Comments on Reauthorization of
the Performance Management and
Recognition System

Statement of
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Before the
Subcommittee on Compensation
and Employee Benefits
Committee on Post Office
and Civil Service
House of Representatives
COMMENTS ON REAUTHORIZATION OF
THE PERFORMANCE MANAGEMENT AND
RECOGNITION SYSTEM

SUMMARY OF STATEMENT BY
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The Performance Management and Recognition System (PMRS) is scheduled to expire September 30, 1989. In general, PMRS is not viewed as fully meeting its objectives to motivate and reward employees.

-- Performance has not been perceived as a major factor in determining who received performance awards;

-- Awards are viewed as too small to motivate employees;

-- Performance ratings and awards have generally been viewed as inequitable; and

-- Employees who are rated as fully successful and are in the middle third of their pay range are at a relative disadvantage compared to their GS counterparts.

At a minimum, we believe PMRS should be extended now for a short period and that the inequity affecting certain fully successful employees should be removed. Over the longer term, one alternative for changing PMRS might be to enact specific legislative changes that would be applicable to all participating agencies, such as those proposed in the Subcommittee's bill. Another would be to allow agencies latitude in designing the type of program they believe would best suit their needs within a general legislative framework. The latter approach might be particularly attractive if there is no consensus on how to change the program. If agreement on a strategy for redesigning PMRS cannot be reached before its expiration, we would suggest extending PMRS under one legislative proposal and considering more significant modifications in another. Such an approach would allow the program to continue and enable more time for interested organizations to achieve a consensus on solutions.

The Subcommittee's bill to reauthorize PMRS extends the system with minor modifications for 1 year before more significant modifications take effect. We support the concept of allowing OPM and the agencies sufficient time to prepare for major changes and agree that performance awards should be made more meaningful. However, we do have concerns about some of the specific modifications being proposed. We believe Performance Review Boards should be comprised of individuals familiar with employees' work and question whether final approval authority over awards should rest with the Boards. Also, we think that the combination of full merit increases for top-rated employees and the reduction to three rating levels could significantly increase personnel costs.
Mr. Chairman and Members of the Subcommittee,

We are pleased to be here today to assist the Subcommittee in considering changes to the government's pay-for-performance system for its GM 13 through 15 managers and supervisors—the Performance Management and Recognition System (PMRS).

PMRS was enacted in November 1984 to correct the problems experienced under the merit pay system that preceded it. We reviewed PMRS shortly after it was established and we recently completed a study to determine whether the problems identified in our earlier report had continued. PMRS participants and the SES members with whom we spoke during our most recent review raised most of the fundamental problems identified in our earlier report. While our most recent review had a limited scope, the Office of Personnel Management, the Professional Managers Association, and other organizations have recently reported on PMRS and identified similar problems.

In general, PMRS is not viewed as fully meeting its objectives to motivate and reward employees. PMRS' shortcomings have been viewed the following way:

-- Performance is not a major factor in determining who received performance awards;

-- Awards are too small to motivate employees;

-- Performance ratings and awards are inequitable; and

-- Employees who are rated as fully successful and are in the middle third of their pay range receive the equivalent of one-third of a step increase, whereas similarly situated general schedule employees receive one-half of an increase. Thus, PMRS employees in this category have been paid less than their general schedule counterparts.

No performance system is perfect and to the extent that predictability and comfort are key factors in such systems for many employees, their judgments about the system will often be somewhat critical. Consequently, we cannot expect performance systems to satisfy everyone. That is the case with PMRS. Nevertheless, some changes can improve it.

OPTIONS FOR THE FUTURE OF PMRS

The legislation authorizing PMRS expires on September 30, 1989, and there are three legislative options that could be considered.
One option is to allow the program to expire. Another option is to reauthorize the program as it is presently, but fix the inequity for fully successful employees in the middle third of their pay range. A third option is to reauthorize PMRS, fixing as many of its shortcomings as possible.

We do not believe that allowing the program to expire is viable for two reasons: (1) many federal employees support the concept of pay for performance, and (2) the cost of converting all PMRS employees back to the general schedule system would be significant. At a minimum, we believe PMRS should be extended now for a short period and that the inequity affecting certain fully successful employees should be removed. This inequity has persisted throughout the program and has resulted in these employees being paid less than their general schedule counterparts.

There seems to be little controversy over the need to fix the inequity as well as other problems with PMRS. The Subcommittee could use various approaches to deal with these other problems over a longer time period. One approach would be to address them by developing solutions that would uniformly apply to all agencies, such as those proposed in the Subcommittee's bill. Another approach would be to develop a general legislative framework within which agencies would have flexibility to design their own solutions. This approach might be particularly
attractive if agencies participating in PMRS cannot agree on how to change the program.

The Subcommittee's bill to reauthorize PMRS extends the program with minor modifications for 1 year before more significant changes take effect. The longer-term changes that are to take effect include (1) relaxing some limits on performance award funding and removing the requirement that all employees rated at the highest level receive an award; (2) reducing the number of rating levels from five to three; (3) restructuring base pay increases by changing the manner in which merit or step increases are granted; and (4) eliminating the direct link between ratings and performance awards by establishing Performance Review Boards to make performance award decisions.

We support the concept of extending PMRS to allow OPM and the agencies sufficient time to prepare for major changes and view the changes affecting performance award funding as a positive attempt toward making performance awards more meaningful. However, we do have some concerns. We believe that the composition and authority of the proposed Performance Review Boards should be given additional consideration. We also think that the combination of both the full merit increases for top-rated employees and the rating level reduction could significantly increase personnel costs.
I will elaborate further on these matters later in my testimony.

THE LEAD TIME PROVIDED BY THE BILL SHOULD HELP AVOID IMPLEMENTATION PROBLEMS

In reviewing the implementation of PMRS, we found that the lack of preparation time preceding the system's effective date caused administrative difficulties for OPM and the agencies. These difficulties included inadequate time to train and inform employees about the new system, delays in performance award payments, and untimely, unclear guidance from OPM.

The bill provides for fixing the inequity that currently exists for certain fully successful PMRS employees and otherwise extending PMRS as is through fiscal year 1990. This approach should help alleviate implementation problems by allowing agencies and OPM sufficient lead time to prepare for the major changes to the system that will take place in later years. We suggest, however, that the Subcommittee consider extending PMRS through separate legislation if consensus on solutions cannot be reached.
CHANGES AFFECTING THE
POTENTIAL SIZE OF
PERFORMANCE AWARDS

Our previous work indicated that PMRS employees felt that the size of performance awards neither adequately rewarded them for outstanding performance, nor motivated them to perform better. Legislative limitations in effect since PMRS began might have contributed to the small performance awards made to some PMRS employees. These limitations require agencies (1) to make awards of at least 2 percent of base salary to all their outstanding employees and (2) to also remain within established limits on total performance award expenditures.

The bill changes four key aspects of PMRS that affect the size of individual awards. It raises the minimum amount that can be awarded to an individual to 5 percent of base salary, eliminates mandatory awards for employees rated at the highest level, and removes the limitations on agencies' total performance award expenditures. In addition, the bill eliminates the current limitation on the dollar amount of individual performance awards. While we have no basis for saying whether the most appropriate minimum award amount should be 5 percent or some other percentage of base pay, we do think these changes should enable agencies to make larger awards. In fact, since the bill eliminates the limitation on the amount of individual performance awards, an
inordinately large award could be made to one employee. Although this is unlikely, we are suggesting that consideration be given to reinstating a maximum amount that can be awarded to an individual.

PERFORMANCE REVIEW BOARDS

The bill creates Performance Review Boards that will select employees to receive performance awards from those who are nominated by their supervisors. It also provides that at least three of the five board members must be PMRS employees.

The boards represent an attempt to deal with the complaints about favoritism that have persisted during the operation of PMRS. However, some PMRS employees we spoke with during our most recent review were concerned that board members would not have direct knowledge of individual job performance, and that, as a result, board decisions would be based on factors other than performance. They felt that award decisions were better left to immediate supervisors because they know more about employees' performance. If a board helps decide awards, we believe its members must be familiar with employees' performance. However, we recognize that no system is likely to receive the approval of all employees.

The majority of each board would be PMRS employees. A potential conflict of interest exists because the bill does not prohibit
employees on the board from participating in the decision to
grant themselves performance awards. That is an obvious problem
that can be easily fixed. More troubling, however, is the idea
that employees in the same grade could participate in bonus
decisions for their peers or for higher graded employees. Such
an arrangement is inappropriate. The problem could be resolved
by having only employees of a higher level sit on panels.

Another of our concerns relates to the fact that under the
proposed system, final approval authority rests not with agency
management, but with the boards. Thus, managers and agency heads
will be unable to make award decisions.

BASE SALARY INCREASES

The bill reduces the number of performance rating levels fromive to three. It also provides that persons receiving the
highest level rating receive a full merit increase. This
increase is equivalent to what a step increase is under the
general schedule. We have not identified any objections to a
three level system.

However, it appears that one of the rating levels that will be
removed under the proposed change is the one between the highest
rating, commonly referred to as outstanding, and the fully
successful rating. OPM governmentwide data show that for fiscal
year 1987, 47 percent, or about 57,000 PMRS employees, were rated at the level between those two categories. Should that rating level be eliminated, these individuals will be rated either as fully successful or as outstanding. If a large number are rated as outstanding, the full merit increases that must be paid to these individuals could substantially increase annual compensation costs. Before adopting these provisions, the Subcommittee may wish to consider obtaining estimates of these costs. If the costs appear prohibitive, the Subcommittee could consider modifying the proposal to award a full merit increase or retain the rating category between outstanding and fully successful.

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We will continue our work on PMRS. At this time, we are surveying 47 agency personnel directors to get more information on how PMRS is functioning in the agencies and how agencies want to see the system improved. We will also look at various state government pay for performance systems and possibly some government corporation systems to find examples of successful programs. We will be pleased to share the results of this work with you as soon as they are available.

This concludes my prepared statement. We would be pleased to respond to your questions.