

Local Market Supplement Addition to Compensation Workbench and NSPS Performance Payout Reminders

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Ensuring consistency and equity of performance-based salary increases and bonuses is a critical responsibility of the pay pool panel and pay pool manager. Below is information about a new addition to the CWB to help facilitate pay pool deliberations and a reminder of some key NSPS pay pool considerations necessary to ensure that the NSPS pay-for-performance system is implemented fairly and in accordance with regulatory requirements and sound business practices.

Addition of Local Market Supplement to Compensation Workbench

This year the Compensation Workbench (CWB) has been modified to incorporate local market supplement (LMS) information for each pay pool member. It is important to note that while LMS rates will be included in the CWB, these rates reflect only the LMS as of the last day of the appraisal period. The CWB will not initially reflect the LMS rates being considered for January 2010. After the 2010 general pay increase is established by legislation and individual locality rates are established by the President's Pay Agent, an update to the CWB will become available. The update will populate the CWB with the new LMS rates. Depending on the timing of legislation, this information may not be available prior to completion of your pay pool deliberations. If available prior to payout, the update will enable the new LMS rates to print on the notice of pay pool decisions forms.

NSPS regulations provide eight approved factors that management may consider in determining the payout distribution. The addition of LMS to the CWB provides a more complete picture of employee compensation for purposes of examining *salary levels of occupations in comparable labor markets*. When considering *salary levels of occupations in comparable labor markets*, it is appropriate to use an NSPS employee's adjusted salary (i.e., base salary + LMS) in order to compare to comparable labor markets rather than base salary alone. As part of the payout determination process, it may also be appropriate to consider the impact of adjusted salary caps (i.e., Level EX IV pay) when making this comparison to ensure competitive standing with the comparable labor market. Additional factors that may be considered in payout distribution determinations are identified below.

NSPS Performance Payout Reminders

Payout Distribution

The NSPS regulation (5 CFR 9901.342(g)(4)) limits factors that management may consider in determining the amount to be paid out as a bonus versus an increase in the rate of base salary to the following considerations:

- Current base salary in relation to appropriate rate range;
- Current base salary, level of responsibility and complexity of work performed in comparison with others in similar work assignments;

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- Performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards;
- Salary levels of occupations in comparable labor markets;
- Attrition and retention rates of critical shortage skill personnel;
- Expectation of continued performance at that level;
- Overall contribution to the mission of the organization; and
- Composition of the pay pool fund.

In accordance with the regulation, when an employee's base salary is not increased because it has reached the maximum of the pay band or an applicable control point, any remaining performance payout will be paid as a bonus in lieu of the increase to base salary (5 CFR 9901.342(g)(5)).

Control Points

Components can establish and adjust pay band control points to manage pay progression. However, the use of control points must be applied consistently to similar positions in the same pay band and career group within a pay pool. The NSPS regulation (5 CFR 9901.321(c)) limits the factors that may be considered in developing control points to:

- Mission requirements;
- Labor market conditions; and
- Benchmarks against duties, responsibilities, competencies, qualifications, and performance.

Executive Schedule Level IV (EX IV) Adjusted Salary Cap

NSPS adjusted salary is the sum of an employee's base salary rate plus the applicable LMS or targeted LMS. Both the General Schedule (GS) and NSPS personnel systems have adjusted salary caps. The GS adjusted pay cap is set by statute at Level IV of the Executive Schedule (\$153,200 for 2009). The maximum rate of adjusted salary under NSPS is established by regulation. Section 9901.312(b) of 5 CFR limits the NSPS adjusted salary rate to no greater than the rate for Level IV of the Executive Schedule plus 5 percent (EX IV + 5%). For 2009, the NSPS adjusted salary cap is \$160,860.

The adjusted salary cap will change each time the EX IV pay rate changes causing new groups of employees in the GS system and under NSPS to meet, exceed, or fall below the cap. Additionally, the number of employees affected by the cap may increase as a result of the 2010 general pay increase and/or by the 2010 increases to GS locality pay and NSPS LMS. Unlike other NSPS salary caps, such as control points and maximum rate of base salary, performance-based salary increases do not automatically roll over to bonus when an employee reaches the NSPS adjusted salary cap (EX IV +5%). By regulation, when an increase in an employee's base salary causes an employee's adjusted salary rate to exceed the established cap, the employee receives the base salary increase, but the employee's GS locality pay or NSPS LMS is reduced as necessary to comply with the adjusted salary cap. Under the GS system, a within-grade step increase (WGI) which causes the employee's salary to exceed the GS pay cap is paid as an increase to base salary, but offset by a reduction in locality pay. Comparably, under NSPS, when a performance-based salary increase causes the

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employee's salary to exceed the NSPS adjusted salary cap (EX IV + 5%), the base salary adjustment is offset by a reduction in payable LMS.

Example: An NSPS employee earns a base salary of \$132,000 in Washington, DC, which has a LMS rate of 23.10%. Adding a LMS of \$30,492 ($\$132,000 * 23.10\%$) brings his or her adjusted salary to \$162,492 which exceeds the 2009 salary cap of \$160,860 for NSPS employees. To comply with the limitation, the employee's LMS must be reduced by \$1,632, which is the difference between the calculated adjusted salary and the NSPS pay cap.

Employee's Salary Before Applying the NSPS EX IV + 5% Cap

Base Salary: \$132,000
LMS of 23.10%: + \$30,492
Adjusted Salary: = \$162,492

The amount over the NSPS EX IV + 5% Cap is **\$1,632** ($\$162,492 - \$160,860 = \$1,632$). The employee's LMS is reduced by this amount.

Employee's Salary After Applying the NSPS EX IV =5% Cap

Base Salary: \$132,000
LMS: + \$28,860 ($\$30,492 - \$1,632 = \$28,860$)
Adjusted Salary: = \$160,860