



OFFICE OF THE SECRETARY OF DEFENSE
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ADMINISTRATION AND
MANAGEMENT

06 NOV 2008

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Compensation Philosophy for Fourth Estate Organizations under the
National Security Personnel System

The purpose of this memorandum is to issue the Compensation Philosophy (attached) for Fourth Estate Organizations under the National Security Personnel System (NSPS). The Philosophy was developed to support and promote the goals of the Department of Defense Human Capital Strategic Plan for 2006 – 2010. It was also designed to assist you with establishing your fiscal priorities pertaining to compensation. This is particularly significant now that we are in an environment under NSPS where managers have greater flexibility and need to often make demanding and complex pay-setting decisions that must be equitable to employees but contribute to effective and efficient mission accomplishment for their organizations.

I encourage you to follow the ideal in this philosophy and establish it as a paramount consideration for your subordinate managers in their pay-setting determinations. Any questions should be directed to David Bauer at dave.bauer@whs.mil or (703) 604-6160.

Michael L. Rhodes
Acting Director

Attachment:
As stated

cc:
Director, Defense Microelectronics Activity
President, Defense Acquisition University
President, National Defense University

OSD 14128-08



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Fourth Estate NSPS Compensation Philosophy Statement

The Fourth Estate Compensation Philosophy will be to encourage the Defense Agencies and DoD Field Activities to establish the most advantageous pay-setting practices for their organization's mission-critical occupations (MCOs) whose effective and efficient performance is essential to the successful accomplishment of the missions of their organizations.

The basic focus of the Department of Defense (DoD) Human Capital Strategic Plan (HCSP) is the attraction, retention, and motivation of a highly competent workforce that possesses the requisite skills to accomplish DoD's mission and its strategic plan. The National Security Personnel System (NSPS) sets out the provisions that allow managers to more effectively achieve these aims using the available flexibilities that were not an option in prior personnel systems. The goal of the DoD NSPS compensation philosophy is to:

- Maintain competitive salary levels within relevant labor markets
- Provide equitable salary administration and management policies
- Provide pay increases that:
 - link to DoD's strategic goals and objectives
 - foster and drive sustained high-levels of organizational and individual performance
- Comply with all legal, regulatory, and statutory aspects affecting compensation and benefits, including the merit system principles
- Align with DoD fiscal priorities and resources

Consequently, the Fourth Estate Compensation Philosophy is to give greater focus to the HCSP and promote the direction established by the DoD Compensation philosophy. As budgetary constraints place greater demands on management to make difficult pay decisions and distinguish between what may be paid for various occupations, it is becoming imminently apparent that MCOs need to get paramount consideration in an organization's pay-setting policies. Also, Heads of Defense Agencies and DoD Field Activities should emphasize to managers when making pay decisions that they are to balance fairness and equity to prospective and current employees with sound fiscal judgment. Pay determinations require informed and reasoned judgments and should not yield to excessive demands to hire or place any given individual.

There may be exceptions to this philosophy as some mission support positions require unique or hard-to-find skills or the external market pay for a mission support occupation may require higher salaries. In these situations, appropriate measures may be taken to acquire the needed individuals for the positions. However, given that the primary goal of any organization is mission accomplishment, the mission-critical occupations need to be the primary beneficiary of organizational financial resources.