

## ATTACHMENT 2

### DEFINITIONS

50 Percent Rule. The requirement to reduce pay increases when the basic pay of Executives exceeds the tier limit of their assigned positions. The 50 percent rule limits the basic pay increase to 50 percent of the difference between the old and new pay ceiling, until the salary falls within the tier rate limit of the Executive's permanent position.

General Conversion Rule. The application of the position characteristics described for each of the three tier levels. The position characteristics are described in Appendix A of this policy.

Grandfather Clause. An exception to authorize the retention of pay, protocol status and full future pay increase for Executives moving from a higher tier position to a lower tier position under the following circumstances:

- (1) Initial conversion into a common tier structure in accordance with Attachment 5 of this policy.
- (2) Movements to a lower tier at the discretion of the Authorizing Official in accordance with Attachment 5 Section 3.f.(1) of this policy.

Tier Structure. A three-level system that groups positions with common characteristics. Tier levels delineate the importance of different positions by placing emphasis on the characteristics of positions such as impact on mission, level of complexity, span of control, inherent authority, scope and breath of responsibility and influence in joint, national security matters.

## ATTACHMENT 3

### POLICY

1. It is DoD policy to use a three-tier structure as a means of ensuring comparability and transparency in Executive position and compensation management across the Department.

a. The tier structure is built upon the foundational principle that Executive positions vary in terms of impact on mission, level of complexity, span of control, inherent authority, scope and breadth of responsibility, and influence in joint, national security matters.

b. The tier structure is a tool to promote a common understanding of position differences, a common perspective about the relationship of these differences on mission outcomes, and a common language to identify these differences. With this understanding, the Department can more effectively:

(1) Use Executive positions to grow and develop a high caliber 21st Century leadership capability;

(2) Provide Executives a “career roadmap” to help guide career decisions;

(3) Recognize that a high level performance in some positions has more impact than comparable performance in others, and reward Executives more appropriately as a result;

(4) Facilitate succession planning efforts; and

(5) Promote cross-Component mobility.

## 2. TIER STRUCTURE CONSTRUCT and GENERAL INFORMATION

a. Executive positions will be sorted into 3 tiers based upon the position characteristics described in Appendix A. The hierarchy resembles the General/Flag Officer hierarchy with Tier 1 positions (one-star) generally having less complexity and impact on mission outcomes and Tier 3 positions (3 star) having significant complexity; impact on mission outcomes, and/or influence on joint, national security matters;

b. Position characteristics described in Appendix A value equally operational positions with significant responsibilities and non-operational positions with significant responsibilities at higher organizational levels.

c. Enterprise positions will generally be designated as Tier 3 positions as well as other Executive positions meeting the characteristics of Tier 3 positions described in Appendix A.

d. Each tier has a pay limit or cap that is adjusted at least annually in accordance with this policy and the provisions of title 5 U.S.C. §5382. Tier pay limits can be exceeded with the approval of Authorizing Officials and up to the maximum pay of Level II of the Executive Schedule (EX) under a certified performance management system as prescribed by title 5 U.S.C §5382. Tier pay limits can be exceeded based upon compelling needs and the ability to recruit and retain a high caliber Executive leadership cadre. Under no circumstances will an Executive's basic pay exceed EX-II under a certified performance management system.

e. Performance Pay Pools established in accordance with SC920 will be grouped by tier. Each tier will have a separate pay pool value which is to be calculated in accordance with SC920 and modified only as indicated by this policy. Pay pool values will recognize that high level performance in some positions has more impact than comparable performance in other positions.

f. Executives will be informed of their position designation and the requirements of this policy.

g. This policy provides business rules unique to a tier structure and modifies compensation rules established in SC920 as indicated by his policy.

3. Delegation of Authority: Authorizing Officials are delegated the authority to approve exceptions to the tier limits up to the maximum pay for EX II as prescribed by title 5 U.S.C. §5382 for a certified performance management system, in accordance with Section 1 above. This authority is to be exercised prudently so as not to undermine the DoD policy precepts of Section 1 above. This authority may not be re-delegated.

#### 4. Tier Pay Ranges

a. The rate of basic pay at the floor of each tier is the minimum rate of basic pay established by OPM and as authorized under 5 U.S.C. §5382 and 5 CFR Part 534 (excluding locality-based comparability payments).

b. The rate of basic pay at the ceiling of tier 1 is equivalent to the maximum rate of basic pay of EX III.

c. The maximum rate of basic pay at tier 2 is equivalent to the midpoint between the maximum rate of basic pay of EX III and the maximum rate of basic pay of EX II

(rounded up to the nearest thousand) as authorized under title 5 U.S.C. § 5382 and 5 CFR Part 534 for a certified performance management system.

d. The maximum rate of basic pay at tier 3 is equivalent to the maximum rate of basic pay of EX II as authorized under title 5 U.S.C. §5382 and 5 CFR Part 534 for a certified performance management system.

**Table 1 – Sample Tier Ranges (for CY 2008)**

The sample below illustrates the 3- level tier structure using the maximum tier rates established for calendar year 2008

<b>Tier*</b>	<b>Salary Ceiling</b>
Tier 1	\$158,500 (EX Level III)
Tier 2	\$166,000 (mid point between EX Level III and EX Level II)
Tier 3	\$172,200 (EX Level II)
*	The minimum rate of basic pay for each tier range is equivalent to the rate of basic pay that is 120 percent of the rate for GS-15, step 1 (excluding locality-based comparability payments) as authorized under title 5 U.S.C. §5376.

## ATTACHMENT 4

### RESPONSIBILITIES

1. The Deputy Secretary of Defense is responsible for establishing:

a. Tier pay limits at least annually, and more frequently as necessary, after considering mission requirements, labor market conditions, availability of funds, recruitment and retention issues, pay comparability to other Federal agencies, and any other relevant factors.

b. A Performance Pay Pool Factor for each tier based pay pool to recognize that high level performance in some positions has more impact than comparable performance in other positions.

c. Guidance for determining the maximum rate for performance-based pay increases.

2. The Under Secretary of Defense (Personnel and Readiness) will:

a. Ensure compliance with provisions of this policy so that processes associated with managing it are fair, equitable, credible and transparent.

b. Evaluate periodically the efficacy of this policy to ensure a high caliber Executive leadership cadre.

3. The Defense Executive Advisory Board (DEAB) will:

a. Validate tier designation of Enterprise positions made by Components. The validation will ensure that positions have been designated in an equivalent manner by each Component. The Deputy Secretary of Defense will be the final decision authority in any disputes that may arise from making these designations.

b. Periodically review tier placements for non-Enterprise SES positions as part of its advisory role and make recommendations to the Authorizing Official that will strengthen alignment of such positions.

4. Authorizing Officials will:

a. Approve tier designations for positions within their Components. They will ensure that comparable positions are designated similarly and that decisions are based upon the fair and meritorious application of position characteristics at Appendix A.

b. Resolve any disputes that arise between supervisors and Executive Resource Boards (ERB) and or other organizational entities established by the Authorizing Official to make tier designations.

c. Approve and document exceptions for Executive pay to exceed tier limits based upon compelling needs and an ability to recruit and retain a high caliber Executive leadership cadre.

d. Ensure that the requirements of this policy are implemented and applied in a consistent, transparent, trusted, creditable, equitable, nondiscriminatory, and non political manner.

e. Ensure Executives are notified of position tier designations and the provisions of this policy.

5. Executive Resource Boards will validate respective tier designations to ensure that comparable positions are designated similarly, and that decisions are based upon the fair and meritorious application of position characteristics at Appendix A. To help inform tier designation decisions, the ERB is encouraged to consult with supervisors, functional community leaders, human resources professionals or other appropriate personnel within and outside the Component.

6. Supervisors will recommend tier designations for positions under their area of authority to the ERB or other organizational entity established to make recommendations to the ERB. Supervisors will ensure that comparable positions are designated similarly and that decisions are based upon the fair and meritorious application of position characteristics at Appendix A. To help inform tier designation decisions, supervisors are encouraged to consult with functional community leaders, human resources professionals and/or other appropriate personnel within and outside the Component.

## ATTACHMENT 5

### PROCEDURES

#### 1. Initial Conversion to the DoD Tier Structure

a. Initial conversion covers Executive positions tiered under a Component tier system and encumbered by Executives on or after the effective date of this policy, or Executive positions not covered by a Component tier structure and encumbered by Executives on or after the effective date of this policy.

b. Executive Positions will be converted to the tier structure established by this policy in accordance with the General Conversion Rule (Attachment 2).

c. Executives occupying the same position before conversion as after conversion to the new tier structure under this policy will receive the same rate of basic pay for their position regardless of the new tier designation. There is no authority under SC920 to make an out-of-cycle pay increase simply to adjust pay to the new tier pay ranges. (This is an authority that cannot be waived by the Authorizing Official.)

2. Grandfathering clause. There will be no loss in pay, protocol status and future pay increases for Executives:

a. Converted from a higher tier position under their Component tier policy to a lower tier position under this policy.

b. Moved to a lower tier position under Section 3.f.(1) of this policy (Movements at the discretion of the Authorizing Official).

#### 3. Compensation in a Tier Environment

a. Executive Pay Decisions. In making pay decisions, Authorizing Officials should be sensitive to the pay scale of civilian personnel in NSPS pay bands, Laboratory Demonstration pay bands, and under the General Schedule, such that, to the extent possible, the pay of Executives is set at competitive rates within the tier.

b. Non-Career Executives. Pay of Non Career Executives must be approved by the White House Presidential Personnel Office and the Office of Personnel Management prior to the effective date of the action.

c. New Appointees into the SES Systems: The tier limits act as a control point when determining the appropriate pay rate for new Executives. Pay setting decisions must

consider the nature and quality of the individual's experience, qualifications, and accomplishments as they relate to the requirements of the SES position, as well as the individual's current responsibilities. Components may offer a salary up to 10 percent above the appointee's existing pay, but not to exceed EX-III, unless approved by the Authorizing Official. Pay above EX-III is reserved for new executives who possess superior leadership or other competencies.

d. Movements Within a Tier. Transfers from another Federal agency or reassignment of an Executive to a position within the same tier generally do not result in an increase in pay. A pay increase may be warranted if the transfer or reassignment is to a position of substantially greater scope, responsibility and impact. The Authorizing Official may approve a pay increase of up to 5 percent. If a transfer or reassignment is made outside the annual performance pay cycle, the Authorizing Official may approve an out-of-cycle pay increase if warranted by SC920.

e. Movements to a Higher Tier. Transfers from another Federal agency or Reassignment of an Executive to a position in a higher tier will meet the requirements for a pay increase. The Authorizing Official may approve a pay increase of up to 20 percent of the Executive's basic pay. Unless otherwise approved by the Authorizing Official in accordance with this policy, pay must be set within the new tier limit. If the transfer or reassignment is made outside the annual performance pay cycle, the Authorizing Official may approve an out-of-cycle pay increase in accordance with SC920.

f. Movements to a Lower Tier. Transfers from another Federal agency or Reassignment of an Executive to a position in a lower tier under the following conditions:

(1) When movement to a lower tier is done at the discretion of the Authorizing Official to meet organizational needs for such purposes as Executive development, and is not solely at the request of the Executive, the Executive will retain his/her salary and protocol status of the higher tier position. All future pay increases will be determined based on the Grandfather clause.

(2) When movement to a lower tier is at the request of the Executive, the Executive retains his/her salary and assumes the protocol status of new lower tier position.

(3) If the salary exceeds the tier limit of the lower tier, future pay increases will be based on the 50 percent rule (Attachment 2), unless the Authorizing Official grants an exception in accordance with this policy. Performance payouts generally should be paid in bonus until pay is within the tier limits.

(4) When movement to a lower tier is for cause, a decrease in pay for the Executive will be considered upon receipt of a minimally successful or unsatisfactory

annual summary rating, failure to meet a critical performance element, and/or disciplinary action.

(a) The reduction may not be greater than 10 percent of the Executive's basic pay.

(b) A reduction in pay for executives requires written notice, a reasonable response time, and approval by the Authorizing Official in accordance with performance-based or adverse action procedures as set forth in title 5 CFR parts 430 and 752 (Reference (a)) respectively.

g. Executive Pay That Exceeds the Tier Ceiling. Unless otherwise exempted by this policy, e.g., Grandfathering, or unless specially approved by the Authorizing Official under authority granted by this policy, pay increases for Executives whose pay exceeds their respective tier ceiling must meet the 50 percent rule (Attachment 2).

#### 4. Tier Structure Pay Pool Value and Payouts

a. Performance ratings, share assignments, determinations of the pay pool value, and pay out approval processes are determined in accordance with SC 920. In addition, the following additional criteria apply:

(1) Pay pools will be organized by tier level.

(2) The Authorizing Official of agencies with a limited number of Executives may combine pay pools to ensure meaningful distinctions can be made in the relative performance of the Executives. The pay pool funding factor must be applied according to the tier assignment of positions prior to combining pay pools.

(3) Executives Grandfathered according to Attachment 2 of this policy, will be placed in the pay pool of the higher tier level.

(4) Pay pools must be managed in a fair, equitable, credible and transparent manner and in compliance with merit system principles.

b. A different Performance Pay Pool Factor will be established by the Deputy Secretary of Defense for each tier to recognize that high level performance in some positions has more impact than comparable performance in other positions. As such, Tier 1 positions will have a lower pay pool factor than Tier 3 positions.

c. The Deputy Secretary of Defense may issue annual pay setting guidance to determine the maximum performance-based pay increases in accordance with SC920.

## 5. Personnel Action Processing Procedures

a. All tier designations will be recorded in the Defense Civilian Personnel Data System (DCPDS). The user Information guide is at <http://www.cpms.osd.mil/hrbits/latestinfo/latestdcpds.aspx>.

(1) DCPDS coding for tier assignment designations are:

- (a) 1 – Tier 1
- (b) 2 – Tier 2
- (c) 3 – Tier 3
- (d) A – Grandfathered from Tier III to Tier II
- (e) B – Grandfathered from Tier III to Tier I
- (f) C – Grandfathered from Tier II to Tier I

b. The servicing Human Resource Office (HRO) for Executives will record tier designations resulting from conversion to the new tier structure in DCPDS within 60 days of the effective date of this policy.

## 6. Accountability and Recordkeeping

a. The reasons for increasing pay beyond tier limits will be reviewed annually as a means of determining the efficacy of this policy in accordance with Attachment 4 of this policy.

b. The application of the tier policy on individual and organizational performance will be reviewed as part of the annual performance validation process in accordance with the provisions of SC920.

# TIER 3

CHARACTERISTICS		INDICATORS
Responsibility -Degree of latitude exercised -Degree of policy-making authority -Degree of decision-making authority -Degree of alignment to enterprise perspective	-Complex and multi-Component, multi-function, multi-agency, multi-national or joint interactions  -Activities that are vital to the mission accomplishment of multiple organizations	-Leader/Deputy/Manager of large line and/or policy organization at Component/agency headquarters or major command or equivalent -Reports to Presidential Appointee with Senate Confirmation or a three/four-star General/Flag Officer or equivalent -Typically supervises at least one Senior Executive or G/FO or equivalent -Serves as the most senior level in a substantial functional community -Represents top leadership to external entities, to include Congress, OMB and White House staff -Approves or effects Component/agency-wide policies and programs
Complexity -Size of budget -Size of staff -Degree of consensus, collaboration, coordination required -Interplay of policies -Degree of precedence -Single vs multi-function	-Most significant levels of latitude and responsibility, as indicated by degree of policy and decision-making authority  -Impact is extraordinary, tangible and substantially furthers Department, Component and/or agency objectives and strategic goals	-Represents the Component/agency or organization at key interagency meetings -Formulates Component/agency-wide strategic plans, programmatic objectives, policies and standards
Scope of Influence -Number of organizations affected -Level of organizations affected -Impact inside vs outside DoD or Component/agency	* Characterized by substantial executive-level leadership and managerial skills and competencies; positions at this level are more likely to be encumbered by more seasoned executives from within the Federal government or private industry	
Impact on Mission -Impact on objectives and strategic goals (Outside DoD, Across DoD, Component, Organization) -Impact on development of goals and objectives vs reaction to them		

# TIER 2

CHARACTERISTICS		INDICATORS
Responsibility - Degree of latitude exercised - Degree of policy-making authority - Degree of decision-making authority Degree of alignment to enterprise perspective	- Interactions are typically less complex than Tier 3 and generally involve multi-Component or intra-Component/agency participants  - Activities that are vital to the mission accomplishment of the assigned organization(s)  - Latitude and responsibility, as indicated by degree of policy and decision-making authority, typically include Component/agency-level only  Impact is tangible and furthers Component/agency objectives and strategic goals	- Leader/Deputy of an organization below headquarters-level and/or serves as a senior functional authority with accountability for major programs -Manages large programs, personnel or organizations-Formulates, oversees and enforces Component/agency policy-Has approval authority on major command or equivalent policies and programs-Represents functional area at Component/agency or organization/service at interagency meetings-Serves on boards, committees and other groups pertaining to assigned functional areas-Typically reports to Tier 3 Senior Executive or two/three-star General/Flag Officer or equivalent. May supervise at least one Tier 1 Senior Executive or G/FO or equivalent
Complexity - Size of budget - Size of staff - Degree of consensus, collaboration, coordination required - Interplay of policies - Degree of precedence - Single vs multi-function		
Scope of Influence - Number of organizations affected - Level of organizations affected Impact inside vs outside DoD or Component/agency		
Impact on Mission -Impact on objectives and strategic goals (Outside DoD, Across DoD, Component, Organization) -Impact on development of goals and objectives vs reaction to them		

# ***TIER 1***

<b>CHARACTERISTICS</b>		<b>INDICATORS</b>
Responsibility - Degree of latitude exercised - Degree of policy-making authority - Degree of decision-making authority Degree of alignment to enterprise perspective	- Interactions are typically less complex than Tier 2 and generally involve intra-Component/agency participants  - Activities that are vital to the mission accomplishment of the assigned organization(s)	- Oversees planning and effective execution on the full spectrum of programs - Develops systems and standards for the administration and management of approved plans and programs - Develops policies and programs -Manages medium-to-small programs that have Component/agency-wide impact -Participates in a primary role in planning, programming and budgeting activities- Initiates programs and action to ensure adherence to Component/agency-wide policies and national security objectives
Complexity - Size of budget - Size of staff - Degree of consensus, collaboration, coordination required - Interplay of policies - Degree of precedence - Single vs multi function	- Latitude and responsibility, as indicated by degree of policy and decision-making authority, typically include Component/agency-level only  - Impact is tangible and furthers Component/agency objectives and strategic goals.	-Technical/expertise-based positions, leader/authority within an organization below major command-level and focused in nature, as in technical, engineering, contracts, industrial management.
Scope of Influence - Number of organizations affected - Level of organizations affected Impact inside vs outside DoD or Component/agency	*Characterized by significant functional and/or technical expertise; positions at this level are more likely to be encumbered by newly-appointed executives.	
Impact on Mission -Impact on objectives and strategic goals (Outside DoD, Across DoD, Component, Organization); Impact on development of goals and objectives vs reaction to them.		