



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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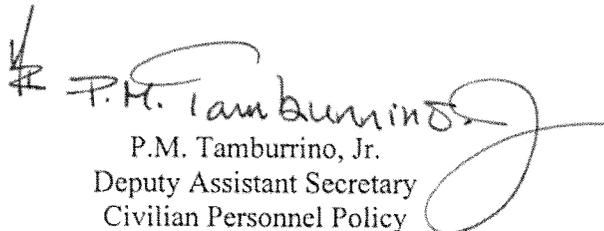
JUL 06 2011

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Supplemental Guidance on Award Limitations for Department of Defense Civilian Employees in Fiscal Years 2011 and 2012

In a memorandum dated June 10, 2011, the Office of Personnel Management and Office of Management and Budget (OPM/OMB) jointly published guidance on awards for fiscal years (FY) 2011 and 2012. The guidance covered government-wide pay systems, such as Senior Executive Service, Senior Level, Scientific or Professional, General Schedule and Federal Wage System. Supplemental guidance covering additional pay systems established by, or managed under, Department of Defense authority, (i.e. Science and Technology Reinvention Laboratories) is attached, along with the OPM/OMB guidance.

Please ensure that all collective bargaining obligations are met prior to implementing any provisions contained herein. If you have questions related to either the supplemental guidance or the OPM/OMB memorandum, my point of contact is Mr. Seth Shulman, Chief of Compensation, Defense Civilian Personnel Advisory Service, who can be reached at (703) 696-2104 or seth.shulman@cpms.osd.mil.


P.M. Tamburrino, Jr.
Deputy Assistant Secretary
Civilian Personnel Policy

Attachments:
As stated



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Department of Defense Supplement to OPM//OMB Guidance on Awards for Fiscal Years 2011 and 2012

Applicability

The limitations on awards and other similar payments prescribed by OPM/OMB are intended to apply to all awards programs in Executive branch agencies, regardless of the source of underlying authority. Thus, the limitations apply to, but are not limited to, the following:

- Organizations whose employees are covered by provisions of title 5 United States Code (U.S.C.) and 5 Code of Federal Regulations (CFR), regardless of the source of their funding;
- Employees paid under authorities of the Defense Civilian Intelligence Personnel System (DCIPS) in title 10 U.S.C. 1601-1614;
- Foreign national employees of the Department of Defense who are eligible for cash awards, as long as receipt of such an award does not conflict with host nation employment law or practice;
- Employees covered by the Physicians and Dentists Pay Plan (PDPP), which is a hybrid title 38 pay system, are covered for purposes of performance awards by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e), and for special act awards under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are also subject to the limitations prescribed by OPM/OMB; and
- Employees paid under DoD nonappropriated fund (NAF) pay systems.

NAF Pay System

The NAF white-collar pay system was established and is maintained under the long-standing discretionary authority granted to the Secretary of Defense by title 10, U.S.C. (Section 113(b) and (d)), and are not covered by the provisions of 5 U.S.C. and 5 CFR. However, consistent with OMB's authority as the agent of the President, the limitations prescribed by the OPM/OMB memo 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. NAF employees are primarily paid with funds generated through the Military Services and Defense Agencies' sale of goods and services to DoD military and civilian personnel and their family members. Monetary awards and white-collar performance-based pay increases are paid to the extent that funds are available and performance standards are met. Each Component establishes performance criteria consistent with the NAF financial goal of their NAF business units. Funding for performance awards and merit pay increases is generally dependent upon

achievement of the unit's pre-determined financial goal. In this performance-driven business environment, additional guidance is required to apply the OPM/OMB limitations.

- Lump-sum cash bonuses and awards for NF-6 senior level executives are limited to up to 5% of the aggregate salaries of the Component's NF-6 level executives.
- Lump-sum cash bonuses and awards (including special act awards) for individual NAF employees in positions other than NF-6 are limited to 1% 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 1% 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 2011 and 2012.
- 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 and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum.
- Components will establish a means to monitor adherence to budget limits and provide oversight. Components will provide the Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) with a report on annual NAF awards spending.

Alternative Pay Systems

Alternative pay systems, such as the Science and Technology Reinvention Laboratories (STRL), Acquisition Demonstration Project and the National Security Personnel System (NSPS), rely on broad pay bands, which typically incorporate multiple GS grades. Funding of monetary rewards for performance is allocated differently than for employees covered by other pay and performance systems, and requires additional guidance.

- For situations in which funding levels for performance-based compensation and/or awards are specifically identified in *Federal Register* notices, and those levels are greater than the limitation prescribed by OPM/OMB, the *Federal Register* amounts are controlling. If, however, the *Federal Register* language is not prescriptive, then the OPM/OMB limitations apply.
- Typically, pay pools for broad-banded systems have two funds for performance recognition – (1) continuing pay increases and (2) performance awards formerly covered by 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) – that are maintained separately. In addition, many systems have a fund for (3) special acts, inventions, etc.,

covered by 5 U.S.C 4503 and 5 CFR 451.104(a)(2) (or equivalent authority). As noted above, unless specifically identified in *Federal Register* notices, the funding for categories (2) and (3) may not exceed the OPM/OMB 1% limitation.

- 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 5 U.S.C. 4505a and 5 CFR 451.104(a)(3) and 451.101(e) or a special act award under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and are not counted against the 1% budgetary limitation imposed by the OPM/OMB memorandum for FY 2011 and 2012. However, if the excess amount is added to the funding available for performance-based bonuses and awards, such a lump-sum payment would be grouped with other awards subject to the OPM/OMB 1% limitation.
- The fact that employees covered by the National Security Personnel System (NSPS) have been converting back to the GS pay system needs to be taken into account in applying the limitation on QSIs—namely, that QSI spending levels in FY 2011 and 2012 should not exceed the QSI spending levels in FY 2010. While NSPS did not provide QSIs, it redirected funds that historically had been paid as QSIs into NSPS performance-based salary increases—using the historical value of QSIs as a percentage of aggregate salaries. Since the DOD GS population will be larger in FY 2011 and 2012 due to conversions out of NSPS, the QSI limitation will be applied by expressing QSIs as a percentage of aggregate salaries, instead of comparing dollar amounts

Use of Non-Monetary Rewards

A well-managed recognition program provides managers non-monetary options to recognize performance and contributions to mission. Time off awards are not counted toward the 1% spending limitation; however, Q&A 14 in the OPM/OMB guidance does ask agencies to refrain from increasing time off awards to compensate for the restrictions on cash awards. Managers are strongly encouraged to make full use of the many honorary awards available throughout the Department to recognize and reward hard work that may otherwise only ever be done via a cash bonus or performance award. Recognition in any form should be done publicly to maximize awareness that good performance and solid contributions will be recognized. The limitation on how much money may be spent by the Department should not result in less recognition of employee performance.

Recruitment, Retention and Relocation Incentives

Amounts budgeted for, or paid to, employees as recruitment, relocation or retention incentives are not awards as defined in 5 U.S.C. 4505a or 5 CFR 451.104(a)(3) and 451.101(e), or special acts under 5 U.S.C 4503 and 5 CFR 451.104(a)(2), and do not count toward the OPM/OMB awards limitation. However, as noted in the attached OPM/OMB guidance, spending for these incentives in calendar years 2011 and 2012 may not exceed calendar year 2010 levels (reporting to OPM for these incentives is done on a calendar year, not fiscal year, basis).

Labor Relations

All collective bargaining obligations must be met prior to implementing the provisions of either OPM/OMB 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 awards limits prescribed by OPM.

Equity

OPM/OMB requires that agencies reduce award spending for non-SES/SL/ST (or equivalent) performance awards and individual contribution awards for all employees to no more than 1% of aggregate salaries for awards with effective dates during FY 2012, with "progress toward that level" in FY 2011. The memorandum further states that agencies already spending at or below these levels must continue to limit spending to FY 2010 levels.

At this late point in the current fiscal year, there have been a number of performance cycles that have already been completed across the Department and for which performance has been recognized, perhaps using spending levels that were higher either than prescribed by OPM/OMB or FY 2010 spending levels. However, there are a number of performance cycles that are in the process of being concluded, or will conclude prior to the end of the current fiscal year, for which performance has yet to be recognized or rewarded.

The fact that the OPM/OMB memorandum calls for showing progress toward the 1% spending level in the current fiscal year may lead to a perceived requirement to reduce the amount of money available for performance and other awards for the remainder of FY 2011 regardless of all other considerations. The objective of showing progress toward the 1% spending level must be pursued while maintaining a reasonable degree of equity, which should be a key management objective that is considered in the distribution of all awards.

06/10/2011



The Director

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

From: **John Berry**
Director, Office of Personnel Management

Jeffrey Zients
Deputy Director for Management & Chief Performance Officer, Office of Management & Budget

Subject: **Guidance on Awards for Fiscal Years 2011 and 2012**

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 fiscal year 2011, as well as those reflected in the President's fiscal year 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 the President made the decision to propose a two-year pay freeze beginning in January 2011, he 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 awards and 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 part of their compensation. 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.

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 on individual awards during fiscal years 2011 and 2012. This memorandum provides guidance applicable to all departments and agencies (referred to collectively as agencies), was developed in consultation with the President's Management Council, and has been informed by a review of recent agency award practices. This guidance specifically calls on agencies to adopt more rigorous employee performance management processes that incorporate consistent supervisor communication and feedback, establish accountability at all levels, and provide transparent and credible 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 systems fairly reflect performance distinctions and effectively motivate 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 during Fiscal Years 2011 and 2012

Agencies must reduce total spending on individual performance awards for members of the Senior Executive Service (SES) and senior-level and scientific and professional employees (SL/ST) to no more than five percent of aggregate salaries. Agencies must also reduce award spending for non-SES/SL/ST performance awards and individual contribution awards (e.g., special act) for all employees to no more than one percent of their aggregate salaries.

These award spending targets apply for awards with effective dates during fiscal year 2012, with progress toward that level in fiscal year 2011, as reported to OPM under the agencies' regular reporting procedures.

A review of recent and historical Government-wide spending formed the basis for setting these limits, which preserve agency flexibility to decide which specific awards within their programs to fund and at what levels. 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 fiscal year 2010 levels. In implementing these limitations, agencies should provide for equitable distribution of awards between managers/supervisors and non-supervisory employees.

These budgetary limitations do not apply to political appointees. The President's August 3, 2010, memorandum freezing discretionary awards, bonuses, and similar payments for political appointees applies through the end of fiscal year 2011. Agencies should continue to apply this freeze in fiscal year 2012 in accordance with OPM's guidance at <http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalID=3060>.

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 fiscal year 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. An emphasis on 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 are expected to ensure prospectively that spending on these incentives in calendar year 2011 and calendar year 2012, respectively, does not exceed calendar year 2010 levels. Quality step increases are another rating-based payment that does not constitute an award. These payments are not covered by the one percent budgetary limit; however, agencies may not exceed their 2010 fiscal year spending levels on quality step increases granted during fiscal years 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, including SL/ST, wage grade and others.

Agencies have the flexibility, however, 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 Stephen T. 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 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.

Effective Date

The budgetary limits specified in this memorandum take effect as of the date of this memorandum and remain in effect for awards with effective dates during fiscal year 2012, with progress toward the limits for awards with effective dates in fiscal year 2011, as reported to OPM under the agencies' regular reporting procedure.

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 above number or email address 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 awardS for Fiscal Years 2011 and 2012

* * * * *

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 systems fairly reflect performance distinctions and effectively motivate agency employees.

Q2. What limits are being imposed?

A2. Agencies must reduce total awards spending as follows:

- Agencies may spend no more than five percent of the aggregate salaries of their career executives at the end of the previous fiscal year on individual performance awards for members of the Senior Executive Service (SES)
- The same five percent of aggregate salary limit will apply to performance awards for senior-level and scientific and professional employees (SL/ST)
- For non-SES/SL/ST employees, agencies may spend no more than one percent of the aggregate salaries of those employees at the end of the previous fiscal year on individual performance awards
- In addition, the one percent limit applies to awards spending for individual contribution awards (e.g., special act) for all employees and executives.
- These limits apply during fiscal year 2012, with interim progress expected in fiscal year 2011.

Q3. How will agencies report on their adherence to these budget limits?

A3. OPM will use data from agencies' usual reporting procedures to confirm agency awards spending. Agencies already report awards to the Central Personnel Data File/Enterprise Human Resources Initiative using specified nature of action codes. They also report SES/SL/ST rating, pay, and awards data to OPM through the annual data call.

Q4. How do agencies calculate the aggregate salaries used as the basis for these limits?

A4. Agencies should use the aggregate salaries at the end of the previous fiscal year as the basis for calculating these limits. This is the methodology in statute for calculating the SES performance award funding. In addition, there is further instruction provided in regulation at 5 CFR 534.405(b)(2) for identifying which salaries are used. This approach will provide agencies with a consistent approach and known salary figure to use. Individual awards subject to pre-existing collective bargaining agreements and which conflict with budgetary limits will be excluded from calculations for awards spending.

Q5. Does the five percent limit on SES/SL/ST performance awards include the Presidential Rank Awards?

A5. No; the limit on performance awards applies only to those awards based on the most recent rating of record. Agencies will continue to budget separately for these awards but should consider their nominations very carefully during these times of tight fiscal constraints and limit them accordingly.

Q6. Which awards are subject to this limitation?

A6. These budgetary limits apply to individual awards only. Other awards and incentives are frozen at 2010 spending levels, except for travel savings and foreign language awards.

Q7. What is meant by individual awards?

A7. 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 overall 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 Contribution Awards** – recognize individuals who have made specific 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.

Q8. What are the other awards and incentives that are frozen at FY 2010 levels?

A8. We have designated the following as other awards, recognition, and incentives, each of which is capped at its respective 2010 level:

- **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.
- **Quality Step Increases** – rating-based increase to basic pay recognizing outstanding performance expected to continue and warranting an ongoing increase in pay. These pay increases are granted under 5 U.S.C. 5336 and 5 C.F.R. part 530, subpart E or similar legal authority for additional performance-based pay increases. These payments must be managed carefully as they create ongoing financial obligations for the agency.
- **Recruitment, Retention and Relocation Incentives (3Rs)** – 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. Agencies must take great care to manage the use of these incentives only as intended by law and regulations, and OPM will continue to monitor use of these awards to make sure they are not misused. Agencies are expected to ensure prospectively that spending on 3Rs in calendar year 2011 and calendar year 2012 respectively does not exceed calendar year 2010 levels. (Unlike the fiscal year limits on awards, OPM will monitor 3Rs based on calendar years, consistent with past reporting requirements to Congress.)

Q9. Will agencies have to make reductions immediately?

A9. Agencies must reduce total awards spending for awards with effective dates in fiscal year 2012, with interim progress in 2011, on individual performance awards for members of the Senior Executive Service (SES) and senior-level and scientific and professional employees (SL/ST) to no more than five percent of aggregate salaries. For performance awards for non-SES employees and contribution awards for all employees and executives, the spending limit is no more than one percent of aggregate salaries for awards with effective dates in fiscal year 2012, with interim progress in 2011. Agencies already spending at levels at or below these targets will continue to limit spending to their fiscal year 2010 levels. Other awards and incentives are frozen at fiscal year 2010 spending levels as well.

Q10. Will all agencies have to reduce their awards spending to meet the 5% SES/SL/ST and 1% non-SES levels?

A10. Whether agencies will have to make actual reductions to their awards spending depends on how much they spent in fiscal year 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 fiscal year 2010 levels.

Q11. Will agencies have to limit the number of awards they grant?

A11. There is no cap on the percentage of employees receiving awards or the number of individual awards granted. 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. Each agency should consider this guidance and consult with agency counsel to determine the agency's position in any subsequent collective bargaining on individual awards. Agencies must identify for OPM those bargaining unit employees whose collective bargaining agreement contains negotiated provisions addressing specific award amounts payable for rating-based performance awards, the date the collective bargaining agreement expires, and any employees covered by other award programs they believe should be excluded from the current limitations. An 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.

Q12. Will these limits apply to individual award amounts?

A12. Like the overall number of awards, no specific limit is being placed on the amount of any single individual award. However, if overall spending reductions are necessary to meet the specified targets, one way to achieve this may be by 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.

Q13. Will giving fewer or smaller performance awards to SES/SL/ST affect an agency's ability to get certified?

A13. No; the certification criterion addressing pay differentiation remains the same and does not depend on the number or amount of individual awards, except where there are statutory requirements. Certification requires pay differentiations be made based on the performance distinctions as reflected by the ratings of record. During the pay freeze, agency performance awards will be reviewed to see whether such differentiation occurs. The criterion requires relative differentiation so that agencies consistently grant larger performance awards to senior executives who receive higher ratings.

Q14. Will this affect time-off awards?

A14. No. Because time-off awards do not involve additional cash expenditures, they are not included in these targets. Agencies are reminded, however, that these awards represent a cost to the agency and to refrain from increasing time off awards to compensate for the restrictions on cash awards.

Q15. Are political appointees covered by this budget guidance?

A1. These budget limitations do not apply to political appointees. On August 3, 2010, the President announced a freeze on discretionary awards, bonuses, and similar payments for politically appointed Federal employees through the end of FY 2011. Agencies should continue to apply this freeze in FY 2012 in accordance with OPM's guidance at <http://www.chcoc.gov/Transmittals/TransmittalDetails.aspx?TransmittalID=3060>.

Q16. How can agencies and employees get further guidance on this topic?

A16. 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 for additional information. Employees should contact their agency human resources offices for assistance.