GS supervisors/managers whose subordinates are paid under a different pay system (e.g., the Federal Wage System).
6	Appeals	• GS employees may request formal reconsideration of an agency's denial of a within-grade increase (WGI). Agency must follow specified procedures, including the

		issuance of a written decision. If WGI denial is upheld, employee may appeal to the Merit Systems Protection Board, subject to the terms of any collective bargaining agreement.
7	Evaluation	• 2002 Federal Human Capital Survey data: Fewer than half of Federal employees are satisfied with the recognition they receive for doing a good job. Just 27 percent of Federal employees agree that steps are taken to deal with poor performers, compared to 50 percent who disagree. Asked whether high performing employees in their work unit are recognized or rewarded on a timely basis, 41 percent agreed and 39 percent disagreed. (Note: These questions did not focus on base pay.)
8	Other compensation	• For some employees, overtime pay and other premium pay are a significant part of regular compensation. • The average amount spent on lump-sum cash awards is about 1 to 1.5 percent of base payroll. • Some employees receive recruitment/relocation bonuses of up to 25 percent of base pay in exchange for a service agreement. Some employees receive a retention allowance of up to 25 percent. These payments are not basic pay for retirement or other purposes. • Agencies have considerable discretionary authority to use other pay flexibilities including but not limited to: (1) performance awards; (2) retention allowances; (3) superior qualifications appointments; (4) use of highest previous rate when placing employees from other federal agencies; (5) waiver of dual payment limitation; (6) travel/transportation expenses for interviews/new appointments; (7) advanced payment (up to two paychecks) for new appointees; (8) premium pay exceptions to the biweekly pay limitation in emergency situations; (9) honorary awards; (10) gainsharing awards; and, (11) time off awards. • With OPM and/or OMB approval, agencies can use pay flexibilities such as: (1) special pay rates for hard to recruit/retain positions; (2) retention allowances of 10% to 25%; (3) critical position pay for positions requiring extremely high levels of expertise; (4) physicians comparability allowances; (5) additional flexibilities for health care employees; and, (6) for Federal Wage System employees – special rates, increased minimum hiring rates; special schedules, and unrestricted rate authority. • Numerous non-economic flexibilities and discretionary economic rewards (which can be tied to performance) include alternative work schedules, transit subsidies, and telework programs.

C	**Classification System**	
System elements:		Summary description:
1	Functions	• 5 U.S.C. chapter 51 governs the classification of positions in the Federal service. • Positions are classified based on the duties and responsibilities assigned and the qualifications required to do the work. • The General Schedule is divided into 15 grades based on level of difficulty and responsibility. Fundamental classification criteria are in statute to reinforce internal

		equity. • 5 U.S.C. 5104 provides definitions for the grade levels of the General Schedule. • Official titles published in classification standards must be used for personnel, budget, and fiscal purposes.
2	Categorization of type of work	• The GS system categorizes work into occupational families and specific "series."
3	Work valuation method	• Positions under the General Schedule are classified using standards developed by OPM. The standards define Federal occupations, establish official position titles, and describe the grades of various levels of work. • Classification standards may be in either narrative or point factor format. – *Narrative* - Standards describing the nature of work and level of responsibility for each grade covered by the standard. – *Point factor* - Standards describing work in terms of individual evaluation factors that are assigned points for different levels.
4	Qualifications	• Qualifications required by a position are tied to the classification standard. • An employees may move up to a higher grade level based on either (1) competitive selection for a higher-graded position; or (2) noncompetitive advancement to a higher grade within his/her current job series as a "career ladder" promotion.
5	Applying system	• Levels of work are defined in statute (5 U.S.C. 51). • An agency covered by 5 U.S.C. 51 is required by statute to classify its positions using OPM classification standards. • Generally, agency HR offices classify positions, although classification authority can be delegated to managers. • The duties of the position are compared with the appropriate classification standard(s) and assigned to the appropriate occupational series and grade. • Sources of information: – Incumbents – Supervisors – Position descriptions – Organization chart, functional statements, mission statements • Commercial automated systems to classify positions are available.
6	Appeals	• Appeal within agency: If an agency has a classification appeals process, General Schedule employees may appeal the classification of their position to their agency. If dissatisfied with the agency's decision on the appeal, the employee may then appeal to OPM. • Appeal directly to OPM: General Schedule employees may appeal the classification of their position directly to OPM without appealing within their agency. If an employee or agency disagrees with OPM's decision on the classification appeal, the employee or agency may ask OPM to reconsider its decision. OPM may grant the request for reconsideration if the request meets regulatory criteria. • By law, appeals of agency or OPM classification determinations cannot be made through negotiated grievance/arbitration procedures.
7	Evaluation	• Agency or OPM may conduct reviews to assess whether positions are classified to the proper series and grade.