

11

Performance-Based Compensation

Lesson Objectives

After completing this lesson, you will be able to:

- Describe how the DCIPS Performance Evaluation of Record informs decisions about performance-based payouts, including salary increases and/or bonuses.
- Explain the funding process for pay pool administration.
- List the high-level timelines for performance evaluations, pay pool payout decisions, and schedules for disbursing payouts to employees.
- Explain the considerations that pay pool panels and managers make when determining payouts.
- Explain the method for calculating performance-based salary increases and bonus payouts.

Topics

Lesson 11 Introduction.....	2
Topic 1: Pay Pools	5
Topic 2: Eligibility for Performance-Based Payouts	11
Topic 3: Forms of Performance-Based Payouts	15
Topic 4: Payout Timeline.....	20
Topic 5: From Performance Management to Performance-Based Payout Decisions	22
Lesson 11 Review	27

LESSON 11 INTRODUCTION

This lesson lasts 2 hours.



Lesson 11: Performance-Based Compensation

Duration: 2 hours

HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 1

Your Notes:



Lesson 11 Topics

Lesson 11 Topics

- Topic 1 – Pay Pools
- Topic 2 – Eligibility for Performance-Based Payouts
- Topic 3 – Forms of Performance-Based Payouts
- Topic 4 – Payout Timeline
- Topic 5 – From Performance Management to Performance-Based Payout Decisions

Note: Additional training on pay pools can be found at:
<http://dcips.dtic.mil/training.html>



HR Elements for HR Practitioners
Performance-Based Compensation

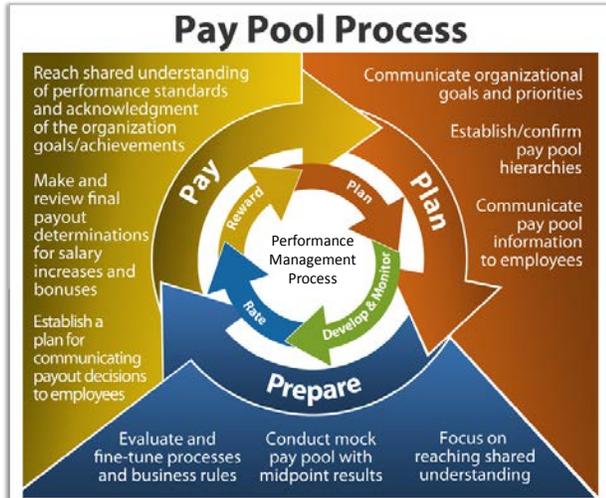
Slide 11- 2

- Performance-based payout(s) is the official policy term for the decisions pay pool panels make.

Your Notes:



Pay Pool Process Overview



HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 3

Your Notes:

TOPIC 1: PAY POOLS



Pay Pools

Pay Pools



A “pay pool” is a group of employees with similar criteria (grade, band, supervisory status etc.), who share in one distribution of pay-for-performance dollars

HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 4

- Fill in the answers to the questions on the following page as the instructor discusses them.

What You Should Know:

Pay Pools

- A pay pool is a group of employees with similar criteria (grade, band, supervisory status etc.) who share in one distribution of pay-for-performance dollars.
- Pay pools should generally be between 25 and 75 employees; however, it’s important to note that smaller or larger pay pools may be appropriate where organization and mission dictate. The goal is to have a pay pool large enough to minimize the effects of normal salary and rating distributions.
- The structure of pay pools is at each Component’s discretion.
- Criteria used when establishing pay pools may include, but are not limited to:
 - Organizational structure and geographic distribution
 - The number of employees in each occupational category, work category, and work level
 - Line-of-sight between pay pool panel members and the employees assigned

to the pay pool

- Employees are assigned to pay pools as early in the evaluation period as is practicable, or on assignment to a new position, in conjunction with annual performance planning.
- Employees should be notified of their pay pool assignment as early as possible, but must be notified prior to the start of the pay pool deliberations. They should also be advised of their pay pool management.
- Employees who transfer within a Component or to a new Defense Intelligence Component within 90 days of the end of the annual evaluation period will be considered with the new pay pool, using the performance evaluation from the previous Defense Intelligence organization. If they have more than 90 days remaining, the previous close out helps inform the final evaluation of record.
- Special rules apply for employees detailed on Joint Duty Assignments (JDA):
 - Employees detailed on a JDA to another IC Component with fewer than 90 days remaining in the performance period will be considered in a pay pool by the employee's home element based on his/her DCIPS Performance Evaluation of Record. This rule was established because the employee will not have the minimum evaluation period of 90 days at the host organization.
 - Employees detailed on a JDA to another IC Component with at least 90 days remaining in the performance period will be considered for bonus (or similar monetary award in accordance with Component practices) in the gaining element. The home element may consider the employee for a monetary or non-monetary award (not a bonus) for performance that occurred before the start of the JDA.
- Employees will not be assigned to pay pools with non-Defense Intelligence employees except under the provisions of the JDA program.
 - Any employee in a JDA to a Defense Intelligence Component for more than 90 days, (except ODNI) will be included in a pay pool for bonus consideration.
 - ODNI will only include employees on JDA who have been supporting their organization for the majority of the year.

Pay Pool Administration

- DCIPS uses the pay pool process to distribute performance-based salary increases and/or bonuses among employees assigned to a pay pool. At each Component's discretion, base-pay increase monetary awards may be included in the pay pool

process.

- Individual payout decisions are made that:
 - Provide higher pay for higher performance
 - Reward greater contribution to mission and organizational results
 - Contribute to overall equity within the pay pool
- The pay pool panel may be a single “pay pool manager” or a “panel” of managers charged with determining pay pool payouts in a meaningful and equitable manner.
- The Pay Pool Performance Review Authority (PP PRA) is the Head of the Component and he or she provides oversight of the pay pool process. Specifically, the PP PRA performs a summary review of all pay pool payout recommendations to ensure conformance to policy and equity across pay pools and provides final approval for payout recommendations.
- Each pay pool must have a standard operating procedure (SOP) that contains, at a minimum, training requirements for all pay pool managers and panel members. This training must be conducted each year before the pay pool decision activities begin. Training must, at a minimum, detail the respective roles and functions associated with the process, the use of decision support tools such as the Compensation Work Bench (CWB), and the members’ responsibilities to ensure equity and diversity in the process. After the Reviewing Officials and the PM PRA have finalized the Performance Evaluation of Record, typically around 45 days after the close of the performance period, the pay pool panels begin their deliberations.
- Pay pools must be completed in sufficient time to complete the pay pool deliberations and payout processing before the effective date of the payouts, generally the first pay period in January.

Your Notes:

Pay Pool Process Link

Accomplishments, competencies, and contributions documented in the Performance Evaluation of Record



Pay pool process



Annual performance-based payout(s)

What You Should Know:

Link Between Evaluations and Performance-Based Payouts

- The purpose of the pay pool process is to link the annual performance-based payouts to individual accomplishments, demonstrated competencies, and contributions to organizational results.
- The performance management process and performance culture emphasize the employees' performance, contributions, and impact on mission accomplishment.
- Managers and supervisors base an employee's Performance Evaluation of Record on accomplishments against stated performance objectives and performance elements. The performance management process requires managers or supervisors to make meaningful distinctions between performance levels and to reward employees accordingly for their contributions.
- Although the pay pool process is the primary forum for rewarding individual performance, other awards, both monetary and honorary, for both teams and individuals are available and appropriate for recognition throughout the year outside the annual pay pool process. Volume 2008, DCIPS Awards and Recognition, discusses these awards in more detail.



Pay Pool Funding

Pay Pool Funding

- The pay pool budget is set by September 30 of the performance year and is based on:
 - Historical spend trends
 - External budget guidance
 - Departmental budget guidance



HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 5

What You Should Know:

Pay Pool Funding

- The USD(I), in consultation with the heads of the Defense Intelligence Components, sets the budget for both salary increases and bonuses by September 30 of the performance year.
- Components participate in discussions on budget funding through the Defense Intelligence Human Resources Board (DIHRB).
- The pay pool budget is set based on the following:
 - Historical spend trends
 - External budget guidance
 - Departmental budget guidance
- To support consistency and commonality across the Enterprise, subordinate activities, elements, and commands will fund their performance-based salary increases and bonuses at the same level as their respective Component. The sum of individual pay pool budgets may not exceed a Component's aggregate pay pool budget.
- Once funding has been determined, the Head of each Component has the

flexibility to allocate their pay pool budget to individual pay pools in the manner that best supports the Component's mission. They may also hold aside a portion of the pay pool budget as a reserve for unanticipated pay pool requirements based on exceptional organizational performance, other mission-driven performance recognition requirements, and additional payouts that may result from reconsideration decisions.

- Although employees who are rated as Minimally Successful (2) or Unacceptable (1) are ineligible for performance-based salary increases or bonuses, their salaries will be included in the computation of pay pool budgets.
- Employees who do not have an evaluation of record are not included in the pay pool calculation.
- The purpose of a bonus is to provide a meaningful reward for the highest levels of performance and work accomplishments within the context of the work level. Algorithms compute initial recommended bonuses for employees based on the employee's Performance Evaluation of Record.
- The number of employees who receive bonuses generally should not exceed 50% of the eligible population of a Component.
- For Components operating in the graded structure, base-pay-increase monetary awards (DQI, SQI) resulting in salary increases may be granted at the discretion of each Component Head. Awards may be granted at any time during the year, and may be included in the pay pool process. These awards do not reduce the pay pool funding amount, nor do they count toward the "50%" bonus rule described above.
- Organizations operating under the graded structure may award individual employees with a DQI or SQI as well as a bonus.
- It is important to remember that there is no quota or forced distribution applied in either the performance management process or pay pool process.

Your Notes:

TOPIC 2: ELIGIBILITY FOR PERFORMANCE-BASED PAYOUTS



Payout Eligibility

Payout Eligibility

Performance Evaluation of Record	General Pay Increase (in graded structure)	DCIPS “Floor” Increase (in banded structure)	Performance-Based Bonus (in both graded and banded structures)	Performance-Based Salary Increase (banded structure)
Outstanding Excellent Successful	Yes	Yes	Yes	Yes
Minimally Successful	Yes	Yes	No	No
Unacceptable	Yes	No	No	No

HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 6

What You Should Know:

Performance Payout “Floor”

- For those organizations operating under the The purpose of the pay pool process is to link the annual performance-based payouts to individual accomplishments, demonstrated competencies, and contributions to organizational results.
- banded structure, the performance payout “floor” is the minimum performance increase in base salary that an employee performing at the Successful level (and otherwise eligible for a performance payout) may receive during the annual performance decision process.
- The “floor” will be established annually and initially will be equal to the General Pay Increase (GPI) authorized for GS employees. It is important to remember that the “floor” is separate from performance-based salary increases and bonuses and is applicable only to those organizations operating under the banded structure. Employees with performance evaluations at the Successful or higher

levels will receive at least the “floor” adjustment approved for that performance year provided they have not reached the top salary limit of their pay band.

- Banded employees with a Performance Evaluation of Record at the Minimally Successful level (2) receive a percentage of the “floor” but cannot receive a performance based increase. USD(I) determines the “floor” for the performance period.
- Banded employees with a Performance Evaluation of Record at the Unacceptable level (1) are ineligible to receive the performance payout “floor.” If performance later improves, they become eligible for the “floor” during the next annual payout but have no entitlement to recover lost earnings. Employees in the graded structure will be increased to the closest step that is not less than their current salary when they received their annual increase following improvement in their performance.
- New employees in the banded structure who do not have 90 days in the evaluation period, and therefore do not have a performance evaluation of record, will be assumed to be performing at the Successful level or above and receive the minimum performance payout “floor.” The employee will receive an additional adjustment in order to maintain relative position in his/her pay band if the “floor” payout is not sufficient to keep pace with the band increase.
- Employees in organizations operating under the banded structure are eligible for consideration and receipt of their performance payout as a performance-based salary increase, bonus, or both.
- In organizations operating under the graded structure, employees are eligible for consideration and receipt of a performance-based bonus and/or, if included in the pay pool process at the discretion of the Component, a base-pay-increase monetary award resulting in a salary increase.

Your Notes:

TOPIC 3: FORMS OF PERFORMANCE-BASED PAYOUTS



Performance-Based Payouts

- Research your assigned performance-based payout
 - Performance-Based Salary Increases
 - Performance-Based Bonuses
- Review the information in the WYSK boxes on pages 11-15_11-18
- Make notes in the Participant Guide on page 11-19
- You may be asked to share what you've learned with the class

HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11-7

- You will be assigned to research either **Performance-Based Salary Increases** or **Performance-Based Bonuses**.
- Make notes on page 11-19 and be prepared to share what you learn with the rest of the class.

What You Should Know:

Performance-Based Salary Increases

- Performance-based salary increases for those organizations operating under the banded structure are made such that they:
 - Provide higher rewards for higher performance
 - Recognize greater contribution to mission and organizational results
 - Contribute to overall salary equity within the pay pool
- Only those employees who receive a performance rating of Successful or higher are eligible for a performance-based salary increase.
- By law, employees in organizations operating under the banded structure who are

absent due to military service, workers' compensation, leave without pay (LWOP) or long-term training will be considered for performance-based salary increases and will, at a minimum, retain their relative position within their pay band.

- Employees on other long-term absences, or in other special circumstances for other than disciplinary reasons, may be considered for performance-based salary increases and will retain their relative position within their pay band.
- New employees of organizations operating under the banded structure that do not have 90 days in the performance period, and therefore do not have a Performance Evaluation of Record, will maintain their relative position in their pay band.
- All pay pools across the Defense Intelligence Enterprise use the same DCIPS algorithm.
- The algorithm approved by the USD(I) and used during the pay pool process will compute performance-based salary increases for employees in pay bands using the “midpoint principle.” The midpoint is defined as the point halfway between the minimum and maximum of the employee’s work level.
- The impact of the midpoint principle is that the rate of salary increase will decline as the ratio of the employee’s salary to the midpoint of the range increases. Simply put, the lower an employee is in the band, the faster the progression. This aligns with the GS progression where step increases come faster in the first few years of a grade.
- The algorithm discussed above produces performance-based increases that are proportionally larger for higher performance based on the employee’s overall Performance Evaluation of Record, rounded to the nearest tenth of a point.
- Performance-based salary increases may not cause an employee’s salary to exceed the maximum of the employee’s band range.

Performance-Based Bonuses

- In organizations operating under the banded structure, bonuses are considered jointly with salary increases in determining the appropriate performance-based payout. Pay Pool Panels should not attempt to determine individual employee preferences, but should consider the overall payouts of the pay pool and the most appropriate rewards for performance.
- To be eligible for a bonus, an employee must receive a Performance Evaluation of Record rating of Successful or higher.
- Bonuses reward exceptional performance. Not every employee will get a bonus, and receiving a bonus in a prior year has no bearing on decisions in future years.

- Employees absent due to military service, workers' compensation, leave without pay, or long-term training will be considered eligible for bonuses based on their Performance Evaluation of Record.
- Employees on other long-term absences, or in other special circumstances for reasons other than disciplinary, may also be considered for bonuses.
- Pay pools may choose not to consider employees for bonuses based on presumptive ratings that were used in a previous pay pool, except that employees absent due to military service must be included in pay pool considerations based on the evaluation of record or presumptive rating.
- The pay pool panel or manager initially uses the Compensation Work Bench tool (that includes the approved algorithm) to determine the initial recommendation regarding bonuses. This is similar to the way the pay pool panel or manager used the tool to determine initial recommendations for performance-based salary increases, but is a separate calculation. The pay pool panel or manager may then adjust the percentages and the number of bonuses awarded as long as the pay pool remains within the USD(I) and component established limits.
- Performance-based bonus algorithms compute initial recommended bonus amounts based on the midpoint of the employee's work level. This ensures that bonuses are tied to the appropriate work level and impact of the work.
- As a general guideline, organizations should begin by considering their top rated employees based on Performance Evaluations of Record, and expand or revise as appropriate based on the following key considerations.
 - Performance
 - Work accomplishments in relation to the work level
 - Responsibilities, risks and impact in relation to expectations of the work level – considering that higher work levels have greater responsibilities, risks, and impact
 - Achieving or falling short of organizational goals
 - Specific performance in one or more areas that would be considered at the appropriate performance level for consideration for a bonus even though the overall Performance Evaluation of Record does not trigger an initial bonus recommendation by the algorithm
- To make bonuses a meaningful recognition of performance, they need to be seen as something that not everybody automatically receives, and they need to be large enough to seem substantial. In other words, 100 \$5,000 bonuses have greater

impact than 5,000 \$100 bonuses.

- To help keep the bonuses meaningful, policy states that the number of bonuses awarded is generally limited to no more than 50 percent of the workforce. Components may choose to limit further the number of bonuses to be awarded: for example, to 35% of employees. Individual pay pools may award bonuses to greater than 50% of the pay pool as long as the Component-wide percentage conforms to the “50%” rule.

- The total dollar amount given in bonuses must fall within the budget for performance-based bonuses set by USD(I) each year.

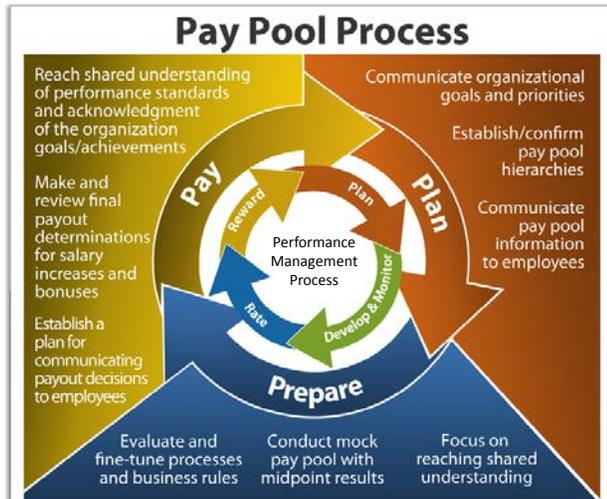
Your Notes:

<i>Performance-Based Salary Increases</i>	<i>Performance-Based Bonuses</i>

TOPIC 4: PERFORMANCE-BASED PAYOUT TIMELINE



Pay Pool Process Overview



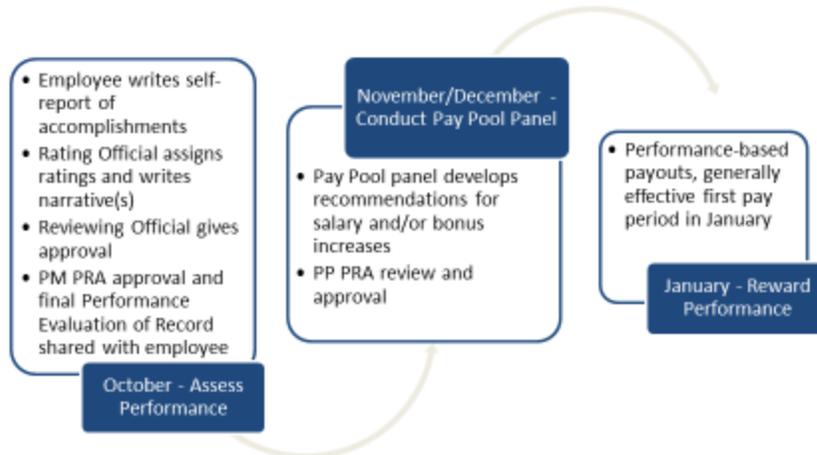
HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 8

Your Notes:



Payout Timeline



HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11-9

What You Should Know:

Payout Timelines

- Pay pools generally do not begin their annual deliberations until 45 days after the close of the performance evaluation period, which is around 15 November each year.
- Before pay pools can begin deliberations, all Performance Evaluations of Record must be completed and shared with employees. This is the number one factor that drives the dates for pay pool deliberations. Over time, Components find they can reliably project dates for pay pool deliberations and plan accordingly.
- The Pay Pool PRA must approve pay pool results before any payouts are made or results communicated to employees.
- Pay pool results must be available and approved for payments with an effective to date in early January, to roughly coincide with the annual federal GS pay increase, generally the first day of the first pay period of the new calendar year.

TOPIC 5: FROM PERFORMANCE EVALUATIONS OF RECORD TO PERFORMANCE-BASED PAYOUT DECISIONS



Performance-Based Payouts Method

Performance-Based Payouts Method

- An algorithm is embedded in the Compensation Work Bench (CWB) to provide initial recommendations for performance-based salary increases (for Components in the banded structure) and bonuses for all Defense Intelligence Components
- Pay pool panels review CWB recommendations and make any necessary adjustments
- Employees are advised of their performance-based salary increases and/or bonuses by their Rating Official following approval of the results by the PP PRA and before the effective date of the payment(s)

What You Should Know:

DCIPS Algorithm

- An algorithm is embedded in the Compensation Work Bench (CWB), or similar Component tool, to provide initial recommendations for performance-based salary increases (for Components in the banded structure) and bonuses for all Defense Intelligence Components.
- The standard algorithm manages the budget for the pay pool and ensures the initial payout recommendations are computed using the same mathematical formula across all pay pools.
- Pay pool panels review CWB recommendations and make any necessary adjustments.
- If everyone gets a high rating, the reward for the high rating becomes lower overall relative to pay pools with a more even distribution of ratings because the funding doesn't change; the same pot of money is available. The important point here is that rating inflation results in a lack of distinction between the performance

levels of employees in the pay pools and devalues the financial worth of that rating for everyone.

- Employees are advised of their performance-based salary increases and/or bonuses by their Rating Official following approval of the results by the PP PRA and before the effective date of the payment(s).

Your Notes:



Performance-Based Payout Decisions

Performance-Based Payout Decisions



“Performance payout” refers to the total compensation awarded as recognition for performance

HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 11

- Fill in the answers to the questions on the page 11-26 as the instructor discusses them.

What You Should Know:

Performance Evaluations of Record to Performance-based Payout Decisions

- The term “performance payout” refers to the total compensation awarded as recognition for performance. The performance payout can be a performance-based salary increase, performance bonus, or both for those organizations operating under the banded structure, or a bonus and/or DQI/SQI for those organizations operating under the graded structure.
- For those organizations operating under the banded structure, several factors determine the distribution between the performance-based salary increase and performance bonus, including the pay pool’s separate budgets for salary increases and bonuses, the distributions of performance, and the current salaries relative to the midpoint of the work level for all employees in the pay pool.
- The Compensation Work Bench (CWB) algorithm provides the preliminary performance-based salary increase recommendations for those organizations operating under the banded structure. It is based on the outcome of the USD(I) approved compensation formula or the USD(I) approved budget algorithm. The CWB algorithm provides pay pool panels with a starting point for deliberations on

performance-based salary increases.

- The unique combination of the employee's Performance Evaluation of Record (rounded to one decimal place) and the position of his/her base salary in the pay band is used to compute an initial salary increase recommendation.
- The CWB algorithm adjusts all salary increase recommendations to spend exactly the amount of money that is available in the pay pool's budget.
- Use of the standard algorithm and approved funding ranges help support consistency, but they are not expected to produce identical results. Pay pool results vary because of position in the band or grade (including waiting periods for step increases), make-up of the pay pools, number of employees in the pay pools, and the variances permitted in the funding ranges in the budgeting.
- For those organizations operating under the banded structure, performance-based salary increases are likely to vary across pay pools. For example, an Excellent performer in a pay pool with a large percentage of Excellent and Outstanding performers generally will have a lower salary increase than an Excellent performer in a pay pool with a low percentage of Excellent and Outstanding performers. There should be no expectation that two employees with the same Performance Evaluation of Record would receive the same performance-based salary increase.
- Generally speaking, an employee in an organization operating under the banded structure, whose salary is above the midpoint of the work level, will receive a lower salary increase than a similarly rated employee whose salary is below the midpoint of the work level because, as with the GS WGI process, the progression is slower at the higher end of the work level.
- Pay pool decisions for performance-based salary increases may not cause the employee's salary to exceed the maximum rate for his/her pay band, nor may an employee's total basic pay exceed the level IV rate of the Executive Schedule.
- The granting of a DQI or SQI through the pay pool, or at other times of the year, cannot cause an employee's salary to exceed the maximum for his/her grade rate range. DQI and SQI awards can be awarded to take an employee into the extended salary range; (up to the virtual step 12) but cannot be exceeded. Partial DQI and SQI awards are prohibited.

Your Notes:

Questions:

- What may be included in an employee's performance payout?

- What is the CWB algorithm based on?

- True or False. Pay pools are designed to produce identical results.

- True or False: Two employees with the same Performance Evaluation of Record will receive the same performance-based salary increase.

- Can a pay pool decision cause an employee's salary to exceed the maximum rate for his/her pay band?

- Can a pay pool decision to grant a DQI or SQI cause an employee's salary to exceed the maximum for his/her grade rate range?

LESSON 11 REVIEW



Lesson 11 Review

Lesson 11 Review

- Topic 1 – Pay Pools
- Topic 2 – Eligibility for Performance-Based Payouts
- Topic 3 – Forms of Performance-Based Payouts
- Topic 4 – Payout Timeline
- Topic 5 – From Performance Management to Performance-Based Payout Decisions



HR Elements for HR Practitioners
Performance-Based Compensation

Slide 11- 12

Your Notes:

Lesson Transition:

In Lesson 12, we'll look at special categories of personnel.
