

Approaches to Calculating Performance-Based Cash Awards

A performance-based cash award (commonly known as a rating-based award) recognizes an employee's performance over an entire rating period. The award must be based on a rating of record of "fully successful" or equivalent or higher. Agencies must design their performance-based cash award programs to reflect meaningful distinctions based on levels of performance to ensure employees with higher ratings of record receive larger cash awards.

Employees within the same awards pool should receive awards reflecting meaningful distinctions based on the employee's individual rating of record. (For agencies electing not to use awards pools, this would correspond to the organizational level that controls an awards budget and has authority for approving awards.) However this may not hold true when comparing employee awards across award pools/organizations.

For example, an employee in a given awards pool rated "Outstanding" should receive a larger award than employees rated at lower levels within the same awards pool. However, if you compare those awards to the ones given in other awards pools/organizations within the agency, it is possible for an employee with a rating of "Outstanding" in one awards pool to get a lower award amount than an employee rated at a lower level in a different awards pool.

Agencies have the flexibility to design their awards programs to meet the needs of their agency and to reflect their agency cultures provided they ensure the amounts of the performance-based awards reflect meaningful distinctions in performance. Agencies may calculate performance-based awards as a lump-sum dollar amount, a percentage of base pay, or some other method such as assigning shares to rating levels to ensure meaningful distinctions.

The following tables illustrate two of the most commonly used approaches to calculating performance-based awards—percentage of base pay and lump-sum dollar amount. The examples use ratings given under a five-level appraisal system, with level five being the highest possible rating.

Percentage of Base Pay

Agencies can design their awards programs so employees with higher ratings of record receive larger cash awards, as a percentage of base pay, than those with lower ratings. When computing a performance-based cash award as a percentage of base pay, locality pay is included because this is one of the purposes for which it is considered to be base pay. The table below illustrates an example of how agencies might calculate awards as a percentage of base pay. Employee A and employee B have the same grade and step but received different ratings of record; therefore, the employee with the higher rating of record (Employee A) receives a larger percentage cash award.

Employee	Grade /Step	Base Pay + Locality (Washington, DC)	Rating	Performance Award as % of Pay*	Award Amount (\$)
Employee A	12/3	\$69,384	5	2%	\$1,388
Employee B	12/3	\$69,384	4	1%	\$694
Employee C	7/1	\$36,671	5	2%	\$733
Employee D	11/5	\$61,510	4	1%	\$615
Employee E	9/10	\$58,318	3	0.5%	\$292

*For the purpose of this example the following values have been used:
rating level 5 = 2% award, rating level 4 = 1% award, and rating level 3 = 0.5% award

This approach allows agencies to take into consideration the employee’s level of responsibility, which is reflected in the grade of the position. While employee A and employee C received the same rating and the same performance award percentage, the award for employee A results in a larger dollar amount because the grade level indicates a higher level of responsibility.

Lump-Sum Dollar Amount

Agencies can design their awards programs so employees with higher ratings of record receive larger cash awards, as a lump-sum dollar amount, than those with lower ratings. The table below illustrates an example of how agencies might administer awards as lump-sum dollar amounts. Employee A and employee B have the same grade and step but receive different ratings of record; therefore the employee with the higher rating of record (Employee A) receives a larger cash award.

Employee	Grade/ Step	Base Pay + Locality (Washington, DC)	Rating	Amount of Performance Award (\$)**
Employee A	12/3	\$69,384	5	\$1,000
Employee B	12/3	\$69,384	4	\$500
Employee C	7/1	\$36,671	5	\$1,000
Employee D	11/5	\$61,510	4	\$500
Employee E	9/10	\$58,318	3	\$250

**For the purpose of this example the following values have been used:
rating level 5 = \$1000 award, rating level 4 = \$500 award, and rating level 3 = \$250 award

Employee A and employee C both received a level 5 rating of record, which earns them each the highest lump-sum award amount of \$1,000. This approach does not consider the employee’s level of responsibility as reflected by the grade of the position. Therefore, awards granted to employees at lower grade levels (lower levels of responsibility) would in fact represent a bigger award when compared to their overall salary (higher percentage of their rate of base pay) than the same award granted to someone with the same performance level but with greater responsibility. This could be perceived as an inequity if the greater responsibility makes it more difficult to achieve the higher rating levels. However, when comparing award recipients with similar levels of responsibility (grades), this approach results in larger awards for employees with higher ratings of record.

Fair Labor Standards Act (FLSA) Implications

FLSA contains provisions regarding overtime pay for non-exempt employees. If an agency gives up discretion over the fact or the amount of an award and the award is based on hours worked, productivity or efficiency, then there are FLSA implications. Such implications arise when establishing award programs linking award amounts or percentages to specific ratings. One example would be an agency's award program where employees who receive a Level 5 rating of record are granted a \$1,500 award. In this example, the agency gave up discretion over the fact (employees rated Level 5 will receive an award) and amount (\$1,500) of the award and will have to recalculate the overtime pay for any non-exempt employees who performed overtime work during the period of time associated with the Level 5 rating of record.

If an agency awards program authorizes performance-based awards without prior promise or agreement regarding whether awards will be granted at the end of the appraisal period or how much they will be, there are no FLSA implications. One example would be an agency program in which employees who earn a Level 5 rating of record are eligible for consideration for a performance-based award and that generally such awards are no less than \$500. The agency did not give up discretion over the fact (Level 5 employees are eligible for consideration but not guaranteed an award) or the amount (generally no less than \$500), so there are no FLSA implications.

Other Factors to Consider when Determining Performance-Based Cash Awards

Agencies may want to consider other factors when determining whether to grant performance-based cash awards and how much they should be. They may want to consider other rewards already given, such as other cash awards, time-off awards, Quality Step Increases (QSI's), recent promotions, or other recent personnel actions, when deciding whether and what amount, if any, would be appropriate to grant as a performance-based cash award.

Using time-off awards as an example, the table below illustrates how agencies might consider the impact of time-off awards granted to individuals as a proportion of time during the overall work year. Employee A has been given 40 hours of time off for a specific contribution. The agency may want to grant a smaller performance-based cash award to employee A since he/she has already been rewarded with a time-off award for a specific accomplishment that was part of his/her overall performance during the year. Even though time-off awards cannot be converted to cash, agencies should keep in mind they still represent a cost to the agency, including loss of additional productivity.

Employee	Time Off in Hours	Work Hours Per Year	% of Yearly Hours
Employee 1	40	2087	1.9%
Employee 2	8	2087	0.4%
Employee 3	18	2087	0.9%

For More Information

For additional information on making meaningful distinctions with performance-based cash awards, please see —

- The supplemental information accompanying the final regulations on performance-based cash awards in the *Federal Register* for January 11, 2007 (Volume 72, Number 7).
- Questions and Answers on Performance-Based Cash Awards
- General information on all award programs at <http://www.opm.gov/perform/reward.asp>