

Contractor Compensation - Variable Pay

[Reference: [FAR 31.205-6](#), [DEAR 970.3102-2](#), [DOE Order 350.1](#)]



Guiding Principle

Use of variable pay by contractors managing and operating DOE facilities is a cost effective compensation management practice to promote attraction, retention, and reward of valued contractor personnel..

Overview

This section provides guidelines for the Department's Contracting Officers to use in approving variable pay programs in contracts for the management and operation of Department of Energy facilities.

Background

The Department encourages the use of variable pay programs as described in this chapter in contracts for the management and operation of the Department's plants, laboratories and other facilities.

To enable DOE contractors to effectively compete in their employment markets for critical skills, contractor pay practices must be competitive with comparable employment markets. The end of the pay freeze for DOE contractors and increasing use of variable pay in the commercial marketplace provide an opportunity to implement variable pay programs as cost effective compensation management approaches for improving market competitiveness of contractor pay practices.

To augment the ability to attract, retain, motivate and reward employees, FAR 31.205-6, DEAR 970.3102-2 and DOE Order 350.1 permit contractors to implement variable pay programs.

Variable pay programs tied to performance can also support the Department's emphasis on performance based contracting.

The procedures for approving contractor compensation increase plans (CIPs) are included in DOE Order 350.1, Chapter IV.

Additional guidance is provided annually by the Director, Office of Contract and Resource Management.

Contractor Variable Pay Programs

Variable pay is a lump-sum, non-base building, cash payment. It provides contractors pay delivery options to remain competitive in attracting, retaining, motivating and rewarding skilled employees.

Variable pay is normally associated with achieving desired performance and significant accomplishments.

Variable pay provides the option of reinforcing the concept of salary management. Use of variable pay recognizes that base pay alone may not be competitive with practices of companies comparable to DOE contractors.

For contractor compensation programs using variable pay, "pay" is defined as total direct cash compensation.

Contractors using variable pay compare base pay to market base pay and, total direct pay to market total direct pay (which can vary year-to-year).

Variable pay allows contractors the flexibility to deal with different employee groups appropriately (variable pay in a manufacturing setting for non-exempt employees could be based on meeting production targets and for exempt employees on meeting other objectives).

Objectives

The objectives of contractor variable pay programs are to:

Improve cost effectiveness of contractor compensation programs.

Promote the infusion of best practices and innovations into contractor compensation management programs.

Support the Department's emphasis on performance based contracting.

Facilitate accomplishment of DOE missions.

Guidelines for Variable Pay Program Design, Administration and Contracting Officer Approval

Variable pay should be affordable and justified within the constraints of the overall operating budget.

DOE contracting officer approval is required for contractor variable pay programs and budgets, including decisions related to:

- Impact on benefits.
- Method of fund generation.
- Relationship to Compensation Increase Plan (CIP).
- Change in funding arrangements.
- Integration with other contract provisions.

Variable pay may be used as a recruitment, retention and salary management tool.

Individual or organizational performance is the basis for all non-recruitment variable pay awards. Payout can be to the individual, team/unit, or organization-wide.

Prerequisites for performance based variable pay programs are:

- an effective performance management system approved by DOE which provides a "line of sight" to the DOE mission at all levels, and is consistent with established "scorecard" or other performance measurement approaches.
- a sound performance appraisal system that is based on job-related criteria and standards, or performance against predetermined objectives.

Contracting Officers consider the type of contract incentive payment, (award fee, performance based) that exists to reward contractor performance when reviewing variable pay program designs, especially features related to eligible contractor employee participants in DOE reimbursed compensation programs.

Options for generating variable pay funding pools include:

- Using a portion of the base salary merit budget and permit accrual year-to-year.
- Using a discrete portion of the direct compensation budget (over and above the base salary merit budget).
- Using a fund generated or increased by pre-defined performance goals that factor dollar cost savings, productivity gains, etc..., into the variable pay fund.