

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

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Subject: Guidance on Awards for 2011 and 2012 Performance Cycles

Federal agencies are authorized to grant awards to their employees to recognize and reward excellence in performance. Given the current fiscal environment, and the budget constraints agencies will operate under for the remainder of FY 2011, as well as those reflected in the President's FY 2012 budget proposal, these awards must be carefully considered. It is critical that these awards be managed in a manner that is cost-effective for agencies and successfully motivates strong employee performance.

When he made the decision to establish a two-year pay freeze, the President directed the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) to evaluate the system of performance awards and incentives for cost and effectiveness. Consistent with previous Government Accountability Office reviews of federal agencies' use of incentives, we have identified a number of concerning trends. In many cases, awards are broadly and inconsistently allocated and some Federal employees have come to expect awards as entitlements. At the same time, recent survey results show that a large number of both agency managers and employees do not perceive the current employee performance management/award systems to be fair or accurately reflect differences in performance levels. For example, the latest Federal Employee Viewpoint Survey showed that only 36 percent of employees believe that differences in performance are recognized and only 43 percent believe that awards reflect how well employees perform their jobs.

As a result of these findings, and in keeping with the need to manage budget resources carefully, OPM and OMB are issuing this memorandum on budgetary limits for spending

on individual awards granted based on payouts made for performance cycles ending in calendar year 2011 and 2012 to provide guidance to departments and agencies (referred to collectively as agencies).

This guidance, developed in consultation with the President's Management Council and informed by a review of recent agency award practices, calls on agencies to adopt more rigorous employee performance management processes that incorporate key elements of consistent communication and feedback, establish accountability at all levels, and provide transparent and creditable appraisal systems. To assist agencies in this effort, OPM and OMB are working with agency Chief Human Capital Officers and the National Council on Federal Labor-Management Relations to identify best practices for improving the employee performance management system so that the performance appraisal and award system fairly reflects performance distinctions and effectively motivates employees.

While implementing this guidance, agency executives retain flexibility to allow for group and individual recognition in ways that are meaningful, fair, and clearly distinguish levels of performance. In exercising their discretion in this area, agencies are reminded to honor all collective bargaining obligations and discuss agency award programs in agency labor-management forums.

### **Budgetary Limitations for Awards Granted Based on Performance Cycles Ending in Calendar Years 2011 and 2012**

For awards granted based on performance cycles ending in 2011 and 2012, agencies must reduce total spending on individual performance awards for members of the Senior Executive Service (SES) to no more than five percent of aggregate salaries. Agencies must also reduce award spending for non-SES employees to no more than one percent of their aggregate salaries during calendar year 2012, with significant progress toward that level in 2011. For many agencies, these award limits will require a reduction from current award spending levels. Agencies already spending at or below these levels must continue to limit spending to their 2010 levels. In implementing these limitations, agencies should provide for equitable distribution of awards between managers/supervisors and non-supervisory employees.

### **Covered Awards**

The budgetary limits specified in this memorandum apply to spending for individual awards only, which include rating-based performance awards and individual special act awards. Other awards and incentives are frozen at 2010 spending levels, except travel savings and foreign language awards. Agencies are encouraged to leverage existing award programs to reward employees who identify improvements that result in documented, validated cost savings and productivity improvements. Emphasizing

awards of this nature is particularly important in light of the fiscal challenges we are facing.

Recruitment, relocation, and retention incentives are not awards and are not covered by the budgetary limits. However, agencies must not exceed 2010 calendar year spending levels on these incentives during calendars 2011 and 2012.

### **Exclusions**

The budgetary limits specified in this memorandum are intended to apply to all awards programs in Executive branch agencies covering members of the SES and non-SES civilian employees. However, agencies have the flexibility to apply these budgetary limits to awards programs for other employees to accommodate current budget constraints. Agency Chief Human Capital Officers and/or Human Resources Directors should contact Steve Shih, Deputy Associate Director for Executive Resources and Employee Development, in OPM's Employee Services by telephone at (202) 606-8046 or by e-mail at [perform-mgmt@opm.gov](mailto:perform-mgmt@opm.gov) immediately if an agency believes a specific awards program is excluded from the spending limits specified in this memorandum. Furthermore, if an agency determines to exclude a specific awards program, the agency must report its determination to the Director of OPM by submitting an email detailing the justification for the exclusion to [perform-mgmt@opm.gov](mailto:perform-mgmt@opm.gov).

### **Effective Date**

The budgetary limits specified in this memorandum take effect as of the date of this memorandum and remain in effect for awards granted based on performance cycles ending in calendar years 2011 and 2012.

### **Additional Information**

Agency Chief Human Capital Officers (CHCOs) and/or Human Resources Directors should contact OPM's Employee Services, Executive Resources and Employee Development, at the number or email address above for additional information. Employees should contact their agency human resources offices for assistance.

Attachment

cc: Chief Human Capital Officers  
Human Resources Directors

## **QUESTIONS AND ANSWERS**

### **GUIDANCE MEMORANDUM ON AWARD RESTRICTIONS FOR PERFORMANCE CYCLES IN 2011 AND 2012**

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**Q1. Why are OPM and OMB imposing limitations on agency awards budgets?**

A1. The President directed OMB and OPM to evaluate the system of performance awards and incentives for cost and effectiveness. In keeping with the President's message on the pay freeze and recognizing the need to address the current fiscal reality, OMB and OPM reviewed current agency spending on these awards in consultation with the President's Management Council (PMC) and determined that the award restrictions described in this memorandum are appropriate at this time. OMB and OPM will continue to work with the PMC, agency Chief Human Capital Officers, and the National Council on Federal Labor-Management Relations to identify best practices for improving the employee performance management system so that the employee performance appraisal and award system fairly reflects performance distinctions and effectively motivates agency employees.

**Q2. What limits are being imposed?**

A2. Agencies will reduce total awards spending to no more than five percent of aggregate salaries on individual performance awards for members of the Senior Executive Service (SES) in 2011 and 2012. For non-SES employees, the limit is no more than one percent of aggregate salaries during calendar year 2012, with significant interim progress in 2011.

**Q3. Which awards are subject to this limitation?**

A3. These budgetary limits apply to individual awards only. Other awards and incentives are frozen at 2010 spending levels, except for travel and foreign language awards.

**Q4. What is meant by individual awards?**

A4. For the purpose of addressing our current fiscal reality, we have designated the following awards as individual awards:

- **Individual Performance Rating-Based Cash Awards** – recognize the performance of individual employees and are granted on the basis of a rating of *Fully Successful* or higher. These awards are the SES performance awards paid under 5 U.S.C. 5384 and 5 C.F.R. 534.405, as well as the rating-based awards paid under 5 U.S.C. 4505a and 5 C.F.R. 451.104(a)(3) and 451.101(e) or comparable awards under similar legal authority.
- **Individual Special Act Awards** – recognize individuals who have made contributions that exceeded normal job requirements or performed a special act or service (*e.g.*, spot 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.

**Q5. What are the other awards and incentives that are frozen at FY 2010 levels?**

A5. For the purpose of addressing our current fiscal reality, we have designated the following awards as other awards and incentives:

- **Other Awards** – include group cash awards; cash awards recognizing achievements such as individual and group suggestion and invention, 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.
- **Recruitment, Retention and Relocation Incentives** – cash incentives paid to employees with unique skills or in difficult 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. These awards also need to be managed with great restraint and care and used only as intended by law and regulations. OPM will continue to monitor use of these awards to make sure they are not misused.

**Q6. Will agencies have to make reductions immediately?**

A6. Agencies must reduce total awards spending to no more than five percent of aggregate salaries on individual performance awards for members of the Senior Executive Service (SES) in 2011 and 2012. For non-SES employees, the limit is no more than one percent of aggregate salaries during calendar year 2012, with significant interim progress in 2011. Agencies already spending at levels at or below these targets will continue to limit spending to their 2010 levels. Other awards and incentives are frozen at 2010 spending levels as well.

**Q7. Will all agencies have to reduce their awards spending to meet the 5% SES and 1% non-SES levels?**

A7. Whether agencies will have to make actual reductions to their awards spending depends on how much they spent in 2010. For some agencies, this will require a reduction from current spending levels. For those agencies currently spending at or below these limits, spending is frozen at their 2010 levels.

**Q8. Will agencies have to limit the number of awards they grant?**

A8. There is no cap on the percentage of employees receiving awards. However, any time overall spending is reduced, the number of employees receiving awards may be affected. It is important to remember agencies still are expected to improve performance by rewarding excellence, with awards being more meaningful, distinguishable, and fair, especially during tough fiscal times. In exercising their discretion in this area, agencies are reminded to honor all collective bargaining obligations and discuss agency award programs in agency labor-management forums.

**Q9. Will these limits apply to individual award amounts?**

A9. Like the overall number of awards, no specific limit is being placed on the amount of any single individual award. However, one way to reach these budgetary targets, if reductions are necessary to meet the specified target, is addressing the amounts granted for specific awards, respecting the requirements of the law. Agencies are reminded again to protect the intent and integrity of their award programs to provide appropriate recognition for excellence in performance.

**Q10. Will this affect time-off awards?**

A10. No. Because time-off awards do not involve additional cash expenditures, they are not included in these targets. Agencies are advised, however, to refrain from significantly increasing time off awards in light of the restrictions on cash awards.

**Q11. How can agencies and employees get further guidance on this topic?**

A11. Agency Chief Human Capital Officers and/or Human Resources Directors should contact OPM's Employee Services, Executive Resources and Employee Development, at 202-606-8046 or email [perform-mgmt@opm.gov](mailto:perform-mgmt@opm.gov) for additional information. Employees should contact their agency human resources offices for assistance.