



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

MAY 26 2005

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM:

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SUBJECT:

Changes in Pay Administration Rules
for General Schedule Employees

The Office of Personnel Management (OPM) recently issued interim regulations that amend the rules governing pay setting for employees covered by the General Schedule. (See Attachment.) The interim regulations implement section 301 of the Federal Workforce Flexibility Act of 2004 (the Act) (Public Law 108-411, October 30, 2004), which amends provisions in 5 U.S.C. chapter 53 relating to the administration of special rates, locality rates, and retained rates. A primary purpose of the Act is to correct various pay administration anomalies that produced unfair pay reductions or unwarranted pay increases for employees in certain situations. Many of these anomalies were attributable to the fact that the former rules generally treated special rates as rates of basic pay for pay administration purposes, but did not treat locality rates as rates of basic pay. Consistent with the Act, the interim regulations treat locality rates and special rates in a consistent way, which will result in pay rules that are more rational and equitable. The Supplementary Information section of the interim regulations provides more detail on the new pay-setting rules.

Effective Date

Because the Act became effective on May 1, 2005, the interim regulations implementing the new pay administration rules must be made effective on May 1, 2005. Agencies must apply these new pay administration rules to any pay actions effective on or after May 1, 2005.

Immediate Pay Actions

Special Rates

OPM issued a memorandum (CPM 2005-06) on the changes to be made on May 1, 2005, in special rate schedules established under 5 U.S.C. 5305. The memorandum informed agencies that many special rate schedules, or certain grades and/or steps of special rate schedules, are terminated and that a small number of special rates at certain grades are increased. The termination of special rates will not result in a loss in pay for any covered employees, since all

affected employees will continue to receive the higher locality rate to which they are otherwise entitled. (OPM's memorandum is available at <http://www.opm.gov/oca/compmemo/index.asp>.)

Conversion of Retained Rates

On May 1, 2005, certain existing locality-adjusted retained rates must be converted to new retained rates. Section 301(d)(2) of the Act requires that retained rates under 5 U.S.C. 5363 and certain other existing locality-adjusted retained rates be converted on May 1, 2005, to new retained rates that equal the previous retained rates, including any applicable locality-based comparability payment under 5 U.S.C. 5304.

Key Changes

The key changes made by the Act and OPM's regulations are summarized below:

- Locality pay is now considered in applying various pay-setting rules (e.g., maximum payable rate, promotion, transfer, pay retention, etc.)
- A locality rate may not be paid on top of a retained rate.
- An employee's entitlement to a special rate is eliminated if the employee is entitled to a higher rate of basic pay, such as a locality rate.
- The pay limitation on special rates is increased to the rate for level IV of the Executive Schedule (\$140,300 in 2005), which is consistent with the pay limitation on locality rates.
- Special rates are generally basic pay for the same purposes as locality rates. Like a locality rate, a special rate consists of a base rate and a supplement.
- An agency may choose to exclude its employees from coverage under a proposed or existing special rate schedule after notifying OPM.
- When an employee's official worksite is changed, the employee's rate of basic pay must be converted to the new pay schedules in the new location based on the employee's current position of record. This geographic conversion is processed after any simultaneous general pay adjustment, but before any other simultaneous pay action (e.g., a promotion).
- A reduction in an employee's rate of basic pay resulting from geographic conversion is not a basis for entitlement to pay retention.
- A retained rate is established based on an employee's payable (highest) rate of basic pay (including any locality payment or special rate supplement) and is compared to the employee's highest applicable rate range. At the time of a schedule adjustment, a retained rate is increased by an amount equal to 50 percent of the increase in the maximum rate of the highest applicable rate range.
- Pay retention rules apply to an employee with a retained grade in the same manner as those rules apply to other employees.

Guidance

To assist agencies in implementing and administering these new pay administration rules, we are issuing new and revised fact sheets and examples of calculating rates of basic pay under the new pay-setting rules. The fact sheets and pay examples are available at <http://www.opm.gov/oca/pay/HTML/factindx.asp>. OPM will issue additional guidance as

necessary. We will also invite agencies to an OPM forum, where we will provide detailed information and practical examples on the application of the new pay administration rules.

Processing Instructions

OPM will issue instructions for processing pay actions using the new pay administration rules in a separate document.

Additional Information

For additional information, agency Chief Human Capital Officers and/or Human Resources Directors should contact their assigned OPM Human Capital Officer. Employees should contact their agency human resources office for assistance.

cc: Chief Human Capital Officers
Human Resources Directors