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06/10/2011



The Director

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

From: John Berry
Director, Office of Personnel Management

Jeffrey Zients
Deputy Director for Management & Chief Performance Officer, Office of Management & Budget

Subject: Guidance on Awards for Fiscal Years 2011 and 2012

Federal agencies are authorized to grant awards to their employees to recognize and reward excellence in performance. Given the current fiscal environment, and the budget constraints agencies will operate under for the remainder of fiscal year 2011, as well as those reflected in the President's fiscal year 2012 budget proposal, these awards must be carefully considered. It is critical that these awards be managed in a manner that is cost-effective for agencies and successfully motivates strong employee performance.

When the President made the decision to propose a two-year pay freeze beginning in January 2011, he directed the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) to evaluate the system of performance awards and incentives for cost and effectiveness. Consistent with previous Government Accountability Office reviews of Federal agencies' use of awards and incentives, we have identified a number of concerning trends. In many cases, awards are broadly and inconsistently allocated and some Federal employees have come to expect awards as part of their compensation. At the same time, recent survey results show that a large number of both agency managers and employees do not perceive the current employee performance management/award systems to be fair or accurately reflect differences in performance levels.

As a result of these findings, and in keeping with the need to manage budget resources carefully, OPM and OMB are issuing this memorandum on budgetary limits on individual awards during fiscal years 2011 and 2012. This memorandum provides guidance applicable to all departments and agencies (referred to collectively as agencies), was developed in consultation with the President's Management Council, and has been informed by a review of recent agency award practices. This guidance specifically calls on agencies to adopt more rigorous employee performance management processes that incorporate consistent supervisor communication and feedback, establish accountability at all levels, and provide transparent and credible appraisal systems. To assist agencies in this effort, OPM and OMB are working with agency Chief Human Capital Officers and the National Council on Federal Labor-Management Relations to identify best practices for improving the employee performance management system so that the performance appraisal and award systems fairly reflect performance distinctions and effectively motivate employees.

While implementing this guidance, agency executives retain flexibility to allow for group and individual recognition in ways that are meaningful, fair, and clearly distinguish levels of performance. In exercising their discretion in this area, agencies are reminded to honor all collective bargaining obligations and discuss agency award programs in agency labor-management forums.

Budgetary Limitations for Awards Granted during Fiscal Years 2011 and 2012

Agencies must reduce total spending on individual performance awards for members of the Senior Executive Service (SES) and senior-level and scientific and professional employees (SL/ST) to no more than five percent of aggregate salaries. Agencies must also reduce award spending for non-SES/SL/ST performance awards and individual contribution awards (e.g., special act) for all employees to no more than one percent of their aggregate salaries. These award spending targets apply for awards with effective dates during fiscal year 2012, with progress toward that level in fiscal year 2011, as reported to OPM under the agencies' regular reporting procedures.

A review of recent and historical Government-wide spending formed the basis for setting these limits, which preserve agency flexibility to decide which specific awards within their programs to fund and at what levels. For many agencies, these award limits will require a reduction from current award spending levels. Agencies already spending at or below these levels must continue to limit spending to their fiscal year 2010 levels. In implementing these limitations, agencies should provide for equitable distribution of awards between managers/supervisors and non-supervisory employees.

These budgetary limitations do not apply to political appointees. The President's August 3, 2010, memorandum freezing discretionary awards, bonuses, and similar payments for political appointees applies through the end of fiscal year 2011. Agencies should continue to apply this freeze in fiscal year 2012 in accordance with OPM's guidance at

<http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalID=3060>.

Covered Awards

The budgetary limits specified in this memorandum apply to spending for individual awards only, which include rating-based performance awards and individual special act awards. Other awards and incentives are frozen at fiscal year 2010 spending levels, except travel savings and foreign language awards. Agencies are encouraged to leverage existing award programs to reward employees who identify improvements that result in documented, validated cost savings and productivity improvements. An emphasis on awards of this nature is particularly important in light

of the fiscal challenges we are facing.

Recruitment, relocation, and retention incentives are not awards and are not covered by the budgetary limits. However, agencies are expected to ensure prospectively that spending on these incentives in calendar year 2011 and calendar year 2012, respectively, does not exceed calendar year 2010 levels. Quality step increases are another rating-based payment that does not constitute an award. These payments are not covered by the one percent budgetary limit; however, agencies may not exceed their 2010 fiscal year spending levels on quality step increases granted during fiscal years 2011 and 2012.

Exclusions

The budgetary limits specified in this memorandum are intended to apply to all awards programs in Executive branch agencies covering members of the SES and non-SES civilian employees, including SL/ST, wage grade and others. Agencies have the flexibility, however, to apply these budgetary limits to awards programs for other employees to accommodate current budget constraints. Agency Chief Human Capital Officers and/or Human Resources Directors should contact Stephen T. Shih, Deputy Associate Director for Executive Resources and Employee Development, in OPM's Employee Services by telephone at (202) 606-8046 or by e-mail at perform-mgmt@opm.gov immediately if an agency believes a specific awards program is excluded from the spending limits specified in this memorandum. Furthermore, if an agency determines to exclude a specific awards program, the agency must report its determination to the Director of OPM by submitting an email detailing the justification for the exclusion to perform-mgmt@opm.gov.

Effective Date

The budgetary limits specified in this memorandum take effect as of the date of this memorandum and remain in effect for awards with effective dates during fiscal year 2012, with progress toward the limits for awards with effective dates in fiscal year 2011, as reported to OPM under the agencies' regular reporting procedure.

Additional Information

Agency Chief Human Capital Officers (CHCOs) and/or Human Resources Directors should contact OPM's Employee Services, Executive Resources and Employee Development, at the above number or email address for additional information. Employees should contact their agency human resources offices for assistance.

Attachment

cc: Chief Human Capital Officers
Human Resources Directors

QUESTIONS AND ANSWERS

Guidance MEMORANDUM on awards for Fiscal Years 2011 and 2012

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Q1. Why are OPM and OMB imposing limitations on agency awards budgets?

A1. The President directed OMB and OPM to evaluate the system of performance awards and incentives for cost and effectiveness. In keeping with the President's message on the pay freeze and recognizing the need to address the current fiscal reality, OMB and OPM reviewed current agency spending on these awards in consultation with the President's Management Council (PMC) and determined that the award restrictions described in this memorandum are appropriate at this time. OMB and OPM will continue to work with the PMC, agency Chief Human Capital Officers, and the National Council on Federal Labor-Management Relations to identify best practices for improving the employee performance management system so that the employee performance appraisal and award systems fairly reflect performance distinctions and effectively motivate agency employees.

Q2. What limits are being imposed?

A2. Agencies must reduce total awards spending as follows:

- Agencies may spend no more than five percent of the aggregate salaries of their career executives at the end of the previous fiscal year on individual performance awards for members of the Senior Executive Service (SES)
- The same five percent of aggregate salary limit will apply to performance awards for senior-level and scientific and professional employees (SL/ST)
- For non-SES/SL/ST employees, agencies may spend no more than one percent of the aggregate salaries of those employees at the end of the previous fiscal year on individual performance awards
- In addition, the one percent limit applies to awards spending for individual contribution awards (e.g., special act) for all employees and executives.
- These limits apply during fiscal year 2012, with interim progress expected in fiscal year 2011.

Q3. How will agencies report on their adherence to these budget limits?

A3. OPM will use data from agencies' usual reporting procedures to confirm agency awards spending. Agencies already report awards to the Central Personnel Data File/Enterprise Human Resources Initiative using specified nature of action codes. They also report SES/SL/ST rating, pay, and awards data to OPM through the annual data call.

Q4. How do agencies calculate the aggregate salaries used as the basis for these limits?

A4. Agencies should use the aggregate salaries at the end of the previous fiscal year as the basis for calculating these limits. This is the methodology in statute for calculating the SES performance award funding. In addition, there is further instruction provided in regulation at 5 CFR 534.405(b)(2) for identifying which salaries are used. This approach will provide agencies with a consistent approach and known salary figure to use. Individual awards subject to pre-existing collective bargaining agreements and which conflict with budgetary limits will be excluded from calculations for awards spending.

Q5. Does the five percent limit on SES/SL/ST performance awards include the Presidential Rank Awards?

A5. No; the limit on performance awards applies only to those awards based on the most recent rating of record. Agencies will continue to budget separately for these awards but should consider their nominations very carefully during these times of tight fiscal constraints and limit them accordingly.

Q6. Which awards are subject to this limitation?

A6. These budgetary limits apply to individual awards only. Other awards and incentives are frozen at 2010 spending levels, except for travel savings and foreign language awards.

Q7. What is meant by individual awards?

A7. For the purpose of addressing our current fiscal reality, we have designated the following awards as individual awards:

- **Individual Performance Rating-Based Cash Awards** – recognize the overall performance of individual employees and are granted on the basis of a rating of *Fully Successful* or higher. These awards are the SES performance awards paid under 5 U.S.C. 5384 and 5 C.F.R. 534.405, as well as the rating-based awards paid under 5 U.S.C. 4505a and 5 C.F.R. 451.104(a)(3) and 451.101(e) or comparable awards under similar legal authority.
- **Individual Contribution Awards** – recognize individuals who have made specific contributions that exceeded normal job requirements or performed a special act or service (e.g., spot awards). These awards are the single-contribution awards paid under 5 U.S.C. 4503 and 5 C.F.R. 451.104(a)(2) or similar legal authority.

Q8. What are the other awards and incentives that are frozen at FY 2010 levels?

A8. We have designated the following as other awards, recognition, and incentives, each of which is capped at its respective 2010 level:

- **Other Awards** – include group cash awards; cash awards recognizing achievements such as individual and group suggestion and invention, and cost saving referrals of job candidates. These awards are granted under 5 U.S.C. 4503 and 5 C.F.R. 451.104(a)(1) or similar legal authority.

- **Quality Step Increases** – rating-based increase to basic pay recognizing outstanding performance expected to continue and warranting an ongoing increase in pay. These pay increases are granted under 5 U.S.C. 5336 and 5 C.F.R. part 530, subpart E or similar legal authority for additional performance-based pay increases. These payments must be managed carefully as they create ongoing financial obligations for the agency.
- **Recruitment, Retention and Relocation Incentives (3Rs)** – cash incentives paid to employees with unique skills or in difficult-to-recruit positions. These incentives are authorized under 5 U.S.C. 5753 and 5754 and 5 C.F.R. part 575, subparts A-C or similar legal authority. Agencies must take great care to manage the use of these incentives only as intended by law and regulations, and OPM will continue to monitor use of these awards to make sure they are not misused. Agencies are expected to ensure prospectively that spending on 3Rs in calendar year 2011 and calendar year 2012 respectively does not exceed calendar year 2010 levels. (Unlike the fiscal year limits on awards, OPM will monitor 3Rs based on calendar years, consistent with past reporting requirements to Congress.)

Q9. Will agencies have to make reductions immediately?

A9. Agencies must reduce total awards spending for awards with effective dates in fiscal year 2012, with interim progress in 2011, on individual performance awards for members of the Senior Executive Service (SES) and senior-level and scientific and professional employees (SL/ST) to no more than five percent of aggregate salaries. For performance awards for non-SES employees and contribution awards for all employees and executives, the spending limit is no more than one percent of aggregate salaries for awards with effective dates in fiscal year 2012, with interim progress in 2011. Agencies already spending at levels at or below these targets will continue to limit spending to their fiscal year 2010 levels. Other awards and incentives are frozen at fiscal year 2010 spending levels as well.

Q10. Will all agencies have to reduce their awards spending to meet the 5% SES/SL/ST and 1% non-SES levels?

A10. Whether agencies will have to make actual reductions to their awards spending depends on how much they spent in fiscal year 2010. For some agencies, this will require a reduction from current spending levels. For those agencies currently spending at or below these limits, spending is frozen at their fiscal year 2010 levels.

Q11. Will agencies have to limit the number of awards they grant?

A11. There is no cap on the percentage of employees receiving awards or the number of individual awards granted. However, any time overall spending is reduced, the number of employees receiving awards may be affected. It is important to remember agencies still are expected to improve performance by rewarding excellence, with awards being more meaningful, distinguishable, and fair, especially during tough fiscal times. In exercising their discretion in this area, agencies are reminded to honor all collective bargaining obligations and discuss agency award programs in agency labor-management forums. Each agency should consider this guidance and consult with agency counsel to determine the agency's position in any subsequent collective bargaining on individual awards. Agencies must identify for OPM

those bargaining unit employees whose collective bargaining agreement contains negotiated provisions addressing specific award amounts payable for rating-based performance awards, the date the collective bargaining agreement expires, and any employees covered by other award programs they believe should be excluded from the current limitations. An agency must report its determination to the Director of OPM by submitting an email detailing the justification for the exclusion to perform-mgmt@opm.gov.

Q12. Will these limits apply to individual award amounts?

A12. Like the overall number of awards, no specific limit is being placed on the amount of any single individual award. However, if overall spending reductions are necessary to meet the specified targets, one way to achieve this may be by addressing the amounts granted for specific awards, respecting the requirements of the law. Agencies are reminded again to protect the intent and integrity of their award programs to provide appropriate recognition for excellence in performance.

Q13. Will giving fewer or smaller performance awards to SES/SL/ST affect an agency's ability to get certified?

A13. No; the certification criterion addressing pay differentiation remains the same and does not depend on the number or amount of individual awards, except where there are statutory requirements. Certification requires pay differentiations be made based on the performance distinctions as reflected by the ratings of record. During the pay freeze, agency performance awards will be reviewed to see whether such differentiation occurs. The criterion requires relative differentiation so that agencies consistently grant larger performance awards to senior executives who receive higher ratings.

Q14. Will this affect time-off awards?

A14. No. Because time-off awards do not involve additional cash expenditures, they are not included in these targets. Agencies are reminded, however, that these awards represent a cost to the agency and to refrain from increasing time off awards to compensate for the restrictions on cash awards.

Q15. Are political appointees covered by this budget guidance?

A1. These budget limitations do not apply to political appointees. On August 3, 2010, the President announced a freeze on discretionary awards, bonuses, and similar payments for politically appointed Federal employees through the end of FY 2011. Agencies should continue to apply this freeze in FY 2012 in accordance with OPM's guidance at <http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalID=3060>.

Q16. How can agencies and employees get further guidance on this topic?

A16. Agency Chief Human Capital Officers and/or Human Resources Directors should contact OPM's Employee Services, Executive Resources and Employee Development, at 202-606-8046 or email perform-mgmt@opm.gov for additional information. Employees should contact their agency human resources offices for assistance.

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