Department of Defense

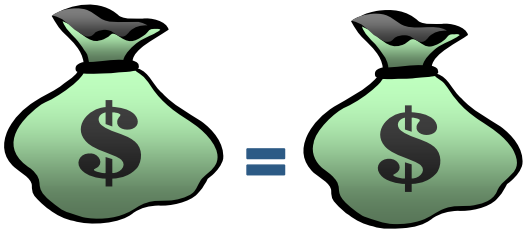
National Security Personnel System

Why 2.26%?

June 7, 2007

Statutory Compensation Requirement

- In accordance with the NSPS statute, to the maximum extent practicable, for fiscal years 2004 through 2008, the overall amount allocated for compensation of the DoD employees who are included in the NSPS may not be less than the amount that would have been allocated for compensation of such employees if they had not been converted to NSPS.



Title 5 NSPS

SAME CIVILIAN PAY DOLLARS
NSPS Just Changes How You Distribute Those Dollars

Civilian Personnel Funding Allocations

Same Civilian Pay Dollars!

Title 5

- Within-Grade Increases
- Quality Step Increases
- Promotions To Higher Grades
- Chapter 45 Incentive Awards
- GS Rate Increases
- GS Locality Pay Increases

NSPS

- * Performance-Based Payouts (Pay Pool)
  - Salary Increases (No less than 2.26%)
  - Bonuses (Component Decision)
- Promotions To Higher Bands
- Reassignments
- Accelerated Compensation for Developmental Positions (ACDP)
- Extraordinary Pay Increases (EPI)
- Organizational Achievement Recognition (OAR)
- Chapter 45 Incentive Awards
- Rate Range Adjustments
- Local Market Supplement Adjustments

** Money for payouts protected by policy*

Pay Pool Funding

Element 1

Fixed percentage
DoD-wide / Component
Minimum of 2.26%

Element 2

Remaining Portion of
General Pay Increase
Set by SecDef (%)

Element 3

Annual Bonuses
Component Discretion (%)

Pay Pool Fund

What Did We Count?

- **Under NSPS, the performance-based payouts will replace Title 5 Within Grade Increases (WGI), Quality Step Increases (QSI), and promotions between grades that have been banded (e.g., GS 9-13)**
  - **The NSPS equivalent of cost of labor adjustments (GPI and locality pay) and promotions across pay bands (band 1 to band 2) will be determined outside of the pay pool process**

- **Therefore, to maintain equivalence with Title 5, pay pools should spend approximately the same amount they would have spent on Title 5 Within Grade Increases (WGI), Quality Step Increases (QSI), and promotions between grades that have been banded**
  - **The pay pool funding percent is NOT the same as the rate of change in the organization's civilian pay budget or average grade and step**

DoD GS/GM Analysis Group

- **Population: All GS/GM employees**
  - Including employees on special rates (apply the standard table)
  - Full-time employees only
  - Drop employees with negative increases or increases of more than 26% in the year (assume that these are data problems or unusual cases)

- **Analysis time period:**
  - 30 Sep 2002 to 30 Sep 2003
  - 30 Sep 2003 to 30 Sep 2004
  - 30 Sep 2004 to 30 Sep 2005

All GS/GM Employees

	2005			
	Population	Begin Pay	End Pay	% Increase
Prof/Admin	177,201	58,370	59,882	2.59%
Tech/Spt	97,695	34,899	35,507	1.74%
Super/Mgr	35,410	70,619	71,873	1.78%
Total	310,306	52,378	53,576	2.29%
	2004			
	Population	Begin Pay	End Pay	% Increase
Prof/Admin	175,779	56,682	58,115	2.53%
Tech/Spt	101,696	33,835	34,403	1.68%
Super/Mgr	34,484	68,013	69,198	1.74%
Total	311,959	50,487	51,610	2.22%
	2003			
	Population	Begin Pay	End Pay	% Increase
Prof/Admin	170,145	55,078	56,329	2.27%
Tech/Spt	105,806	32,769	33,240	1.44%
Super/Mgr	34,903	65,733	66,715	1.49%
Total	310,854	48,681	49,636	1.96%

Average last two years = 2.26%

Average last three years = 2.16%

DoD Pay Pool Funding Policy

DoD

- SecDef establishes **funding floor** for **base salary increases**
- Components must certify annual expenditure for compensation to DepSecDef
- May be prorated for shortened performance cycles

2008 Funding Floor = 2.26% at the Component level

2009 Funding Floor = Formula to be established by SecDef

DoD Pay Pool Funding Policy (cont)

	January 2008 (Spiral 1.1, 1.2, 1.3)	January 2009
Element 1	2.26% at Component level	Formula to be established by SecDef
Element 2	GPI can be split between rate range increases, LMS and pay pool funding	GPI can be split between rate range increases, LMS and pay pool funding
Element 3	Component guidance	Component guidance

Organizations can allocate additional funding to Elements 1 and 3

Pay Pool Funding vs Civilian Personnel Costs

- **Pay pool funding is different from your civilian personnel budget**

- **Pay pool funding is one of <u>many things</u> that can affect your civilian personnel costs; others include:**
  - Separations
  - Hiring lags
  - New hire salaries
  - Reassignment salary increases
  - Extraordinary Pay Increases (EPI)
  - Organizational Achievement Recognition (OAR)
  - Accelerated Compensation for Developmental Positions (ACDP)

- **BACKUP SLIDES**

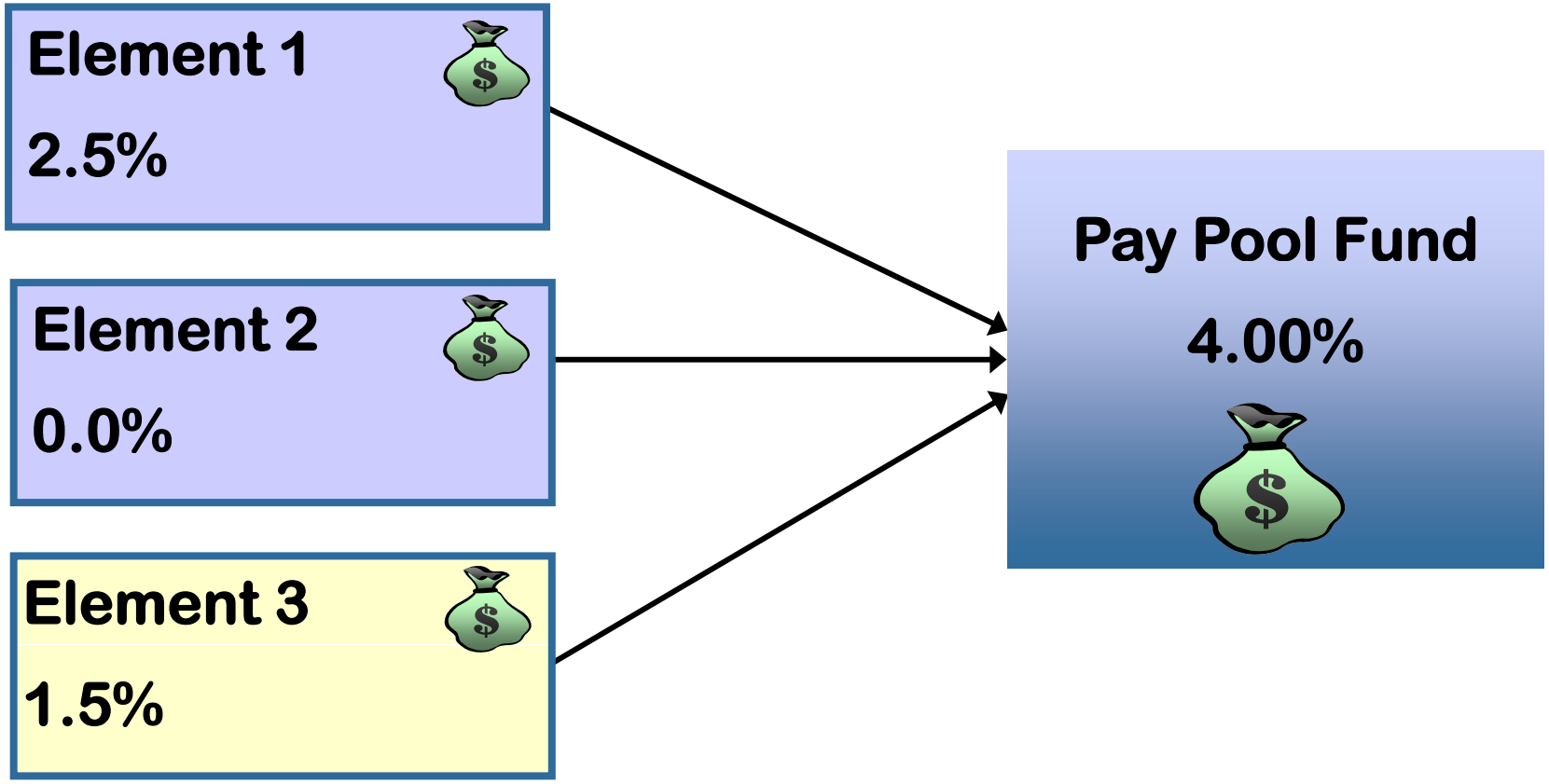
What's Next

- **Cannot rely on historical spending too much longer**

- **PEO is evaluating several methodologies for determining the funding floors in the out years**

Pay Pool Funding Example

- Pay pool XYZ set their funding at 2.5% for Element 1 and 1.5% for Element 3.
- SecDef set Element 2 at 0%.



Pay Pool Funding Example (cont)

- Pay pool XYZ has 10 employees
- The total base salary for those 10 employees is $826,000
- Total Base Salary X Funding Percentages = Pay Pool Fund
- $826,000 X 4.00% = $33,040

Element 1

2.5% = $20,650*

Element 2

0.0% = $0

Element 3

1.5% = $12,390

Pay Pool Fund

4.00% = $33,040

* May be allocated to either salary increase and/or bonus

Pay Pool Funding Example (cont)

Employee	Salary	Rating	Shares	Share Value	Payout
Joe	$89,000	3	2	1.675%	$2,981
Sally	$75,000	3	1	1.675%	$1,256
Alex	$100,000	5	5	1.675%	$8,373
Derrick	$110,000	4	3	1.675%	$5,526
Susan	$65,000	3	2	1.675%	$2,177
Paul	$35,000	3	1	1.675%	$586
Peter	$55,000	3	1	1.675%	$921
Mary	$79,000	3	2	1.675%	$2,646
Sam	$98,000	4	4	1.675%	$6,564
Jerry	$120,000	3	1	1.675%	$2,010

Total Allocated $33,040

Share Value = 1.675%

?

Pay Pool Fund

$33,040

Remaining $0

Pay Pool Funding Example (cont)

$$\text{Share Value} = \frac{\text{Pay Pool Fund}}{\Sigma\ (\text{salary X shares}) \text{ for each employee}}$$

$$= \frac{\$33{,}040}{1{,}973{,}000}$$

Employee	Salary	x	Shares	=	Share Product
Joe	$89,000	x	2	=	$178,000
Sally	$75,000	x	1	=	$75,000
Alex	$100,000	x	5	=	$500,000
Derrick	$110,000	x	3	=	$330,000
Susan	$65,000	x	2	=	$130,000
Paul	$35,000	x	1	=	$35,000
Peter	$55,000	x	1	=	$55,000
Mary	$79,000	x	2	=	$158,000
Sam	$98,000	x	4	=	$392,000
Jerry	$120,000	x	1	=	$120,000
			Σ (salary X shares)	=	$1,973,000

Share Value = 1.675%

Pay Pool Funding Example (cont)

Employee	Salary	Rating	Shares	Share Value	Payout	Salary Increase	Bonus
Joe	$89,000	3	2	1.675%	$2,981	$1,789	$1,192
Sally	$75,000	3	1	1.675%	$1,256	$1,005	$251
Alex	$100,000	5	5	1.675%	$8,373	$2,512	$5,861
Derrick	$110,000	4	3	1.675%	$5,526	$2,763	$2,763
Susan	$65,000	3	2	1.675%	$2,177	$1,524	$653
Paul	$35,000	3	1	1.675%	$586	$586	$0
Peter	$55,000	3	1	1.675%	$921	$737	$184
Mary	$79,000	3	2	1.675%	$2,646	$1,588	$1,058
Sam	$98,000	4	4	1.675%	$6,564	$5,908	$656
Jerry	$120,000	3	1	1.675%	$2,010	$1,608	$402
				Total Allocated	$33,040	$20,020	$13,020
					Pay Pool Fund $33,040	Element 1 $20,650	Element 3 $12,390
				Remaining	$0	$630	- $630

Funding Policy

- **Funding policy is cascaded from DoD**

DoD

Examples:
- Rate Range Adjustments
- Local Market Supplements
- Typical promotions between 6% and 12%
- Reassignment salary increases up to 5%

Component

Example:
- Promotions will be between 6% and 10%

Major Command/Claimant

Example:
- Promotions will be 6%, unless specially approved by Director

Organization/Base

Pay Pool

DoD Pay Pool Funding Policy

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Organizations can allocate additional funding to Elements 1 and 3

Army Notional Example

DoD
Element 1 = 2.26%
Element 3 = Component Discretion

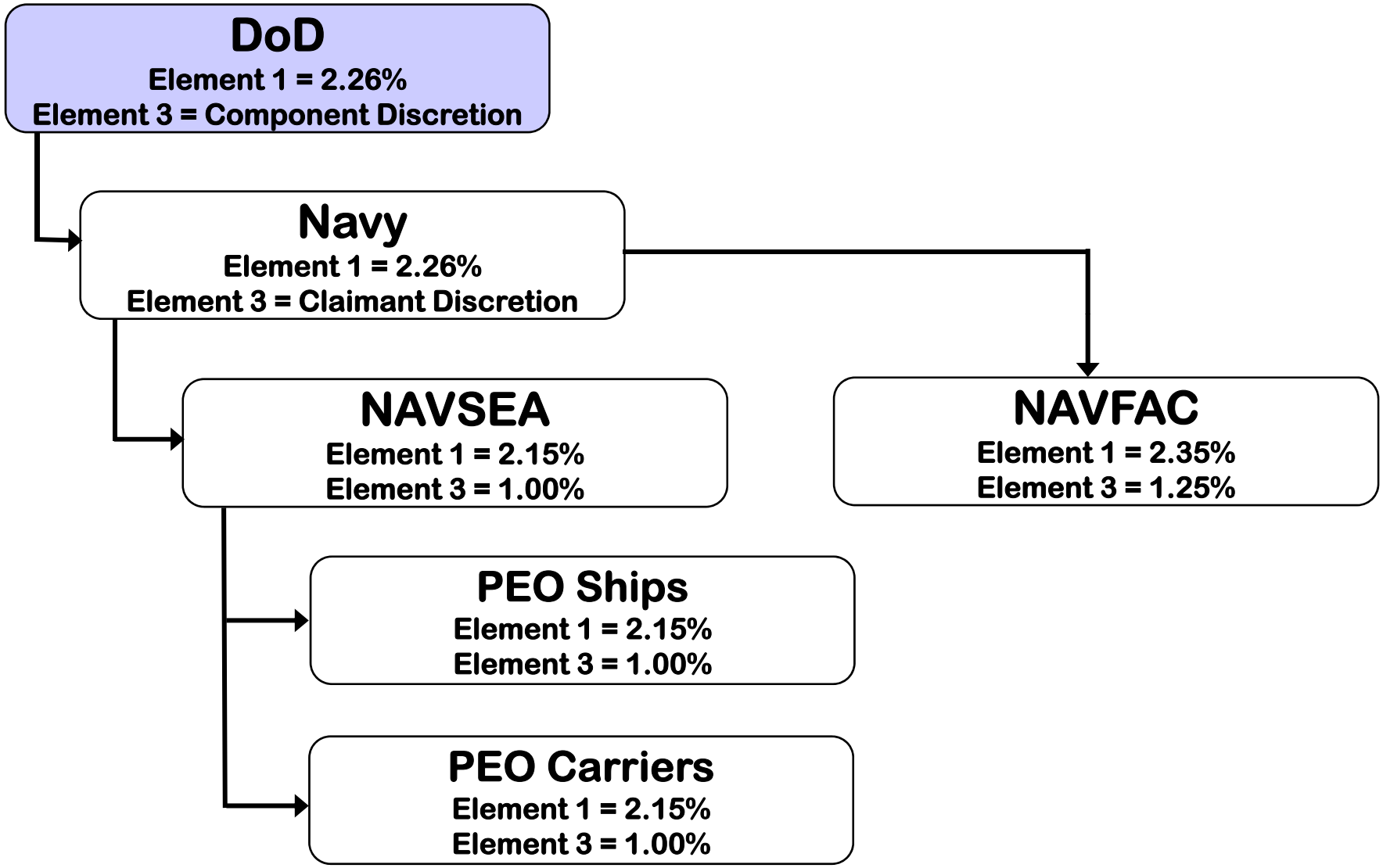
Army
Element 1 = 2.26%
Element 3 = MACOM Discretion

CHRA
Element 1 = 1.71%*
Element 3 = 1.50%

All 13 CHRA Pay Pools
Element 1 = 1.71%*
Element 3 = 1.50%

* Prorated for a 6-month appraisal cycle. Element 1 funding for the entire year was 3.42%.

Navy Notional Example



Air Force Notional Example

DoD
Element 1 = 2.26%
Element 3 = Component Discretion

Air Force
Element 1 = 2.26%
Element 3 = Installation Discretion

AFMC
Element 1 = 2.39%
Element 3 = Installation Discretion

Tinker AFB
Element 1 = 2.39
Element 3 = 1.30%

OC-ALC
Element 1 = 2.50%
Element 3 = 1.30%

72 ABW
Element 1 = 2.35%
Element 3 = 1.30%

4th Estate Notional Example

DoD
Element 1 = 2.26%
Element 3 = Component Discretion

4th Estate
Element 1 = 2.26%
Element 3 = Agency Discretion

DTRA
Element 1 = 3.35%
Element 3 = 2.64%

All 5 DTRA Pay Pools
Element 1 = 3.35%
Element 3 = 2.64%

Takeaways

- Components control compensation policy within DoD guidance
- Civilian personnel budget already in place
- Senior leaders should work with their comptrollers and business and financial managers to determine how their civilian personnel budget should be allocated to <u>achieve organizational objectives</u>
- OP-8 civilian personnel cost financial exhibit
  - Element added to track compensation under NSPS

Communication between senior leaders and financial managers is critical for successful implementation and operation of NSPS

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Payout Example

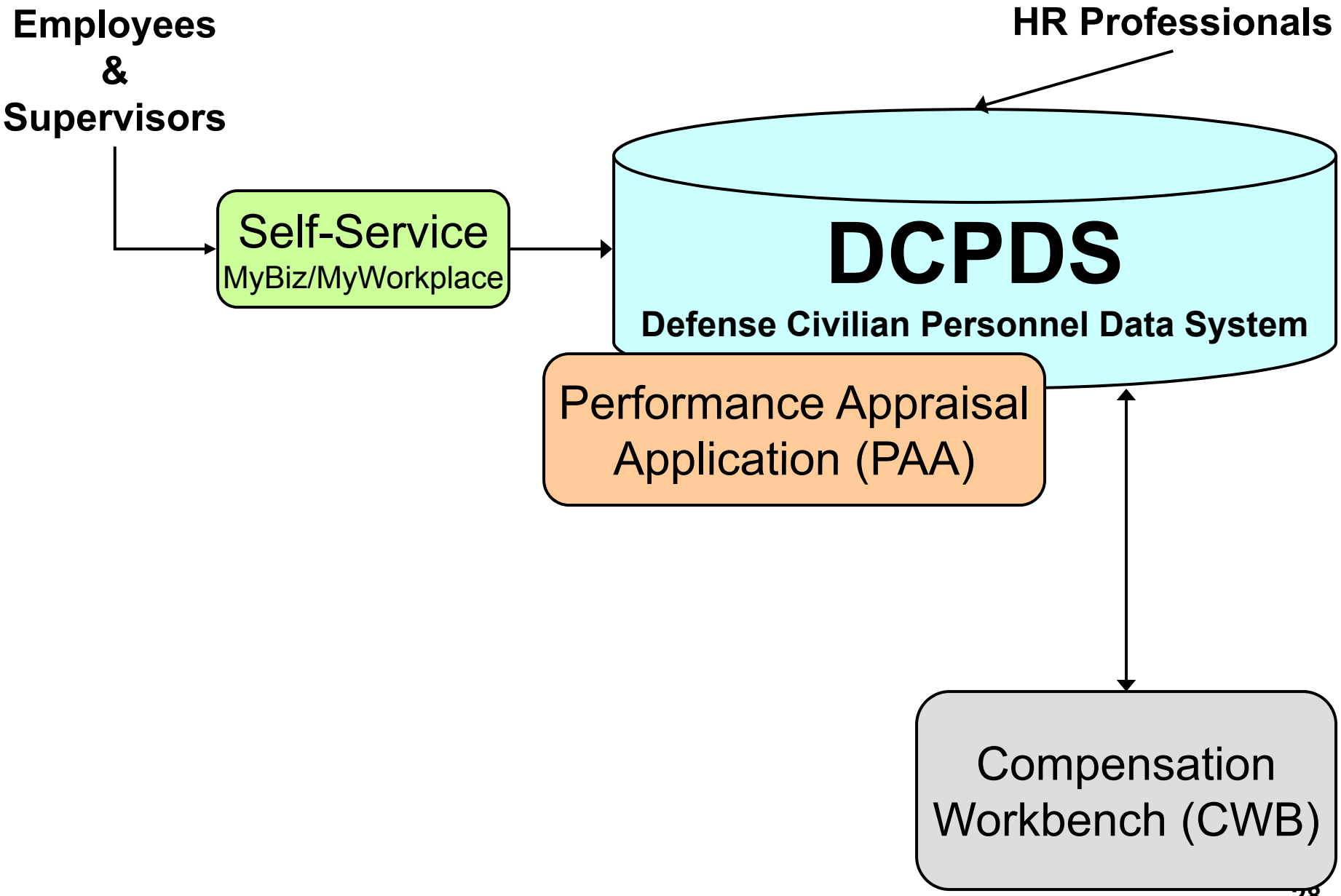
Employee	Salary 30 Sept	Rating	Shares	Share Value	Payout	Salary Increase	Bonus
Joe	$89,000	3	2	1.675%	$2,981	$1,789	$1,192

- Joe was reassigned and received a 5% increase on November 15th. His base salary changed to $93,450.

Salary 7 Jan	+	Rate Range Adjusment	=	New Base	+	Salary Increase	=	New Base	+	Locality
$93,450	+	$1,588 (1.7%)	=	$95,038	+	$1,789	=	$96,827	+	Locality

Bonus
$1,192

Performance Management Tools



10-Person Pay Pool Example

Title 5				Pay Pool	
30-Sep-04		30-Sep-2005*			
Grade/Step	Base Pay	Grade/Step	Base Pay	WGI	In-Band Promotion
new hire	--	GS-9/2	$37,694	--	--
GS-9/5	$41,342	GS-9/5	$41,342	--	--
GS-9/7	$43,774	GS-9/8	$44,990	$1,216	--
GS-9/10	$47,422	GS-11/9	$55,904	--	$8,482
GS-11/3	$47,078	GS-11/4	$48,549	$1,471	--
GS-11/5	$50,020	GS-11/5	$50,020	--	--
GS-11/8	$54,433	GS-11/8	$54,433	--	--
GS-11/10	$57,375	GS-12/6	$61,714		$4,339
GS-12/4	$58,188	GS-12/5	$59,951	$1,763	--
GS-12/7	$63,477	GS-13/3	$67,099	--	$3,622
GS-13/10	$81,778	retired	--	--	--
Total BP	$544,887		$521,696	$4,450	$16,443

*Using '04 pay table to remove GPI

Total Base Pay went down 4.3%

Pay Pool Funding Requirement

NSPS Pay Pool Funding % = ((($4,450 + $16,443) ÷ $544,887) x 100%)
= 3.8% required to replicate the 3 Title 5 WGIs and 3 promotions

Why a Funding Floor?

- Guarantees that pay pool funding will meet the requirements of the law through FY 2008
  - Through FY 2008 funding allocated should be not less than adjustments for normal step increases and rates of promotion that would have been expected had the employees remained in their previous pay schedule
- Gets to future sooner
- Allows workforce to adjust once vice incremental adjustments
- Aligns FM and HR
- QDR presents window of opportunity to put in strategic context of transformation