



UNDER SECRETARY OF DEFENSE
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SEP 30 2010

PERSONNEL AND
READINESS

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
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DIRECTOR, ADMINISTRATION AND MANAGEMENT
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DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Executive and Senior Professional Pay and Performance Management System –
Pay Pool Funding for the 2009-2010 Performance Appraisal Period

This memorandum establishes the Department's Pay Pool Funding for the 2009-2010 performance appraisal period for the members of the Senior Executive Service (SES) and Senior Professionals (SP) workforce. Overall pay pool guidance is contained in the "Executive and Senior Professional Pay and Performance System," Subchapter 920 (SC 920), dated March 18, 2008, and the DoD Tier Policy, dated April 28, 2008. A copy of these policies may be found on the Department's SES and SP web site at: http://www.cpms.osd.mil/sespm/tier_policy.aspx.

The Department establishes an overall Pay Pool Funding Factor (PPFF) each performance appraisal period. The Pay Pool Funding Factor is the sum of three variables: the President's Adjustment to Executive Pay (PAEP), the organization's Pay Progression Budget and the Performance Bonus Budget. While basic pay increases are not guaranteed to all executives, the amount of funding available for performance-based pay increases is the total of the PAEP and the Pay Progression Budget. The organization's Performance Bonus Budget establishes the funding available for performance awards. The total amount of performance awards paid may not exceed 10 percent of the total aggregate basic pay of the career executives in the Pay Pool.

The Deputy Secretary of Defense determined the overall Pay Pool Funding Factor for members of the SES and SP workforce to be a maximum of 9.75%. The amount of funding available for performance-based pay increases is to be a maximum of 2.25%, which should be allocated first to the PAEP variable in the overall Pay Pool Funding Factor. The remaining portion must be shifted to the overall Pay Progression Budget. The overall Performance Bonus Budget is to be a maximum of 7.5%. The Pay Pool Funding Factor caps for each Tier are as follows: Tier 1: 8%; Tier 2: 9%; Tier 3: 12%.



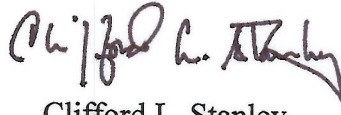
Individual performance-based pay increases may not exceed 3% of the basic salary of an SES or SP member. If warranted, executive performance-based awards must be a minimum of 5%, up to a maximum of 20%, of basic pay. Performance-based awards for the SP workforce are restricted to a maximum of 20% of basic pay; however, any performance-based awards over \$25,000 must be approved by the White House.

The Department's Tier Policy will continue to be used as a means of ensuring comparability in executive position and compensation management across the Department. Compensation and rewards will recognize that high-level performance in some positions has more impact than comparable performance in other positions in the SES workforce. To facilitate compensation decisions for the 2009-2010 performance appraisal period, organizations may choose to supplement performance-based awards for executives who have been temporarily performing the duties of a position at a Tier level above their position of record. The duties must have been performed for a minimum of 90 days by the end of the performance appraisal period. Funds from the Performance Bonus Budget can be used to recognize this contribution through a Total Performance Payout Adjustment. The Total Performance Payout Adjustment must be approved by the Authorizing Official and be made in accordance with both SC 920 and the memorandum titled "Executive and Senior Professional Pay and Performance Management System – Close-out Guidance for the 2009-2010 Performance Appraisal Period," issued on September 1, 2010. A copy of this policy may be found at the following link: <http://www.cpms.osd.mil/sespm/docs/CloseoutGuidance.pdf>

As a reminder, the implementation of the Senior Professionals Pay Act of 2008 established a new pay system for the SP workforce. Pursuant to law, the 12-month rule on pay restriction remains in effect until the U.S. Office of Personnel Management (OPM) issues revised guidance concerning an exception to this rule. Components should conduct their rating and pay pool activities for their SP employees as usual. However, adjustments to basic pay above the percentage of the PAEP cannot be implemented until April 12, 2011. Performance-based pay increases up to the percentage of the PAEP, and performance awards, may be paid as usual.

The Department issued guidance, in a memorandum released by my office, on April 13, 2010, which stated that until new rules are issued by OPM, SP positions are to be paid at a rate of pay not to exceed Level III of the Executive Schedule (EX-III), unless a higher rate of pay up to Level II of the Executive Schedule (EX-II) is approved by the Authorizing Official. The determination of positions that are eligible to exceed EX-III pay must be made in a prudent manner and reflect the positions with the most impact on mission, span of scope and breadth of responsibility. The 2009-2010 Performance Appraisal Results package submitted by each Component for validation of its pay pool results will represent the Authorizing Official's approval to exceed EX-III pay, if applicable. As a reminder, until further guidance is issued, any time EX-III pay is exceeded for new hires in SP positions, the approval of the Authorizing Official must be properly documented.

As we close the Executive and Senior Professional 2009-2010 performance appraisal period, please ensure performance assessments include timely and open discussions regarding performance results that are clearly linked to the goals and results of the Department's Fiscal Year 2010 Organizational Assessment. Ratings, shares and payout distributions must reflect meaningful distinctions in performance and be tied to executive results. Forced distributions are not authorized. I appreciate your continued contributions in supporting the Department's pay for performance culture.

A handwritten signature in black ink, appearing to read "Clifford L. Stanley". The signature is written in a cursive style with a large initial "C".

Clifford L. Stanley