

# OCHR FactSheet

## Awards Limitations for Fiscal Years 2011 and 2012

Issued: 18 July 2011

### SPECIAL ISSUE

This Fact Sheet:

- Provides information on awards limitations for fiscal years 2011 and 2012 for DON civilian employees

### Introduction

In response to the current budget environment, the Office of Personnel Management and Office of Management and Budget (OPM/OMB) have jointly, in a 10 June 2011 memorandum, published guidance on awards for fiscal years 2011 and 2012. On 6 July 2011, the Department of Defense (DoD) issued supplemental guidance on awards limitations for fiscal years 2011 and 2012. This guidance discusses the applicability of the OPM/OMB memorandum on DoD alternative pay systems. The limitations on awards and other similar payments prescribed by OPM/OMB are intended to apply to all awards programs in Executive branch agencies, regardless of the source of underlying authority.

The OPM/OMB guidance restricts awards spending as follows:

- For all employees, except Senior Executive Service (SES) and senior-level and scientific and professional employees (SL/ST), spending for individual performance awards and for individual contribution awards (e.g., special act awards and “on-the-spot” awards) must be limited to no more than 1% of aggregate basic salaries of those eligible employees who were employed at the end of the previous fiscal year. Guidance for SES/SL/ST employees will be issued separately from this memorandum.
- Although not included in the limits outlined above, other awards and incentives are frozen to fiscal year 2010 spending levels, including recruitment, relocation and retention incentives, and quality step increases (QSIs). Travel savings and foreign language awards are excepted from this guidance.

The following are questions and answers regarding the awards restrictions. For additional information, see the DON Policy Memorandum *Guidance on Awards for Fiscal Years 2011 and 2012*, 15 July 2011.

### Q1. Why did OPM and the Office of Management and Budget (OMB) impose limitations on awards for fiscal years 2011 and 2012?

A. OPM and OMB were directed by the President to evaluate the cost and the effectiveness of performance awards and incentives. OPM and OMB reviewed current agency spending on awards and, to remain consistent with the President’s message on the pay freeze, determined that awards restrictions were appropriate.



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**Q2. How will DON Commands report adherence to the budget limits?**

A. The budget limits are to be calculated at the Echelon I and II Command levels. OPM will use data from DON's usual reporting procedures – including information from specified nature of action codes and data calls – to confirm agency awards spending.

**Q3. How do Commands calculate the aggregate salaries used as the basis for these limits?**

A. Commands should calculate the limits using the aggregate basic (i.e., including any applicable locality pay) salaries of those eligible employees at the end of the previous fiscal year. Individual awards subject to pre-existing collective bargaining agreements and which conflict with budgetary limits will be excluded from calculations.

**Q4. Which awards are subject to limitations?**

A. The budgetary limitations apply to individual performance-based and contribution awards as described below:

- **Individual performance ratings-based cash awards** – recognize the overall performance of individual employees and are granted on the basis of a rating of “fully successful” or higher.
- **Individual contribution awards** – recognize individuals who have made specific contributions that exceeded normal job requirements or in recognition of the performance of a special act or service (e.g. “on the spot” awards and special act 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.

Other awards and incentives (excluding travel savings and foreign language awards) will be frozen at 2010 spending levels. These awards are described below:

- **Other awards** – include group cash awards, cash awards recognizing achievements such as individual and group suggestions and inventions, 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 (QSI)** – 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.
- **Recruitment, Retention and Relocation Incentives (3Rs)** – cash incentives paid to employees with unique skills or in hard-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. Unlike the fiscal year limits on awards, OPM will monitor spending on 3Rs based on calendar year, consistent with past reporting requirements to Congress.

**Q5. Do agencies need to limit the *number* of awards granted or limit the individual award amounts?**

A. No, there is no specific cap on the percentage of employees who are granted awards, the number of individual awards granted or the individual award amounts. However, any time overall spending is reduced, the number of employees receiving awards or the amount of such awards may be affected. Commands are expected to improve performance by rewarding excellence with awards that are meaningful, distinguishable, and fair.



**Q6. Are time-off awards affected by the limits?**

A. No, there is no restriction on time-off awards. Commands are reminded, however, that time-off awards do represent a cost, albeit not an actual cash expenditure, and should refrain from increasing time-off awards to compensate for the restrictions on cash awards.

**Q7. QSIs are to be restricted to fiscal year 2010 levels – but what if my Command was under the National Security Personnel System (NSPS) during 2010 and therefore did not grant any QSIs?**

A. While NSPS did not provide QSIs, it redirected funds that historically had been paid as QSIs into NSPS performance-based salary increases – using the historical value of QSIs as a percentage of aggregate salaries. Since the DoD GS population will be larger in FY 2011 and 2012 due to conversions out of NSPS, the QSI limitation will be applied by expressing QSIs as a percentage of aggregate salaries, instead of comparing dollar amounts.

**Q8. To which pay systems do the limits apply?**

A. The limitations on awards and other similar payments prescribed by OPM and OMB are intended to apply to all awards programs in Executive branch agencies, regardless of the source of underlying authority. Thus, the limitations apply to, but are not limited to, the following:

- Organizations whose employees are covered by provisions of title 5 United States Code (U.S.C.) and 5 Code of Federal Regulations (CFR), regardless of the source of their funding;
- Employees paid under authorities of the Defense Civilian Intelligence Personnel System (DCIPS) in title 10 U.S.C. 1601-1614;
- Foreign national employees of the Department of Defense (DoD) who are eligible for cash awards, as long as receipt of such an award does not conflict with host nation employment law or practice;
- Employees covered by the Physicians and Dentists Pay Plan (PDPP), which is a hybrid title 38 pay system, are covered for purposes of performance awards by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e), and for special act awards under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are also subject to the limitations prescribed by OPM and OMB;
- Employees paid under DoD nonappropriated fund (NAF) pay systems;
- Science Technology Reinvention Laboratories (STRL) pay systems;
- Acquisition Demonstration Project pay system;
- National Security Personnel System (NSPS) pay system;
- DON Interim Performance Management System for employees transitioned from NSPS to GS;
- Legacy DON Performance Management System.



**Q9. How do the restrictions apply to NAF pay systems?**

A. The NAF pay system requires that performance criteria be consistent with the NAF financial goal of the NAF business unit and therefore performance awards and merit pay increases are generally dependent upon achievement of the unit's pre-determined financial goal. In this performance-driven business environment, the following is additional information regarding how the restrictions apply to employees in a NAF pay system:

- Lump-sum cash bonuses and awards for NF-6 senior level executives are limited to up to 5% of the aggregate salaries of the Component's NF-6 level executives.
- Lump-sum cash bonuses and awards (including special act awards) for individual NAF employees in positions other than NF-6 are limited to 1% of aggregate salaries of those employees.
- Other awards, such as group cash awards, cash awards recognizing achievements such as individual and group suggestion and invention, and cost saving referrals of job candidates are not covered by the 1% limitation, but are frozen at FY 2010 levels.
- A cash bonus paid out to all employees in a unit as a result of achieving a set financial or profit goal is considered a group award. The financial or profit-sharing formula used in FY 2010 will be used to determine the group award in FY 2011 and 2012.
- Performance-based continuing pay increases are not included in the 1% OPM/OMB awards limitation. NAF activities should use sound business reasons and discretion when granting performance-based continuing pay increases.
- When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the excess amount is generally paid as a lump sum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum.
- OCHR will work with the DON NAF Headquarters organizations to establish a means to monitor adherence to budget limits, provide oversight, and report on annual awards spending.

**Q10. How do the restrictions apply to alternative pay systems?**

A. Alternative pay systems, such as the Science and Technology Reinvention Laboratories (STRL), Acquisition Demonstration Project and the National Security Personnel System (NSPS), rely on broad pay bands, which typically incorporate multiple GS grades. Funding of monetary rewards for performance is allocated differently than for employees covered by other pay and performance systems, and requires additional guidance.

- For situations in which funding levels for performance-based compensation and/or awards are specifically identified in *Federal Register* notices, and those levels are greater than the limitation prescribed by OPM/OMB, the *Federal Register* amounts are controlling. If, however, the *Federal Register* language is not prescriptive, then the OPM/OMB limitations apply.
- Typically, pay pools for broad-banded systems have two funds for performance recognition – (1) continuing pay increases and (2) performance awards formerly covered by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) – that are maintained separately. In addition, many systems have a fund for (3) special acts, inventions, etc., covered by 5 U.S.C 4503 and 5 CFR 451.104(a)(2) (or equivalent authority). As noted above, unless specifically identified in *Federal Register* notices, the funding for categories (2) and (3) may not exceed the OPM/OMB 1% limitation.



- When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the excess amount is generally paid as a lump sum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards under 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) or a special act award under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum for FY 2011 and 2012. However, if the excess amount is added to the funding available for performance-based bonuses and awards, such a lump-sum payment would be grouped with other awards subject to the OPM/OMB 1% limitation.

### Q11. How do the restrictions apply to the Interim Performance Appraisal System?

A. Organizations with employees covered by the DON Interim Performance Management System for Employees Transitioning from NSPS to GS must also adhere to the outlined budgetary limits. In keeping with this requirement, the minimum funding levels required by the Interim Performance Management System Covering Positions Transitioning to the General Schedule (GS) from the National Security Personnel System (NSPS), Section 12 on Performance Recognition do not apply for fiscal years 2011 and 2012. Additionally, since the OPM restrictions limit to 1% the *combined* spending for performance awards (i.e., those tied to a rating) and contribution awards (e.g., “on-the-spot” and special act awards), Commands using the Recommended Framework for Recognition and Rewards in Appendix F will need to determine what portion of the 1% aggregate will be used for performance awards (vice contribution awards) for purposes of determining awards eligibility based on rewards score (i.e. the average of the scores assigned to each critical element - 1, 2, or 3 - after receiving a rating of record of ‘Acceptable’). Commands should develop business rules for determining what percentage award an employee may be eligible to receive based on their rewards score such that spending does not exceed the budgeted amount. Two examples are provided below.

**Example 1: Command determines that .75% will be spent on performance awards and .25% will be spent on contribution awards.**

Average of Critical Element Scores	*Award Eligibility (% of basic pay)
1.0 – 1.49	No Award – .50%
1.50 – 2.49	.50% – 1.0%
2.50 – 3.0	1.0% – 1.5%

*\*Commands must take care to ensure conformance with the 1% aggregate awards limitation when adopting business rules to determine what percentage award an employee is eligible to receive*

**Example 2: Command determines that .25% will be spent on performance awards and .75% will be spent on contribution awards.**

Average of Critical Element Scores	*Award Eligibility (% of basic pay)
1.0 – 1.49	No Award
1.50 – 2.49	No Award – .25%
2.50 – 3.0	.25% – .75%

*\*Commands must take care to ensure conformance with the 1% aggregate awards limitation when adopting business rules to determine what percentage award an employee is eligible to receive*



**Q12. Given the awards restrictions, how can Commands motivate high performance?**

A. A well-managed awards and recognition program provides managers many ways to recognize performance and contribution to the mission. Managers are strongly encouraged to make full use of time-off awards, honorary awards, day-to-day recognition and feedback, public recognition and other methods for encouraging high performance.

**Q13. How do these limitations apply to labor obligations?**

A. All collective bargaining obligations must be met prior to implementing the provisions of either OPM/OMB or this supplemental guidance. Collective bargaining agreements or past practices may provide for a structure and minimum award amounts or percentages based on the ratings received by employees. Management must reach agreement with the union prior to implementing a change to an agreement or past practice. Management cannot unilaterally change the agreement or practice based on the awards limits prescribed by OPM.

**Q14. Given that a number of performance cycles have already concluded, how should Commands work to make progress toward the 1% cap in fiscal year 2011?**

A. Given that the fiscal year is nearing a close, there may have been performance cycles that have already concluded and for which awards have been granted. However, there are a number of performance cycles that will conclude prior to the end of the current fiscal year, for which performance has not yet been recognized or rewarded. Commands are cautioned to pursue the objective of showing progress toward the 1% spending level for fiscal year 2011 while maintaining a reasonable degree of equity between employees who were granted awards prior to the OPM and OMB restrictions and those who will be granted awards after the restrictions were in place.

**Where to Find Additional Information**

- Office of Personnel Management Memorandum: Guidance on Awards for Fiscal Years 2011 and 2012, 10 June 2011
- Department of Defense Memorandum: Supplemental Guidance on Award Limitations for Department of Defense Civilian Employees in Fiscal Years 2011 and 2012, 6 July 2011
- Department of Navy Policy Memorandum: Guidance on Awards for Fiscal Years 2011 and 2012, 15 July 2011