



READINESS AND FORCE
MANAGEMENT

ASSISTANT SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(MANPOWER AND RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE NAVY
(MANPOWER AND RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE AIR FORCE
(MANPOWER AND RESERVE AFFAIRS)
DIRECTOR, ADMINISTRATION AND MANAGEMENT, OFFICE
OF THE DEPUTY CHIEF MANAGEMENT OFFICER

SUBJECT: Supplemental Guidance on Award Limitations for Department of Defense Civilian Employees

On November 14, 2014, the Office of Management and Budget (OMB) and Office of Personnel Management (OPM) released awards guidance for Fiscal Year (FY) 2015. The attached guidance, "Awards Guidance on Spending Limitations," supersedes the awards guidance provided to agencies in the OMB/OPM memorandum "Guidance on Awards for Fiscal Year 2014" (M-14-02).

The guidance limits FY 2015 spending to no more than 0.96 percent of total aggregate salaries of all employees at the end of FY 2014 on the combination of (1) individual performance awards to non-Senior Executive Service and non-Senior-Level and Scientific or Professional or equivalent employees, and (2) individual contribution awards (e.g., special act awards) for all employees. Additionally, if overall Government-wide discretionary funding levels are reduced below caps set by the Budget Control Act of 2011 (Public Law 112-25), each agency must further reduce awards spending by an amount proportional to the Government-wide reduction, as determined by OMB.

The OMB/OPM guidance covers Government-wide pay systems such as the General Schedule and Federal Wage System. Supplemental guidance covering additional pay systems managed under the Department of Defense authority and Nonappropriated fund (NAF) employees is provided at Attachment 1. The OMB/OPM joint guidance is provided at Attachment 2. Specific guidance on spending limits for individual performance awards for members of the Senior Executive Service and Senior-Level and Scientific or Professional or equivalent employees has been provided under separate cover.

Please ensure that all collective bargaining obligations are met prior to implementing any provisions contained herein. If you have questions, please contact Mr. Nathan Kitta at (571) 372 1567 or nathan.l.kitta.civ@mail.mil for NAF employee awards questions and Mr. Jeff Nelson at (571) 372 1540 or jeffrey.l.nelson68.civ@mail.mil for non-NAF civilian employee awards questions.


Stephanie Barna
Acting

Attachments:
As stated

Guidance on Award Restrictions for Department of Defense Civilian Employees

This guidance supersedes the memorandum, “Supplemental Guidance on Award Limitations for the Department of Defense Civilian Employees,” dated December 17, 2013, as supplemented by the “Addendum to the Supplemental Guidance on Award Limitations for Department of Defense Civilian Employees for Fiscal Year 2014,” dated February 6, 2014.

The Office of Management and Budget (OMB) and Office of Personnel Management (OPM) released guidance, titled “Awards Guidance on Spending Limitations,” on November 14, 2014. The guidance limits Fiscal Year (FY) 2015 spending to no more than 0.96 percent of aggregate salaries of all employees at the end of FY 2014 on the combination of (1) individual performance awards to non-Senior Executive Service (SES) and non-Senior-Level (SL) and Scientific or Professional (ST) or equivalent employees, and (2) individual contribution awards (e.g., special act awards) for all employees. If overall Government-wide discretionary funding levels are reduced below the discretionary spending caps set forth in the Budget Control Act of 2011 (Public Law 112-25), each Component shall further reduce awards spending levels for these awards by an amount proportional to the Department-wide reduction, except for Nonappropriated Fund (NAF) awards solely funded with nonappropriated funds.

The limitations provided in this guidance apply to all awards programs in the Department, including NAF award programs, regardless of the source of underlying authority except as noted above. Guidance specific to performance awards for the SES, SL and ST workforce has been provided under separate cover.

Applicability

Restrictions on discretionary monetary awards prescribed by OMB and OPM will apply to all performance awards programs in the Department of Defense (DoD) with a few exceptions. Thus, applicability of the limitation includes, but is not limited to, the following:

- Employees covered by provisions of title 5, U.S. Code and title 5 of the Code of Federal Regulations (CFR) (other than SES, SL/ST, Defense Intelligence Senior Executive Service and Defense Intelligence Senior Level personnel);
- Employees covered by provisions in sections 1601-1614 of title 10, U.S. Code (Defense Civilian Intelligence Personnel System);
- Civilian faculty members at DoD post-secondary education institutions, employed under the authorities in section 1595 of title 10, U.S. Code;
- Foreign national employees of DoD who are eligible for monetary awards, as long as restrictions do not conflict with host nation employment law or practice;
- Employees covered by the Physicians and Dentists Pay Plan, a hybrid of the title 38 pay system; and

- Awards that would otherwise be granted through the Defense Acquisition Workforce Development Fund.

OTHER SPENDING LIMITS

With the exception of travel savings and foreign language awards, spending levels on other awards and incentives (such as group awards, student loan repayments, or suggestion and invention awards) cannot exceed FY 2010 spending levels. Amounts budgeted for, or paid to, employees as recruitment, relocation or retention incentives may not exceed Calendar Year 2010 spending levels (reporting to OPM for these incentives is done on a calendar year, not fiscal year, basis). The 0.96 percent spending limits does not apply to quality step increases (and similar base-pay increase awards granted under the Defense Civilian Intelligence Personnel System or other alternative personnel systems in the Department). However, spending for quality step increases (and similar base-pay increase awards) may not exceed their FY 2010 spending levels.

NAF

The FY 2015 limitations prescribed by the OMB and OPM guidance apply to NAF employees.

NAF employees include crafts and trades employees paid under the Federal Wage System pay schedules, white-collar employees paid under the broad six-level pay band system, and employees in child and youth (CY) programs paid under the two-level CY pay band. Each Component establishes performance criteria consistent with the NAF financial goal of their NAF business units. In this performance-driven business environment, the following additional guidance shall apply to the OMB/OPM limitations:

- Lump-sum cash bonuses and awards for individual NF-6 senior-level executives are restricted to the same limits applicable to appropriated fund career SES employees (guidance has been provided under separate cover).
- The total of all lumpsum cash bonuses and awards (including special act awards) for NAF employees in positions other than NF-6 are limited to 0.96 percent of aggregate salaries of those employees.
- Other awards, such as group cash awards, cash awards recognizing achievements such as individual and group suggestion and invention, and cost saving referrals of job candidates are not covered by the 0.96 percent limitation, but are frozen at FY 2010 levels.
- A cash bonus paid out to all employees in a unit as a result of achieving a set financial or profit goal is considered a group award. The financial or profit-sharing formula used in FY 2010 will be used to determine the group award in FY 2015.
- Regardless of the source of funding, performance-based pay increases for employees paid under DoD NAF pay bands are not covered by the awards limits. When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the

excess amount is generally paid as a lumpsum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards and are not counted against the 0.96 percent budgetary limitation.

- Amounts budgeted for, or paid to, employees as recruitment, relocation or retention incentives may not exceed Calendar Year 2010 spending levels (reporting to the OPM for these incentives is done on a calendar year, not fiscal year, basis).

Alternative Pay Systems

Alternative pay systems, such as the Science and Technology Reinvention Laboratories (STRL) and the Acquisition Demonstration Project, rely on broad pay bands, which typically incorporate multiple General Schedule (GS) grades. The following apply to performance-based awards for alternative pay systems:

- When funding levels for performance-based awards are specifically identified in *Federal Register* notices, the *Federal Register* amounts are controlling. If funding levels are not prescribed by *Federal Register* language or collective bargaining agreement, then apply the FY 2015 0.96 limitation indicated in the November 14, 2014, OMB and OPM guidance.
- Unless pay pool funding levels are specifically identified in a *Federal Register* notice or collective bargaining agreement, the pay pool funding for lumpsum cash awards may not exceed the 0.96 percent limitation.
- In order to ensure consistent application of the OMB/OPM and Department guidance, Components must request approval from the Deputy Assistant Secretary of Defense for Civilian Personnel Policy prior to permitting payment of discretionary cash awards that would result in a level of spending greater than the 0.96 percent limitation. The request for approval must include the detailed legal analysis from Component counsel supporting the rationale that payments of such levels are considered "legally required." This approval process does not apply to collective bargaining agreements.
- When a performance-based continuing pay increase cannot be fully applied due to pay band limitations, the excess amount is generally paid as a lump sum from the funding available for continuing pay increases. Payments of this nature are not considered performance awards under Chapter 45 of title 5 U.S. Code, and are not counted against the 0.96 budgetary limitation imposed by OMB/OPM. However, if the excess amount is added to the funding available for performance-based bonuses and awards, such a lumpsum payment would be grouped with other awards subject to the 0.96 percent limitation.

Use of Non-Monetary Awards

A well-managed recognition program provides managers non-monetary options to recognize performance and contributions to the mission. Managers are strongly encouraged to

make full use of the many honorary awards available throughout the Department to recognize and reward hard work. Recognition in any form should be done publicly to maximize awareness that good performance and solid contributions will be recognized. The limitation on Departmental awards spending should not result in less recognition of employee performance.

Time-off awards are not counted toward the spending limit. When granting time-off awards, management should remember that time-off awards:

- Cannot exceed 80 hours in one leave year or 40 hours for a single contribution (adjusted applicably for part-time employees).
- Should be scheduled and used within 1 year after the effective date of the award.
- Cannot be converted to a cash payment under any circumstances.
- May not be transferred outside the Department or between DoD Components.

Labor Relations

All collective bargaining obligations must be met prior to implementing the provisions of either the OMB/OPM or this supplemental guidance. Collective bargaining agreements or past practices may provide for a structure and minimum award amounts or percentages based on the ratings received by employees. Management must reach agreement with the union prior to implementing a change to an agreement or past practice. Management cannot unilaterally change the agreement or practice based on the prescribed limitations.

Awards Guidance on Spending Limitations

The Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) are issuing this awards guidance that applies to awards paid during the Fiscal Year (FY) (e.g., FY15 is October 1, 2014, through September 30, 2015) and shall continue to remain in effect until further notice. This guidance is applicable to all departments and agencies (referred to collectively as agencies).

Budgetary Limitations for Individual Monetary Awards

These budgetary limits apply to agency spending for individual monetary awards only, which include rating-based performance awards and individual contribution (e.g., special act) awards.

Agencies must limit total awards spending on the following categories of awards:

- Agencies may spend no more than 4.8 percent of the aggregate salaries of their career executives at the end of the previous fiscal year on individual performance awards for career members of the Senior Executive Service (SES).
- Agencies may spend no more than 4.8 percent of the aggregate salaries* of their senior-level and scientific and professional employees (SL/ST) at the end of the previous fiscal year on individual performance awards for SL/ST employees.
- Agencies may spend no more than 0.96 percent of the aggregate salaries* of all employees at the end of the previous fiscal year on the combination of (1) individual performance awards for non-SES/SL/ST employees, and (2) individual contribution awards (e.g., special act awards) for all employees (i.e., SES/SL/ST and non-SES/SL/ST).

OPM and OMB will continue to monitor awards data that agencies provide to OPM under the agencies' regular reporting procedures for compliance with these limitations.

In addition, if overall Governmentwide discretionary funding levels are reduced below the discretionary spending caps set forth in the Budget Control Act (the BCA) of 2011 (Public Law 112-25), each agency shall further reduce awards spending pools for SES and non-SES by an amount proportional to the Governmentwide reduction made from the original BCA discretionary spending cap, as determined and communicated by OMB.

* These budgetary limitations do not apply to political appointees. Therefore, the salaries of political appointees are not included when calculating the awards funding. The President's August 3, 2010, memorandum freezing discretionary awards, bonuses, and similar payments for political appointees continues in effect until further notice. Agencies should continue to apply this freeze in accordance with OPM's guidance at <http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalID=3060>.

Other Covered Awards

Consistent with previous awards guidance, the limitations on the following remain unchanged:

- **Other awards and incentives**, such as group awards, referral bonuses, or suggestion/invention awards, are frozen at FY 2010 spending levels. Travel savings and foreign language awards are not frozen.
- **Time-off awards** are not direct monetary expenditures and are not included in the 0.96 percent limit; however, agencies should continue to use time-off awards judiciously as they do represent a cost to the agency.
- **Recruitment, relocation, and retention incentives** are not awards and are not covered by the budgetary limits; however, agencies should ensure that spending on these incentives in the aggregate during the calendar year does not exceed calendar year 2010 levels.
- **Quality step increases** for General Schedule employees is another category of rating-based payment that does not constitute an award. These payments are not covered by the 0.96 percent budgetary limit; however, agencies may not exceed their FY 2010 spending levels on quality step increases granted during the fiscal year.

These budgetary limits apply to all Executive branch agencies for all members of the SES as well as non-SES civilian employees, including SL/ST, General Schedule, wage grade and others, except political appointees covered by the freeze on discretionary spending. Agencies retain the flexibility, however, to apply these budgetary limits on awards programs to all employees, regardless of applicable pay authority, to accommodate current budget constraints, provided they meet all legal requirements and agency contractual obligations.

In applying these budget limitations, agencies should discuss their agency award programs in agency labor-management forums and should honor all collective bargaining obligations and existing agreements prior to implementation.

Additional Information

Agency Chief Human Capital Officers and/or Human Resources Directors should contact Stephen T. Shih, Deputy Associate Director for Senior Executive Services and Performance Management, in OPM's Employee Services, at (202) 606-8046 or performance-management@opm.gov if they have any questions regarding this guidance. Employees should contact their agency human resources offices for assistance.

Agencies that did not spend anything in 2010 on the types of awards/payments limited to 2010 spending should contact their Resources Management Officer at OMB to establish appropriate baseline spending amounts.