APPENDIX C

PERFORMANCE PAYOUT PROCESS

1. Pay is composed of basic pay and locality pay. All covered employees will receive the full amount of locality pay adjustments when they occur regardless of performance. Additionally, all covered employees who have a rating of record of C or higher will receive a full General Increase unless circumstances such as retained pay dictate otherwise. Basic pay is established within paybands to compensate employees for their performance. Paybands are linked to the GS pay scales.

2. A pay pool manager is accountable for staying within pay pool limits. The pay pool manager assigns performance pay increases and/or performance bonuses to individuals on the basis of a rating, the value of the performance pay pool resources available, and the individual's current basic rate of pay within a given payband. A pay pool manager may request approval from the Commander/Director to grant a performance pay increase to an employee to recognize extraordinary achievement or to provide accelerated compensation for interns. Performance payouts will be calculated for each individual. Pay adjustments for the rating cycle will be effective not later than the end of the current fiscal year. The Commanders/Directors will reexamine the payout factor at the end of the annual assessment period to determine if the planning rate was maintained by revised labor rates. This percentage, a payout factor, may be adjusted for upcoming rating cycle as necessary to compensate for changing employee demographics. Performance payouts will be calculated so that a pay pool manager will not exceed the resources that are available within the pay pool.

3. The performance pay pool is composed of money previously available for within-grade increases, quality step increases, performance awards, and promotions between grades that are now banded under the demonstration project. The payouts made to employees from the performance pay pool will be a mix of base pay increases and/or bonus payments. Some portion of the activity's budget will be reserved for special ad hoc awards (e.g., suggestion awards, on-the-spot awards or special act awards, etc.) and will not be included as part of the performance pay pool.

4. The Commander/Director will allocate funds for the pay pools. The basic rate of pay used in computing the pay pool and performance payouts excludes locality pay.

5. No performance pay increases will be granted to employees at the top step of their payband. In this case, payouts earned as a result of performance will be paid as a performance bonus. Also, for employees receiving retained rates above the applicable payband maximum, the entire performance payout will be in the form of a bonus payment. Performance bonuses are cash payments and are not part of the basic pay for any purposes (e.g., lump sum payments of annual leave upon separation, life insurance, and retirement).

6. Pay increases for employees receiving retained rates will be determined in accordance with 5 U.S.C. 5363, except that those with an F rating will receive no pay increase.

7. Performance Pay Increases and/or Performance Bonuses

a. Performance pay increases or performance bonuses are granted based on the employee's performance rating. The overall score is the sum of individual performance element scores. Employees will receive a rating of "A", "B", "C", or "F" depending upon the score attained. This rating will become the rating of record, and only those employees rated "B" or higher will receive performance pay increases (i.e., basic pay increases, and/or performance bonuses). A rating of "A" will be assigned for scores from 85 to 100 points, "B" for scores from 70 to 84, "C" for scores from 50 to 69. An overall rating of "F" indicates a failure to perform at the 50 percent level of any one of the assigned weighted elements. (In such a case, even though the cumulative score may exceed 49, the employee will receive an overall rating of "F". An "F" constitutes an unacceptable rating.) The ratings will be used to determine performance payouts and to award additional RIF retention years as follows:

RATING	COMPENSATION	RIF RETENTION YEARS	GENERAL INCREASE **	LOCALITY
A	2 shares	10	Yes	Yes
B*	1 share	7	Yes	Yes

C	0 shares	3*	Yes	Yes
F	0 shares	0	No	Yes

* Note that employees rated "B" or higher will be eligible to receive performance-based pay increases and/or bonuses. Retention years credit for RIF will be received by employees rated "C" or higher prior to the end of the rating cycle.

** Note that the maximum pay rate for payband V cannot exceed the current rate for ES-4. Therefore, employees at or near the top of payband V may not receive the full General Increase if it is not authorized for SES employees.

b. A share will be calculated so that a pay pool manager will not exceed the resources that are available in the pay pool. An employee’s performance payout is computed as follows:

<u>Pool Value x SAL x N</u>

Performance Payout = SUM (SALj x Nj)

j=1 to n

Where:

Pool Value = F x SUM (SALk); k=1 to n

n = Number of employees in pay pool

N = Number of shares earned by an employee based on the performance rating (0 to 2)

SAL = An individual’s basic rate of pay

SUM = The summation of the entities in parentheses over the range indicated

F = Payout Factor

c. Once the individual performance payout amounts have been determined, the next step is to determine what portion of each payout will be in the form of a base pay increase as opposed to a bonus payment. An annual performance base pay increase could be all, none, or part of the compensation formula depending on the current basic rate of pay of the employee. Annual performance base pay increases will be limited to the difference between the particular payband cap and the employee's current basic rate of pay, or total dollar value of shares, whichever is less, with the balance converted to a performance bonus. This means that employees whose basic rates of pay have reached the upper limits of a particular payband will receive most of the performance compensation as a performance bonus. Cash bonuses will not become a part of the employee's basic rate of pay. Employees receiving retained rates are subject to special rules governing basic pay adjustments. An employee receiving a retained rate whose performance rating is "F" at the time of a general pay increase will receive no increase in the retained rate. All other employees receiving a retained rate will receive a general pay increase equal to 50 percent of the amount of the increase in the maximum rate of basic pay allowable for the payband of the employee's position.

8. Awards

a. Awards, while not linked to the pay-for-performance system, will continue to be given for special acts and other categories as they occur. Awards may include, but are not limited to, special act or service awards, patents, inventions, suggestions, on-the-spot, and time-off, and may be modified or expanded as appropriate. Major Army Command (MACOM) and DoD awards and other honorary awards will be retained.

b. In an effort to foster and encourage teamwork among employees, a Commander/Director may allocate a sum of money to a team for outstanding completion of a special task or significant achievement, and the team may decide the individual distribution of the total dollars among themselves.

c. Unless covered by negotiated grievance procedures, employees may not grieve or appeal the decision to grant an award or the amount of an award.

9. Supervisory Bonus

a. Supervisory bonuses of up to 10 percent of the basic rate of pay may be paid at the discretion of Commanders/ Directors to supervisors with employees in the same pay band. In exceptional cases, supervisors who do not have employees in the same pay band may be compensated up to 5 percent of basic rate of pay. Employees who qualify for the bonus include supervisors in all occupational families with formal supervisory authority meeting that required for coverage under the OPM GS Supervisory Guide. The supervisory bonus is to recognize supervisory responsibilities required of supervisors most often receiving the same pay as non-supervisory subordinates. Supervisory

bonuses will not be treated as basic pay and are not a part of the performance pay pool. There are two situations in which a supervisory bonus may be warranted:

(1) Supervisors may be granted up to 10 percent of the basic rate of pay if they supervise employees within the same pay band or,

(2) up to 5 percent of the basic rate of pay for those supervising employees in lower or other pay bands.

b. The bonus will be paid at the beginning of the appraisal period, if the individual leaves a supervisory position or is removed from supervisory responsibilities (unless effected through RIF action), the prorated portion of the bonus for the non-supervisory portion of the performance year will be recovered as a debt due the Government. The supervisor, prior to receiving any supervisory bonus, will sign an agreement (Appendix G) to make any required repayment should the need arise.

10. Pay and Compensation Ceilings

a. An employee’s total monetary compensation paid in a calendar year may not exceed the basic rate of pay paid in level I of the Executive Schedule consistent with 5 U.S.C. 5307 and 5 CFR part 530, subpart B. In addition, each payband will have its own pay ceiling, just as grades do in the current system. Pay rates for the various paybands will be directly keyed to the GS rates. Except for retained rates, basic pay will be limited to the maximum rates payable for each payband.

b. Pay and compensation policies for positions in payband V of the Engineers and Scientists (E&S) occupational family will be developed in accordance with criteria to be established jointly by the Assistant Secretary of the Army (Manpower and

Reserve Affairs) and the Assistant Secretary of the Army (Research, Development and Acquisition). The proposed salary range is a minimum of 120% of the minimum rate of basic pay established at the rate of basic pay (excluding locality pay) for SES level 4 (ES-4).

c. Movement of employees through payband IV of the Administrative and Payband III of the Engineers and Scientists occupational families will be in line with overall cost neutrality of the demonstration and generally unrestricted based on performance until the person reaches the salary of GS-13 Step 10. At that point, high-grade controls restrict further movement, i.e., demonstration project employees will not be able to advance in payband DB-III or DJ-IV beyond the salary equivalent of GS-13, step 10 unless a high-grade authorization is available. To accommodate this, employees whose salary adjustment would place them above the GS-13 Step 10 level in organizations where high-grade authorizations are unavailable will receive permanent adjustments to basic salary up to an amount equivalent to a GS-13 Step 10. Any additional amount granted will be paid similarly to employees reaching the top of the band, i.e., employee may be paid a performance bonus.