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Policy Insight

Pay for Performance in the U.S. Federal Civil Service



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Enhancing the performance of the civil service has been a central objective of the United States since the Civil Service Reform Act of 1978 authorized a performance-based component to federal salary structures. In 2003, the National Commission on the Public Service, also known as the Volcker Commission, recommended that explicit pay-for-performance (PFP) systems be adopted more broadly throughout the federal government.

The Bush administration proposed that the entire federal workforce be converted to PFP systems by 2010. In Congress, however, the Bush proposal did not attract any interest. Senators George V. Voinovich (R-Ohio) and Daniel Akaka (D-Hawaii) have introduced their own bills aimed at enhancing the role of PFP in the federal government. More recently, opposition to PFP in the Congress is growing, especially since the Democrats assumed control in January 2007, and thus the future of PFP in the federal government is now jeopardized.

This Policy Insight examines the advantages and pitfalls of explicit PFP schemes compared with the largely seniority-based salary system that still covers more than half of federal civil servants. We consider why using PFP in the public sector is challenging, what can be learned from the social science literature, recent practical experience, and what is happening in Congress.

The General Schedule Pay Structure

To appreciate the controversy about PFP, it is helpful to understand how the majority of federal civil servants are paid under the General Schedule (GS) pay structure. The schedule of annual rates of basic pay consists of 15 grades, designated GS-1 through GS-15, with 10 pay steps per grade. Each grade has a pay range of 30 percent, with each step increasing the previous level of base pay by an average of 3 percent; the percentage increase declines as the grade increases (e.g., an average of 1.7 percent between, say, GS-14 and -15).

The GS pay structure has two basic determinants: tenure and performance. For all employees in a regular position who have not yet reached the maximum rate of pay within their grade, federal law mandates a regular “within-grade increase” (WGI), or step increase, as long as the employee has demonstrated an acceptable level of performance. The schedule ensures that employees will progress from one step to the next if they accumulate enough years of tenure. Promotions from one grade to another can be either based on tenure (not automatic) or on merit if at least one year in a grade has been completed.

The merit increase has two components: promotion through the quality step increase (QSI) and/or performance-based cash awards. The QSIs are faster than the normal WGIs, and are used to reward employees who display superb performance. Performance bonuses are lump-sum cash awards based on performance ratings that range from 1–2 percent of the salary to 20 percent in cases of outstanding performance.

How U.S. Civil Servants Are Evaluated

Under the GS system, each agency may develop one or more appraisal systems for its employees. Some agencies use a simple pass–fail system while others use a 5-point rating system. Employees do not always receive a written performance appraisal each year.

The pass–fail rating is attractive because of its simplicity but the 5-point rating allows for more distinction in ratings. In practice, however, both systems are prone to “leniency bias”—a tendency of the appraiser to rate all employees favorably. The pass–fail system is prone to leniency bias at the low end since supervisors may be reluctant to award a “fail” rating. The 5-point system may have bias at both ends.

Some private companies, such as the General Electric Company, combat leniency bias by placing

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Table 1. The Evolution of Alternative Personnel Systems

Year	Demonstration Project	Independent System
1980	U.S. Navy (China Lake)	
1988	Department of Commerce (National Institute of Standards and Technology)	
1989		Federal Deposit Insurance Corporation
1996		Federal Aviation Administration
1998	Department of Commerce (various components)	
1999	Department of Defense (Acquisition Workforce)	
2001		Internal Revenue Service
2002		Government Accountability Office
2004		Department of Homeland Security
2004		Senior Executive Service
2004		Department of Defense

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constraints on how the 5-point system is used by supervisors. One method is to require that at least 20 percent of the ratings be less than 3 and no more than 10 percent of the ratings be equal to 5. Such constraints are uncommon in the U.S. federal government.

Is Pay Currently Linked to Performance?

Under the GS structure, there are weaknesses in the link between pay and performance. All other things equal, a mediocre employee will receive the WGI as often as a better-performing employee. Even when low performance is obvious, it seldom leads to financial losses due to salary reduction or job termination.

A study by the Merit Systems Protection Board reported that many supervisors experienced few negative consequences for taking no action, even when they are very aware of the most common issues associated with poor performance, such as behavioral issues, substance abuse, and/or illegal activities (U.S. Office of Personnel Management, 1999). By issuing a negative rating, a supervisor may create more work for him- or herself, since a poor rating may lead to the need to design an improvement plan in consultation with the employee. As a result, neither the fail rating in the pass–fail system nor ratings below 3 on the 5-point scale are frequently used.

The lack of connection between rating and salary is exacerbated by leniency bias. One clear example of this phenomenon is the Senior Executive Service. After new performance arrangements were

introduced, agencies and departments started to exercise more rigor in implementing PFP. In 2001, about 80 percent of senior civil servants received an evaluation at the maximum level, thus warranting a bonus; in 2005, this percentage fell to 45 percent.

With respect to excellent performers, the 5-point scale is better equipped to make the appropriate distinctions. A high rating does not necessarily trigger extra pay since neither QSIs nor bonuses are automatic. In some departments and agencies, QSIs are awarded infrequently. Indeed, highly rated employees who are at the top of their pay grade are not even eligible for a tenure-based raise, absent a promotion to a higher grade. And leniency bias weakens the linkage between pay and performance.

In spite of all its rigidities, the GS provides some tools for managers to address poor performance: for example, voluntary departures, recruitment, relocation, and retention. However, these existing “flexibility” tools have not been used optimally, though their effectiveness in the military has been confirmed.

In sum, tenure rather than merit or performance is currently the main driver of wage and promotion under the GS system. We thus explore whether PFP can improve the situation.

PFP: Concept vs. Real World

When a worker’s pay is directly and explicitly tied to specific measures of performance, the term PFP is often used. PFP has a dual purpose: to provide an extra incentive for employees to be productive and to assist in the recruitment of a better workforce. Although PFP is often applied on a worker-

Table 2. Options for Change

Features	Status Quo	Proposed Legislation		
	GS	White House	S.967	S.1045
Training	NA	NA	Yes	Yes
Appraisal system	Allow the pass–fail rating system	Allow pass–fail only in the entry/developmental stage	NA	Eliminate the pass–fail rating; define the time and frequency of training to supervisors; prepare written performance appraisals annually
Pay banding	No	Yes (up to four categories by 2010)	NA	No
PFP	Continue using WGs and QsIs, despite weak link between pay and performance	Require at minimum a rating of “fully successful”	NA	Explicitly link performance to the agency’s strategic goals
Poor performance	NA	Deny pay increases for employees rated less than “fully successful”	NA	Deny pay increases for employees rated less than “fully successful”

by-worker basis, it can also be applied to an entire unit, organization, or agency. When applied to a group of workers, it is designed to encourage more-effective collaboration within the team.

Alternative personnel systems have been introduced in some department and agencies (see Table 1 for some examples from 1980 to 2004). While the schemes vary, they typically provide supervisors more flexibility to award pay increases based on assessed performance. But so far, results are mixed: Success depends on how systems are designed and implemented.

The evaluation method one uses to decide whether to award wage increases can be objective (linked to some observable output), subjective (based on a supervisor’s opinion), or based on a combination of objective and subjective inputs. Unlike in the private sector (where performance measurement is sometimes meticulous), in most areas of the public sector it is difficult or impossible to fully measure output or performance using objective data for each employee.

In actuality, a subjective performance appraisal plays a key role in PFP. Subjective appraisals are preferred because they permit the supervisor to consider both measured and unmeasured factors. For example, even if an employee’s output is measured, the supervisor may judge whether the actions that led to an output change were appropriate under the circumstances. Subjective appraisals also eliminate the conceptual and empirical problems with specifying how to define and measure output or weigh the relative importance of different output measures.

Critics of PFP schemes argue that supervisors often do not monitor employees effectively. The flexibility in PFP also creates room for favoritism

and arbitrariness. When political appointees are evaluating civil servants, there are also sensitivities about whether political perspective plays a role in appraisals. Critics argue that factors such as satisfying job content, promotion possibilities, and flexibility in work organization are more important than performance pay in motivating staff. The evidence points to the need for a broad approach to better performance management as opposed to an exclusive focus on performance-related compensation.

Proposals to Change the GS

There are three PFP bills in the 110th Congress: Senate bill 1045 (S. 1045) for federal employees in general and S. 1046 for senior-level and scientific and professional positions, both sponsored by Senator Voinovich; and S. 967 sponsored by Senator Akaka. Table 2 summarizes the similarities and differences between the status quo and the proposals. The White House proposal—the Working for America Act—seeks to identify and reward outstanding performance while also holding managers accountable for substandard performance. It also introduces pay-scale flexibility and supports a more meaningful evaluation of employees by eliminating the pass–fail system.

S. 1045 identifies performance evaluation as the key problem and addresses it by introducing training requirements for supervisors and by establishing a written evaluation report for each employee. Those who perform poorly would be denied the general wage increase (1.7 percent of base salary in 2007). S. 967 also recognizes the shortcomings associated with supervisor training, and requires federal supervisors and managers to undergo training in setting performance goals, communicating those goals to employees, and motivating employees.

The GS provides some tools for managers to address poor performance. But these tools have not been used optimally—even though their effectiveness in the military has been confirmed.



The Bush administration continues to promote PFP in the federal government and has been moving toward implementing alternative personnel systems throughout the government. Starting in May 2005, federal agencies began completing small test runs for improved performance management systems. The beta sites provide an opportunity to test the new personnel and payment system before extending it to an entire agency.

Burgeoning Opposition to PFP

Labor unions have filed lawsuits to stop the new personnel systems at the Transportation Security Administration (TSA) and Department of Homeland Security (DHS), saying that the bargaining rights of workers are jeopardized. This litigation has slowed the implementation of PFP systems and it may take years to fully resolve the legal issues. Unions are also urging Congress to repeal TSA authority to avoid collective bargaining.

In early 2007, both the House and the Senate passed bills to revive collective bargaining rights at TSA. President Bush pledged a veto. The House vote of 299–128 was well over the two-thirds majority needed to override a presidential veto, but the Senate vote of 51–46 fell short of the 66 needed to override.

Meanwhile, opposition to funding PFP has grown. For example, in the 2008 appropriations bill for DHS, the Senate provided only \$5 million out of the \$15 million sought for the new system. The House approved no funding, stating that money should not be spent until all pending litigation is resolved.

The Department of Defense's new personnel system is facing its own resistance in Congress. In early September 2007, the House amended the Defense appropriations bill preserving collective and appeals rights for employees. President Bush issued a veto threat. The Senate voted in favor of a bill that permitted the Pentagon to continue developing a PFP system if consistent with federal labor relations law.

As of October 30, 2007, the Defense appropriation is in conference committee. Congress approved a continuing resolution to fund the federal government through December 14, 2007, to allow more time to resolve differences of opinion.

In our view, Congress should not prohibit or scale back PFP until the current experience is evaluated with care. Regardless of what Congress and the current administration decides to do, the next administration should move to establish pay systems that penalize poor performance and reward excellent performance, facilitate dialogue with employees and unions, and extend and evaluate pilot tests of new human resources systems. A return to the GS structure is a step backward.

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