

Broad Banded Performance Pay System (variable pay) [7]

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 Broad Banded Performance Pay System places greater emphasis on variable pay as a major component of total compensation. It would focus a larger amount of base pay increases on Department, operational components and employee success in fulfilling the overall mission and strategic goals and objectives of the Department and the specific mission of the operational component organizations and corresponding personal core objectives and goals of the employee's position. Although the term "bonus" is normally used to refer to a one-time (variable) payment as opposed to a base pay increase, in this option, a variable portion of the bonus would or could be included as a base pay increase. This option provides that a variable portion (for example 0 – 50%) of the "Bonus Pay" would be added to base pay, with the remainder paid to the employee as a lump sum. In other words, variable rates for both base pay increases and lump sum payments would be based on an employee's performance as it relates to the Department meeting its mission goals and objectives.

This system would eliminate the majority of automatic base pay increases and focus a larger portion of yearly pay increases on overall personal performance as it relates to the mission of the Department.

Each employee (meeting minimum performance standards) would automatically receive an annual base pay increase that consists of locality pay as set by the Office of Personnel Management and a portion of the general increase given to General Schedule employees. High performing employees would also receive a performance payout based on their performance. A portion of the performance payout would be added to the employee's base pay and the remainder paid to the employee as a lump sum.

A bonus pay pool would be formed with a portion of the general increase given to General Schedule employees, plus other money. The first year of implementation would be funded with dollars that would normally be budgeted for within-grade increases (WIGIs), quality step increases (QSIs) and all other performance award funds. In successive years, the bonus pool would consist of a portion of the general increase and whatever money is budgeted for bonuses by DHS and approved by Congress. Each year, DHS would specify the percentage of the pay pool devoted to base pay and bonus pay outs.

This system would be tied to a pay band / broad band system that would have the following summary elements:

- Broad (60%) pay bands based on pay similarities of positions in current system which allow for easier movement between jobs within the bands – flexibility /reflect market conditions.
- Rating/appraisals must be multi-tiered if tied to performance; four-tiered approach with one rating of "fair" (not meeting minimum expectations and requiring performance improvement) and three positive ratings recommended, as this captures the desired level of performance distinctions.
- Movement to pay levels within a particular band would be based primarily on the performance appraisal, but would include a combination of other variables such as experience, skills achieved, customer surveys, and peer input, as related to particular position.

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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. Moreover, it could be adapted to include “blue-collar” employees of DHS with the addition of appropriate clusters/bands.

Locality pay (OPM defined) and a small percentage (e.g., 10 to 25%) of annual GS increase would automatically go into the base pay increase of every employee who meets minimum performance standards each year. The bonus pay pool would initially be set based on the previous year’s budget (for performance based and general increases, awards, WIGIs, etc.) and then budgeted as a distinct line item at the Department level for follow-on years.

All other funds associated with pay (WIGI, Performance Awards, spot awards and the majority, e.g. 75 to 90%, of the annual GS increase) would go into the “Bonus Pool” to be allocated strictly based on an individual employee’s performance in relation to the mission of the Department and component organizations.

Bonus pay would be recommended by a review panel with the ultimate decision authority being the Performance Incentive Pay Official (PIPO), the senior-most person at the organizational level. The panel could be all management representatives or a mixed panel of management, employees, peers, union representatives or any mix of the above. The “Bonus Pay Panel” would use multiple sources of input that would help determine a rank order of employees in any given organization. The multiple sources could include (but not be limited to) the supervisor’s evaluation of the employee, peer ratings, customer input and an “employee application” for bonus pay. Any type of performance evaluation process could work in this scenario, e.g., pass fail; 360 Degree; 3, 5, or 7 factors.

The rank order of employees would determine who received bonuses and at what level. Bonuses would be totally dependent upon the actual amount of money in the budgeted and funded bonus pool. The pool would be allocated by the PIPO into separate categories for top and mid-level performance. For example, the top 25% could get a full bonus, the middle 50% could get a half bonus and the bottom 25% of the performance group could not get a bonus. Or in a more extreme example, the top 10% could get a full bonus, the next 20% could get a half bonus, and the bottom 70% could not get any bonus at all. The limiting factor would be the top of the particular employee’s pay band.

Bonus pay awards for performance would affect base pay calculations as well. For example, the top 25% of the performance group that could get a full bonus could have 50% of that full bonus go into their base pay as an annual base pay increase. The other 50% would be a lump sum payment and not affect base pay. The same would hold true with the middle 50% that received a half bonus. Fifty percent of that half bonus would be an increase to base pay, the rest of the bonus would not affect base pay.

It is envisioned that the entire system would be automated (WEB based) to eliminate the workload and complexity for both participants and the Bonus Pay Panel.

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Sub-Options:

Sub options to a pay band / broad band BPP System could be a GS open-range system or any of the other performance based options that do not have fixed step rates.

An alternative to "rank order" for selection of bonus recipients could be to select groupings of performance indicators and then place individuals into groups. One way would be to provide graduated levels of performance based on the overall/summary rating of all of the input that the Bonus Pay Panel would use during their deliberations, e.g., fair, good, very good, outstanding, excellent performance groupings could be used to determine bonus pay groups and specific awardees.

Supervisors and managers could either be included in the overall rank ordering or be handled in a separate rank ordering from non-supervisory personnel with associated performance factors built into that evaluation process.

Allowing external appeal of all pay, classification, and performance related decisions.

In Bargaining Unit situations, require collective bargaining over substance, implementation of, and any changes to the systems affecting pay, classification, and performance related decisions.

Relation to Other Options:

This option would work with any classification or performance management system and fits within the current Department payroll budget, but requires an open range pay system with no prescribed steps.

This option does require a valid and credible performance management system that accurately and fairly evaluates and differentiates employee performance.

It is envisioned that since a management panel could be recommending to the PIPO who would and would not get bonuses, that an appeals board outside of the Agency would be necessary to resolve grievances. However, if the recommending panel includes management, supervisors and union representatives with equal (majority rules) voting power, the process could be viewed, if challenged, as fair and impartial, and these decisions could be considered final with no appeal.

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

- In theory, a pay for performance system should create an organization functioning at peak performance. Establishing performance goals and objectives at the employee level that relate to higher organization performance goals should also enforce the Department's and operational component's mission needs. To facilitate this, there must be Department, component and sub-organizational strategic plans with goal and objective linkages that each employee can relate to, with individual performance expectations that support that overall strategic vision. This system could help promote a performance culture at DHS.
- DHS would have greater flexibility in setting pay ranges and would then be able to attract high performing employees. This system can be tailored to work with many of the other Design Team options.

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Possible Problems/Challenges

- This is to a large degree a “pay progression” option. Accordingly, it relies upon the decisions of what the Department will deploy in the way of performance and basic pay systems. If the performance appraisal system is not viewed as fair by most employees, it could create morale and motivation problems, which could adversely affect mission accomplishment.
- Making pay more performance sensitive may concern employees who value the stable, predictable nature of GS pay increases. DHS discretion to determine the amount of any annual increase may lessen acceptance of the system. Employee apprehension is likely to be exacerbated if 75 - 90% of the GS general increase is diverted towards a pay-for-performance pool.
- Because this option only calls for the use of existing funds, pay-for-performance is effectively being funded by shifting funds used for the current GS general increase and within-grade increases from acceptable performers to high performers. Although the greater rewards and recognition may motivate top performers and enhance efforts to attract and retain them, the determination of employee pay increases using the ranking methodology established under this option necessarily limits enhanced rewards and recognition to a limited pool of employees.
- Moving to this system could initially sub-optimize the Department’s retention and hiring goals, since this would place a larger number of DHS employees in a more constrained pay progression scenario. However, it should also foster high performer retention and higher performance levels of those employees that are retained and “draw” high performers. If these two effects offset one another, then there might be no negative impact on the Department.
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation. Consideration should be given in “team” work environments that allowing employee/peer ratings may sub-optimize overall team performance. Additionally, selecting employees/peers to participate on Bonus Pay panels could be perceived as unfair. The credibility of the Panel and the perception of its fairness and impartiality may be compromised if employee representatives are not included on the Panel or if they are not included in numbers equal to management.
- Employees may believe that too much of their pay increases are at risk. A pilot test or phased-in approach would demonstrate to management and employees how this option would work.
- Lack of clarity regarding pay-related decisions (e.g., who gets what bonus and how much of a bonus goes into base pay) may confuse employees and lessen acceptance of this system. An intensive education program would be needed, and care would have to be taken to clearly communicate the criteria and process used to make pay-related decisions. If the criteria ever change, management will need to communicate those changes as early as possible to give employees and their supervisors sufficient time to adjust work plans, etc., to the changed expectations.
- Complexity and lack of transparency of this system could create greater disruption and loss of focus on mission, in both transition and in administration.
- Some believe that not allowing collective bargaining over system design would be contrary to the intent of the Homeland Security Act and lessen employee acceptance of the system.
- If this system is insufficiently funded, there is a risk that it could demotivate employees. Also, if this system results in employees receiving less compensation than they would have received under the General Schedule, it may lessen acceptance of the system.
- Some believe that pay for performance could result in competition between employees and lessen incentive for teamwork and cooperation or that distinctions based on individual performance are often

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not possible in some positions, given the mission and specific nature of the work.

- Since pay levels would be higher, more criminal investigators would likely hit the premium pay cap as 25% availability pay is added on top of the higher base rate. Raising the premium pay cap would require legislation and could create increased pay compression vis-à-vis Senior Executive Service and Executive Schedule officials.

Other Implications

- Unless the current labor relations system is modified, a DHS independent pay system, including rates of pay, would be subject to collective bargaining.
- In order to implement this system effectively, a strong and well-managed performance management system is required.
- The smaller the numbers of pay bands, the greater the opportunity for meaningful increases to top performers. A risk analysis would have to be performed to determine the impacts of placing all pay increases (except for locality pay) in a performance bonus pool. Because fewer people would be getting automatic pay increases, there may be a negative employment retention impact on the Department. This risk should be countered with positive impacts/strengths of the change factors associated with fostering higher levels of performance and retaining/attracting higher level performers.
- Paying a lump sum in an amount that would normally increase, or could increase, base pay for retirement purposes would have an impact on employees' ability to save money in TSP and on high three average pay. (It would also affect the amount of FEGLI coverage.)
- This option would require a revised budget process, since the allocation of money for bonuses (awards), and base pay increases would be determined by DHS.

Cost

- This option could result in lower overall costs if the budgeted and funded bonus pay pool is less than the historically funded automatic pay progression process used now. However, offsetting transition related costs by reducing pay adjustments in ensuing years may diminish the value of moving to a system that embraces this philosophy.
- Limiting pay increases to steps or pay caps would not provide the intended benefits that could be drawn from this system. Allowing high performers to move more quickly within a pay band or a pay series (GS) without step boundaries (such as caps or waiting periods) would be the optimum way to implement this system. The only caps would be those implemented Governmentwide (maximum pay caps). This may have an unintended pay consequence that will have to be priced out as part of an implementation strategy.
- Transition of employees to the system would require "buying out" employees for accrued time toward their next step increase, in order to promote employee acceptance of the new system.

Evaluation in Terms of Guiding/Design Principles:

MISSION CENTERED:

- This system would be driven from the top down. The Department-level strategic plan goals and objectives feed into the individual components' strategic plan goals and objectives, which feed into the organizational/sub component goals and objectives and are the basis upon which individual performance plans are developed and outcomes are measured. The entire DHS "Team" would be working to meet the mission of the Department and be responsive to the American taxpayer.

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PERFORMANCE FOCUSED:

- This system focuses on the performance of the Department meeting its strategic goals and objectives. The trickle down performance management goals--down to the Individual employee level--will maintain "focused attention" on the same set of performance criteria for all 180,000+ employees of the Department. A simple set of balanced measures will ensure the entire Department stays on track.
- Although the intent is to recognize high performers through compensation, unless the performance management system is effectively designed and managed, there could be a negative impact on morale, motivation, and performance. Having employees who are doing an acceptable job meeting all performance standards receive lower pay increases than under the current system, combined with the knowledge that there is a fixed distribution for higher pay increases based on performance, could lessen employee acceptance.

CONTEMPORARY AND EXCELLENT:

- This system integrates the best features of many systems into a high powered and effective performance-based management system. Its design fosters high performance at all levels of the Department and ensures that high performance is recognized and rewarded. It is responsive to outside drivers and is flexible at the Department level with corresponding changes resulting at lower levels in response to change. It must be remembered, however, that the excellence of a pay for performance system will ultimately hinge on the strength and credibility of the performance management system that supports it, as well as the funding provided for performance recognition.

GENERATE RESPECT AND TRUST:

- The BPP system may generate respect and trust by using an independent Bonus Pay Panel to make recommendations on performance awards and base pay adjustments across the Department. Employees may be able to see how decisions are made relative to performance and set individual targets to improve their own performance expectations that are in lock step with higher level authority. The goals and/or standards should be clear and defined and thus make them more attainable than current performance management systems.
- To the extent this option produces a system that values and rewards performance in an understandable, rational, and fair way, it will be respected by employees. Supervisors and managers have a key role in explaining the system, communicating clear expectations, providing feedback, and in fairly appraising individual performance. Most employees will support a system that allocates pay based on performance if they believe the system is reasonable in its design and fairly applied and funded, without personal bias or favoritism. Again, the success of this system depends on the strength and credibility of the performance management program and the extent and effectiveness of the training provided to ensure that supervisors have the resources and skills needed to properly administer this system, and so that employee perceptions are based on accurate information. Finally, it is essential that employees have an opportunity to give feedback on the system operation so that weaknesses or misperceptions can be corrected.

BASED ON MERIT SYSTEMS PRINCIPLES AND FAIRNESS:

- One merit system principle provides that employees should receive equal pay for work of equal value with consideration of labor market rates and with appropriate incentives for excellence in performance. In comparison to the GS system, which primarily focuses on internal equity, this option places more

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emphasis on individual equity (based on individual performance). Once again, the fairness of the pay and classification systems rests on the credibility and fairness of the underlying performance management system. In addition, any limitation of employee appeal rights may be perceived as reducing management accountability for performance and pay determinations, and may lead to negative employee perceptions about the credibility and fairness of these determinations.

- The BPP meets the intent of equal pay being provided for work of equal value, consideration of local rates and directly provides appropriate incentives and recognition for excellence in performance that all employees will value for its merits.

Transition & Implementation:

There is a significant level of effort required to implement this system across the entire Department. A transition/implementation team would need to be established with representatives from each of the components' HR offices, the DHS HR office and other non HR representatives (TBD). Detailed instructions and desk guides will need to be prepared for each part of the process and training for the entire organization will have to be developed and promulgated. There are some high level implementation decisions that will also have to be made.

For example:

- The Department level decision criteria for selecting the bonus percentages on a yearly basis will have to be defined.
- The criteria for selecting who will serve on the Bonus Pay Panel and the process the panel will use in their deliberations and decisions.
- Who, how and when the yearly budget for the bonus pay pool will be established, distributed and managed.
- The decision criteria for the level(s) that employees are ranked (or otherwise categorized) will have to be established by the Department and the individual components.
- The decision on pay caps and the total amount of bonus pay any employee may receive.
- The specific criteria for the information that will be developed and provided to the Bonus Pay Panel, how that information will be gathered and to what level that information can be scrutinized, and by whom.
- How to allocate the pay pool based on performance ratings and other objective and subjective criteria.

Multiple inputs would need to be provided to the panel for rank order decisions. Additional data gathering processes would have to be developed and implemented for this system to be effective. Sophisticated software packages are available to automate systems like 360, 270, etc. However additional data gathering (e.g., customer input) will require information systems development and maintenance.

This system could use traditional performance management tools for establishing and linking individual performance to organizational goals and targets. However, it probably makes sense to standardize a performance management system for the entire Department that would allow a top down roll out of performance expectations from the Department to the component, to the organization to the employee.

Automating the panel decision making process should be considered mandatory before implementing this

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system as a manual process could be very labor intensive and time consuming. Automation using a Web-based scenario should be viewed as a best alternative and should not be cost prohibitive. It could be similar to any Web-based survey instrument. Prototyping is suggested as a learning tool during implementation.

This option should be implemented Department-wide and would require a DHS strategic plan and individual component organization and operational unit strategic plans with linkages from the top down relating to strategic and tactical goals and objectives up and down the entire Department.

This option should be implemented at the beginning of a rating cycle so that expectations can be set and employees know what they need to accomplish to meet the mission and strategic goals and objectives of the Department and all of its operational components.

This option could be deployed in phases, using prototype testing and rollout and/or pilot tested in one part of the Department and then globally implemented.

**Detailed Description
By System Component and System Element**

B Base Pay System		
System elements:		Summary description:
1	Structure of pay ranges	<ul style="list-style-type: none"> • Broad band architecture consists of 5 occupational clusters which could be adjusted to any number as deemed appropriate; it must be noted, however, that increases in the number of clusters will affect the percentage differences between each cluster. • Levels and types of work assigned to specific bands would be considered as a “family of jobs”, not necessarily specific to the actual job itself. Clarity in job/work expectations should be included in an individual’s performance plan. • Structure could be based on any banded system - - e.g., the TSA/FAA modified system described in Option 12 or the Broad Banded Performance Pay system described in Option 5 (further described in the bullets below). This system does need an open range with no predefined steps. • Each cluster has entry/developmental, journey, senior/expert, and manager bands. • Each band has a 60% range, with a performance bar set at the 80th percentile. (The senior/expert band has a 92% range for parity with the manager band maximum, permitting a dual-track approach.)

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		<ul style="list-style-type: none"> • Within a cluster, there is a 20% difference between adjacent bands. • There is a 27% difference between adjacent clusters.
2	Adjustment of pay ranges	<ul style="list-style-type: none"> • Pay band salary ranges increase each year in accordance with the size of the annual salary increase budget calculated for each locality pay area. The annual salary increase budget will be calculated by DHS and will be a function of the overall Governmentwide general pay increase percentage established by the President and Congress, an amount equivalent to average pay increases under the GS system for within-grade and quality step increases, and the relative differences in pay in locality pay areas. These increases will be structural increases only; individual pay adjustments will be made in accordance with the pay-for-performance system outlined below.
3	Pay progression methodology	<ul style="list-style-type: none"> • Upon initial conversion, employees will be placed in appropriate pay band clusters based on their current occupational series and pay levels (adjusted on a pro-rata basis for the next within-grade increase or career ladder promotion). • After conversion, employees will be placed in the appropriate occupational job family in which the individual's position is designated with each pay band reflecting specific roles and responsibilities within those job families. • To allow the maximum flexibility for movement in a pay band or pay series, there should be no steps or limits on the employees ability (such as time factors) to move from the bottom to the top of the pay scale. The progression should be limited only by the levels of performance displayed by the individual employee and distributed through annual pay pool adjustments. • Locality pay (OPM defined) and a small percentage (e.g., 10 to 25%) of annual GS increase would automatically go into every employees (meeting minimum performance standards) base pay increase each year. • All other funds associated with pay (WIGI, performance awards, spot awards and the majority, e.g. 75 to 90%, of the annual GS increase) would go into the "Bonus Pool" to be allocated strictly based on an individual employee's performance in relation to the mission of the Department and component organizations. • Bonus pay would be recommended by a review panel with the ultimate decision authority being the Performance Incentive Pay Official (PIPO), the senior-most person at the organizational level. The panel could be all

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		<p>management representatives or a mixed panel of management, employees, peers, etc.</p> <ul style="list-style-type: none"> • Individual pay rates could fall below the pay band, but only rise to the level of the pay band cap. • Authorized HR managers may set pay above the minimum for hiring employees with superior skills and abilities in a specific band or job series.
4	Pay administration rules	<ul style="list-style-type: none"> • Pay administration rules will have to be totally defined, although many of the current administration processes will be transportable to this new way of doing business. This could be left to DHS without any external oversight. • Pay should be administered locally by the pay panel.
5	Managerial compensation	<ul style="list-style-type: none"> • SES not included in this option. • Managers and Supervisors could have a separate pay range table established or be merged into this system with all other employees. If merged into this system with all other employees, a supervisory incentive would be provided to all supervisors that manage a minimum (for example; employee to supervisory ratio of 1 to 10 or more for a full supervisors incentive – less than 1 to 10 a half supervisors incentive) number of employees at either the first or second level. There may have to be some change factors included to allow for organizational shifts/rightsizing. • A separate scale should be developed for “super graded” managers similar to the previous GS 16 through 18 grades that would recognize managers that are working in an environment that lends itself to higher pay levels but do not qualify for SES level authority or compensation. The “super grade” manager band could be capped at an SES level 2 salary range.
6	Appeals	<ul style="list-style-type: none"> • Appeals could either be maintained as the current appeals process for performance decisions at the individual component level, or changed to a Departmentwide appeals process that could, or could not include an external appeals process and alternative dispute resolution.
7	Evaluation	<ul style="list-style-type: none"> • Continuous assessment based on supervisors and employees feedback and employee survey instruments.