

# Pay Setting and Compensation

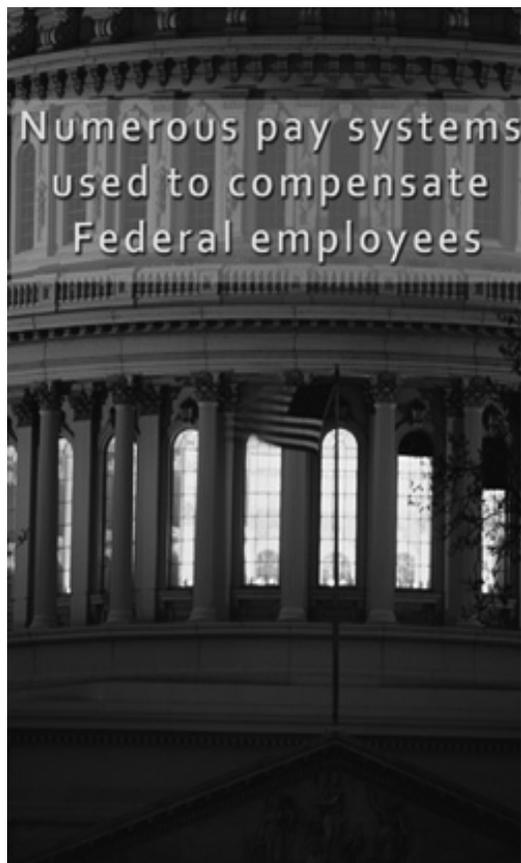
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## Lesson Content

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### Federal Pay Systems

There are numerous pay systems used to compensate Federal employees. The most common are:



- General Schedule (GS): The majority of "white-collar" employees assigned to bargaining unit positions in the Federal Government.
- FWS: Covers most Federal "blue-collar" employees, which consists of three types of prevailing rate wage schedules: Wage Grade (WG) non-supervisory;

Wage Leader (WL) work leaders; and Wage Supervisory (WS) supervise and direct the work of the leaders and the wage grade. The FWS pay is based on the prevailing rates paid by private industry in a particular wage area.

In addition, the following systems exist in the DOD:

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- National Security Personnel System (NSPS): Covers mostly non-bargaining unit “white-collar” employees and a small number of “white-collar” bargaining unit employees.
- Senior Executive Service (SES)\*: Covers most managerial, supervisory and other policy-making-jobs—formerly GS–16, GS–17, and GS–18.
- Non-appropriated Fund Instrumentalities (NAFI) System\*: Covers employees of the Department of Defense (DOD) working in clubs, exchanges, day care centers, and similar activities. NAFI is somewhat like GS and FWS, except NAFI employees are paid from funds gained from sales and services.
- Executive Level System (ELS)\*: Covers members of the Cabinet, Deputy Secretaries, Under Secretaries, Assistant Secretaries, and others in equivalent kinds of positions.

\*Although mentioned in this text, this module will not cover the pay setting rules and procedures associated with these pay systems.

## Evolution of Pay Policy

Normally Congress passes laws setting Federal civilian pay policy. The OPM regulates the laws and provides broad guidance to agencies by codifying the law in Title 5 of the Code of Federal Regulations. In addition, OPM provides guidance and instructions in the form of Operating

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Manuals—Operating Manual for FWS and the Guide to Processing Personnel Actions.



Within the OPM regulations, agencies (DOD) can establish their own policies as agency directives that may be further supplemented by local operating policies, where applicable.

Pay for FWS positions is reflected in hourly rates based on local prevailing rates (the rates paid by private employers in the local area for similar work).

### Standard Pay-setting Rules

The following are standard pay-setting rules:

- Use the rules of the pay system to which the employee is moving, e.g., when moving from a FWS position to a GS position, GS pay-setting rules must be used.
- Use the rules of the action being taken, e.g., if the action is a promotion, use pay-setting rules for a promotion.
- Use the wage range of the grade of the position, (e.g., pay cannot be set below the first step (step 1) or above the last step of the grade (step 10 for GS and step 5 of FWS)). Grade/Pay retention would be an exception to this rule.
- When processing simultaneous pay actions, actions are processed in the following order:

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1. Annual Pay Adjustment before any other individual pay action effective the same date.
2. Apply geographic conversion rule before any other individual pay action if the employee is changing geographical areas. For this purpose, the employee's rate of basic pay must be converted to the applicable pay schedule in the new location prior to the change in the official worksite. The new salary in the new location becomes the employee's existing rate of basic pay and is used in processing the next pay action.
3. Within grade increase (or quality step increase).
4. Promotion.
5. Other action in the order that provides the greatest benefit.

## Significant Terms

- **Rate of basic pay:** The rate of pay held by a GS employee including GS basic pay, special salary rates, locality pay and a retained rate of pay.
- **Representative Rate:** Representative Rate is step 04 of the GS pay table (including locality pay where applicable) and step 02 of the applicable FWS pay table.
- **Highest Previous Rate (HPR):** The highest actual rate of basic pay earned while a federal employee or the

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actual rate of basic pay for the highest GS grade and step previously held.

For FWS employees, it is the highest schedule rate of pay previously paid to an employee while employed in a federal job.

- **Maximum Payable Rate:** The highest amount at which an employee's pay may be set when the highest previous rate is considered. It may be higher or lower than the highest previous rate.
- **Geographical Conversion:** Prior to a move to a new geographical location with a different pay table, the employee's salary may be converted to the applicable pay schedule in the "new" location "before" applying the applicable pay setting rule. The "new" salary in the new location becomes the employee salary for setting pay.
- **Recruitment bonus:** A compensation option for new employees to fill a position that would otherwise be difficult to fill. The employee must sign a service agreement. The bonus may be used in combination with superior qualifications and may be paid to those covered by a special rate. Bonuses are subject to the limit on aggregate compensation.
- **Relocation bonus:** A compensation option for a current employee that must relocate to fill a position that would otherwise be difficult to fill. Employee must sign service agreement with the agency. The bonus may be paid in accordance with the agency's relocation plan. The

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bonuses are subject to the limit on aggregate compensation.

- **Retention bonus:** A payment to individuals and/or group/category of employees. Agency determines that the unusually high or unique qualifications of the employee's or the agency's needs makes it essential to retain the employees. Agency further determines that employees in the targeted category would likely leave the Federal Government in the absence of this retention bonus payment. The bonuses are paid in accordance with the agency's bonus plan and must be reviewed/certified annually. Bonuses are subject to the limit on established aggregate compensation.
- **Superior qualifications and special qualifications appointments:** Agencies have the authority to set pay for new appointments or reappointment to GS positions above step 1 of the grade based on superior qualifications of the candidate or the special needs of the agency. Agencies must have documentation and recordkeeping procedures on making superior or special qualifications appointments in place in order to make such appointments.
- **Highest prevailing rate:** Upon reemployment, transfer, reassignment, promotion, demotion, or change in appointment, agencies may set the pay of an employee by taking into account a rate of basic pay previously received by employee while employed in another civilian Federal position.

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- **Waiver of dual pay limitation:** Agencies may waive the limitation (40 hours per week) on aggregate pay, when “required services cannot be readily obtained otherwise” and “under emergency conditions relating to health, safety, protection or life of property, or national emergency.” This authority allows the agency to employ a fulltime Federal employee in a second job or to schedule a part-time employee with multiple part-time appointments to work more than an aggregate of 40 hours during a week. The agency pays overtime only when one works more than 8 hours per day or 40 hours per week for the same agency.
- **Compensatory time:** This is a new form of compensatory time off for time spent in a travel status, when such time is not otherwise compensable. Agencies may establish procedures for requesting credit for compensatory time off for travel.

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- **Special rates:** OPM may establish higher rates of basic pay for an occupation or group of occupations nationwide or in a local area based on a finding that the Government's recruitment or retention efforts are or would likely become significantly handicapped without those higher rates. The minimum rate of a special rate range may exceed the maximum rate of the corresponding grade by as much as 30 percent (no special rate can exceed the Executive Level V).
- **Critical pay authority:** OPM has the authority for this underused flexibility as a means of attracting talented individuals to critical positions in the Federal Government who would not otherwise accept or stay in Government jobs at lower pay rates. OPM may grant the authority to fit the rate of basic pay at not less than the rate that would otherwise be payable for that position up to the rate for level I of the Executive Schedule. These positions must require a very high level of expertise in scientific, technical, professional, or administrative field and be crucial to the agency's mission accomplishment.
- **Title 38 flexibilities for healthcare employees:** OPM may delegate the discretionary use of certain Department of Veterans Affairs personnel authorities to help recruit and retain employees in health care occupations. Agencies may use or establish pay authorities since performing direct patient care services or services incident to direct patient care.
- **Night pay:** GS employees are regularly scheduled to work between 6pm and 6am. Premium pay for night

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work equals 10 percent of the employee's rate of basic pay.

- **Night shift differential:** A prevailing rate employee is entitled to pay at one's scheduled rate of pay plus a differential of 7.5 percent of the scheduled rate for scheduled non-overtime work when the majority of the employee's work occurs between 11p.m. and 8 a.m. This payment is made for the entire shift when the majority of the hours fall within the specified time period. The 2<sup>nd</sup> shift differential is 7.5 percent and the 3<sup>rd</sup> shift differential is 10 percent.
- **Hazardous duty pay:** GS employees may receive additional pay for the performance of hazardous duty or duty involving physical hardship.
- **Environmental differential pay:** Prevailing rate (wage) employees may receive a differential when exposed to a working condition, physical hardship, or hazard of an unusually severe nature.
- **Pay for federal firefighters:** Most Federal firefighters are subject to special pay computation rules that take into account their unusual work schedules. The rules apply to both their basic pay and premium pay.

## GS Pay System

This pay system is used government-wide to pay most employees classified in the administrative, clerical,

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professional, and technical occupations. The GS Pay System consists of three types of salary tables:

1. GS Salary Table—reflects the yearly increase to the pay schedule authorized by the President and Congress. This increase is an annual pay adjust based on the Employment Cost Index.
2. Special Salary rate tables—reflects the rates established where there are significant problems with recruiting well-qualified employees. Special salary is established by occupation, grade, agency, and/or geographical location.
3. Locality pay tables—are established to reduce the gap between federal and non-federal pay where the gap is more than 5 percent. Locality pay is established based on geographical location and is in addition to basic pay under the GS pay system.

## Federal Wage System

This pay system is used throughout the Federal Government to pay employees classified to work in trades, crafts, and skilled and unskilled laborer positions, commonly referred to as blue-collar employees.

There are three types of wage rates in FWS:

1. Regular wage rates—rates paid by private employers in the same are for similar work.
2. Amended wage rates—issued for a specific occupation and grade and/or grades when the rates paid by privates industry is higher than the minimum regular wage rate for the grade.

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3. Special wage rates—requested when the amended rates are inadequate and do not resolve serious recruitment and retention problems.

### Setting Pay for Appointments in the Federal Government

New Appointments—The first appointment in the Federal Government for a candidate who never worked for the Federal Government before. Pay on a new appointment is usually set at the minimum rate range that applies to the employees' position. Normally this is step 1 of the applicable pay table, with three exceptions:



1. Superior Qualification and Special Needs Appointments in the GS System—pay for a new appointment to a GS position may be made above step 1 if the candidate has superior qualifications or if an agency has a special need for the candidate's service. Pay cannot exceed the step 10 of the GS grade.
2. Advance-in-hire rate for FWS appointments—Is limited to an employee with exceptional or highly specialized skills in a trade or craft.
3. Recruitment Incentive—Can be authorized for GS and FWS employee, up to 25 percent of an employee's salary provided there is a determination that, in the absence of such an incentive, the job would be hard to fill.

Reemployment/Reinstatement—A person who was previously employed by the Federal Government and is being reappointed through reinstatement or another type of appointment, after a break in service of at least one full

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workday, may have his or her pay set above the step 1 based on rates previously earned as a Federal Government employee, commonly referred to as HPR. Use of HPR is at the agency is discretion.

There are three categories of reinstatements:

1. Reinstatement following a voluntary separation (employee chooses to leave Federal service of his or her own will). Upon reinstatement, pay may be set using one of the following:
  - a. At the minimum step (step 1) of the grade for the position and location.
  - b. Applying the HPR rule if as authorized by local pay-setting policy.
  - c. Superior Qualifications/special needs for GS positions, provided there has been a break of at least a 90 calendar days from last federal appointment.
  - d. Special qualification in a trade or craft position.
  
2. Reinstatement following an involuntary separation (employee separate through no fault of his/her own (i.e., RIF)). DOD guidance in the DOD Priority Placement Program manual, states that an agency should preserve to the maximum extent possible the pay held prior to an involuntary separation for an employee being reinstated after an involuntary separation. Agencies should consider using HPR, where applicable.

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3. Mandatory restoration/reemployment—Agencies have limited discretion in setting pay for employees who are returned to duty after separations for the following reasons:
  - a. following a period of military service under 38 USC 4301
  - b. following restoration from a compensable injury, or
  - c. reemployment after an unwarranted or unjustified personnel action under 5 USC 5596.

These employees are “made whole,” meaning they are entitled to all increases in pay they would have received during the period of separation.

## Setting Pay for Current Federal Employees

There are three commonly used pay actions that are processed for Federal Government employees while they are continuously employed.

1. Promotion
  - a. GS—movement from one GS grade to a higher GS grade while continuously employed.
  - b. FWS
    1. Movement from a position in one FWS schedule to a position in a higher grade of the same type schedule (WG–05 to WG–07).

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2. Movement from a position under a FWS schedule to a position under a different FWS schedule (WG to WL; WL to WS, WG to WS, etc) with a higher representative rate.
  3. Movement from a position not under FWS to a position with a higher representative rate under an FWS schedule (GS to WG, WL, or WS with a higher representative rate).
2. Reassignment—A change of an employee while serving in the same agency, from one job to another without promotion or change to lower grade.
  3. Change to Lower Grade—A change in the position for an employee who, while continuously employed:
    - a. GS-movement of an employee, while continuously employed from one GS grade to a lower GS grade, with or without a reduction in pay.
    - b. FWS
      1. Movement from a position in one grade of a FWS schedule to a position in a lower grade of the same type FWS schedule (WG–07 to WG–05).
      2. Movement from a position under a FWS schedule to a position under a different FWS schedule with a lower representative rate (WL–08 to WG–05).
      3. Movement from a position not under a FWS schedule to a position with a lower representative

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rate under a FWS schedule (GS to WG, WL, or WS with a lower representative rate).

### Setting Pay for Reassignment Actions

Reassignments occur when an employee moves within an agency (DLA) from one position to another without being promoted or changed to a lower grade. Typically on reassignment actions, the pay for employees does not change, with the exception of the "geographical conversion" rule if the employee is moving to a new geographical location.

### Setting Pay for Change-to-Lower Grade (Demotion) Actions

Pay setting for demotions will be determined based on the reason for the demotion, voluntary or involuntary.

In most cases, federal workers must volunteer for demotion actions. If the action is voluntary or involuntary determine the pay setting rules for demotion actions.

1. **Voluntary Demotion:** When an employee requests to be moved to a lower graded position for the employees benefit or convenience.

For a voluntary demotion, an employee is entitled to the lowest payable rate of the lower graded position (step 01), unless the agency directives allow the pay to be set based on HPR under the maximum payable rate rule.

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2. **Involuntary Demotion:** When an employee who did not request a change to lower grade, is being placed in a lower graded position through a management directed action. Whether the employee is at fault or not at fault will determine how the pay is set.
  - a. Employee NOT at Fault: This demotion action may have resulted from a reduction-in-force (RIF) action; failure to complete a supervisory probationary period, etc. If the employee is not at fault, the employee may be entitled to retain his or her current grade/pay or the pay must be set, upon demotion, to a pay rate as if the employee had not been promoted to a higher grade. Grade and Pay Retention discussed in more detail below.
  - b. Employee AT Fault: This demotion action may have resulted from unacceptable performance, discipline, misconduct, etc. If the employee is at fault, upon demotion the pay must be set at a rate that does not exceed the rate of pay held immediately before the action causing the demotion.
3. **Grade and Pay Retention:** An employee who is demoted through no fault of his/her own, may be entitled to keep the grade/pay from the higher level position while working in the lower graded position, this is referred to as grade and/or pay retention.
  - a. Grade Retention: an employee is entitled to grade retention if serving in a permanent GS or FWS position and is placed in a lower grade as a result of a RIF or reclassification action. An employee eligible for grade

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retention will retain the **pay** benefits of the higher graded position for two-years from the effective date of the demotion. At the end of the two years, the employee is placed in the lower graded position for all pay benefit purposes. The employee pay will be set at a step that equals or exceeds the retain rate of pay (up to step 10 for GS/up to step 05 for FWS) or if the employee's pay exceeds the top step of the lower grade, the employee will be entitled to pay retention as follows.

- b. Pay Retention: an employee may be entitled to keep a rate of pay (after any geographical conversion, if applicable) if the employee is demoted through no fault of his/her own and is not entitled to grade retention. Pay retention is granted when the employee's salary exceeds the top step of the grade of the position to which assigned and there is no longer an entitlement to grade retention. 5 CFR 536.301 lists the Mandatory Pay Retention entitlement and 5 CFR 536.302 identify Optional Pay retention flexibilities that an agency MAY grant to employees. Pay Retention will continue until the employee's salary equals or exceed the top step of the grade to which assigned.

## **Other Pay for Increases/Incentives for Current Federal Employees**

### **General Pay Increase**

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Usually granted annually to federal workers based on the increase in the standard cost of living from one year to the next.

1. GS employees, the President/Congress typically decides the amount of this increase and the distribution between basic pay and locality pay.
2. For FWS employee, the amount of the increase is usually capped at the amount awarded to GS employees, considering the wages paid in a geographical area for the same type of work.

### **With-in-grade-increases (WIGI)**

A WIGI is a periodic adjustment to an employee pay from one step of the grade to the next higher step of that grade.

1. GS WIGI—To be eligible for a WIGI, a GS employee must:
  - a. Be paid at less than step 10.
  - b. Be in a permanent position.
  - c. Complete the required waiting period.
  - d. Not receive an equivalent increase during the waiting period (i.e., promotion).
  - e. Performance must be of an acceptable level.
  - f. Meet the waiting period requirements as follows:
    - (1) Steps 2, 3, 4      52 calendar weeks
    - (2) Steps 5, 6, 7      104 calendar weeks

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- (3) Steps, 8, 9, 10 156 calendar weeks
2. FWS WIGI—To be eligible for a WIGI, a FWS employee must:
  - a. Be paid at less than step 05.
  - b. Must complete the required waiting period.
  - c. Not receive an equivalent increase during the waiting period (i.e., promotion).
  - d. Performance must be of an acceptable level.
  - e. May be under either a temporary or permanent appointment.
  - f. Meet the waiting period requirements as follows:
    - (1) 26 calendar weeks to move to step 2
    - (2) 78 calendar weeks to move to step 3
    - (3) 104 calendar weeks to move to steps 4 and 5
3. Time in a non pay status, is creditable towards the waiting period as long as the non-pay time does not exceed the following non-pay time during the waiting period. Any non-pay time in the waiting period beyond the hours listed below will extend the waiting period by the excess non-pay time.
  - a. Allowable non-pay time for GS employees:
    - (1) two workweeks for steps 2, 3, and 4
    - (2) four workweeks for steps 5, 6, and 7

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(3) six workweeks for steps 8, 9, and 10

b. Allowable non-pay time for FWS employees:

(1) one workweek for step 2

(2) three workweeks for step 3

(3) four workweeks for steps 4 and 5

### **Retention and Relocation Incentives:**

1. Relocation Incentive: A relocation incentive up to 25 percent of an employee's annual salary may be paid to a current federal employee who must relocate, without a break in service, to accept a position **in a different location that has been deemed hard to fill.**
2. Retention Incentive: A retention incentive in an amount up to 25 percent of an employee's annual salary may be paid to a current federal employee who has **an unusually high or unique qualifications or when the agency has a special need to retain the employee AND the employee would be likely to leave the Federal Service in the absence of the incentive.**
3. Student Loan Repayment: In lieu of paying a recruitment or retention incentive directly to an employee, a management official can authorize the repayment of a student loan as long the criteria for recruitment or retention incentive is met. The maximum amount that can be paid for a student loan is \$60,000.00, in increments not to exceed \$10,000.00 per year.

Employees eligible for the incentives must sign a service agreement to remain with the agency for a period of not

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less than 3 years. Interested individuals must contact their agencies directly for repayment opportunities.

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