Internal Revenue Service
Pay for Performance System

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Internal Revenue Service

Pay for Performance System

Presentation Overview

- **Background and Context**

- **Performance Management Redesign**

- **Pay for Performance Implementation**

  - **Senior Manager Payband**
  - **Department Manager Payband**
  - **Front Line Manager Payband**

- **Next Steps...**

Pay for Performance System

Revised Performance Management System

- **Mandated by Congress**
  - **Integrated with Balanced Measures System**
  - **Individual goals aligned to organizational goals and objectives**
- **Implementation**
  - **Phase I: Redesign Executive and Manager Performance Management System**
  - **Phase II: Implement New Employee Performance Standards**
  - **Phase III: Design, Deploy New Performance-Based Pay System for executives and managers**
  - **Phase IV: Enhance current Performance Management System for front line employees**

Pay for Performance System

IRS Balanced Measurement System

• Provide accurate and professional services to internal and external customers in a courteous, timely manner

Customer Satisfaction

Employee Satisfaction

• Create an enabling environment for employees by providing quality leadership, adequate training, and effective support services

Business Results

• Generate a productive *quantity* of work in a *quality* manner and provide meaningful outreach to all customers

Pay for Performance System

Phase I - Redesign Executive and Manager Performance Management System

Guiding Principles:

- **Strengthen Linkage Between Performance Management, IRS Mission and Goals**

- **Shift Focus From a Single Event to Systematic Ongoing Process**

- **Change Perception From Time-Consuming Process**

- **Balancing Achievement of Results with Demonstrated Actions Taken**

Pay for Performance System

Components of Managerial Performance Management System

Executives & Managers Assessed on Two Dimensions

- **Common "Core Responsibilities"**
  - **How We Lead...**
  - **Derived From Competency Model**
  - **Values and Behaviors**
- **Individual Performance Commitments**
  - **What We Promise to Achieve**
  - **Principal Commitment: Program Plan**
  - **Additional "Customized" Commitments**
  - **Based on Balanced Measures Results**

Pay for Performance System

Responsibilities

- **Critical Performance Expectations that Deal with How the Incumbent Performs His or Her Job**

- **Reflect the Core Values of the Service**

- **Shared by All Executives and Managers**

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Executive and Manager Responsibilities

- **Leadership**

- **Employee Satisfaction**

- **Customer Satisfaction**

- **Business Results**

- **Equal Employment Opportunity**

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Commitments

- **Statements of Outcomes, Critical Actions and Objectives Expected to be Accomplished During the Rating Period**

- **Focus on <u>Individual</u> Outcomes that Support Organizational Goals**

- **Clear Timeframes for Accomplishment**

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Monitoring Progress

- **Observe and Document Behavior Throughout Performance Period**

- **Provide Feedback and Ongoing Coaching**

- **Conduct Mandatory Mid-Year Review**

- **Modify Commitments as Necessary**

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Evaluating Performance

- **Rating Cycle: Oct. 1 - Sept. 30**

- **Request Self-Assessment of Accomplishments**

- **Provide Summary Narrative Evaluation**

- **Assign Summary Evaluation Rating**
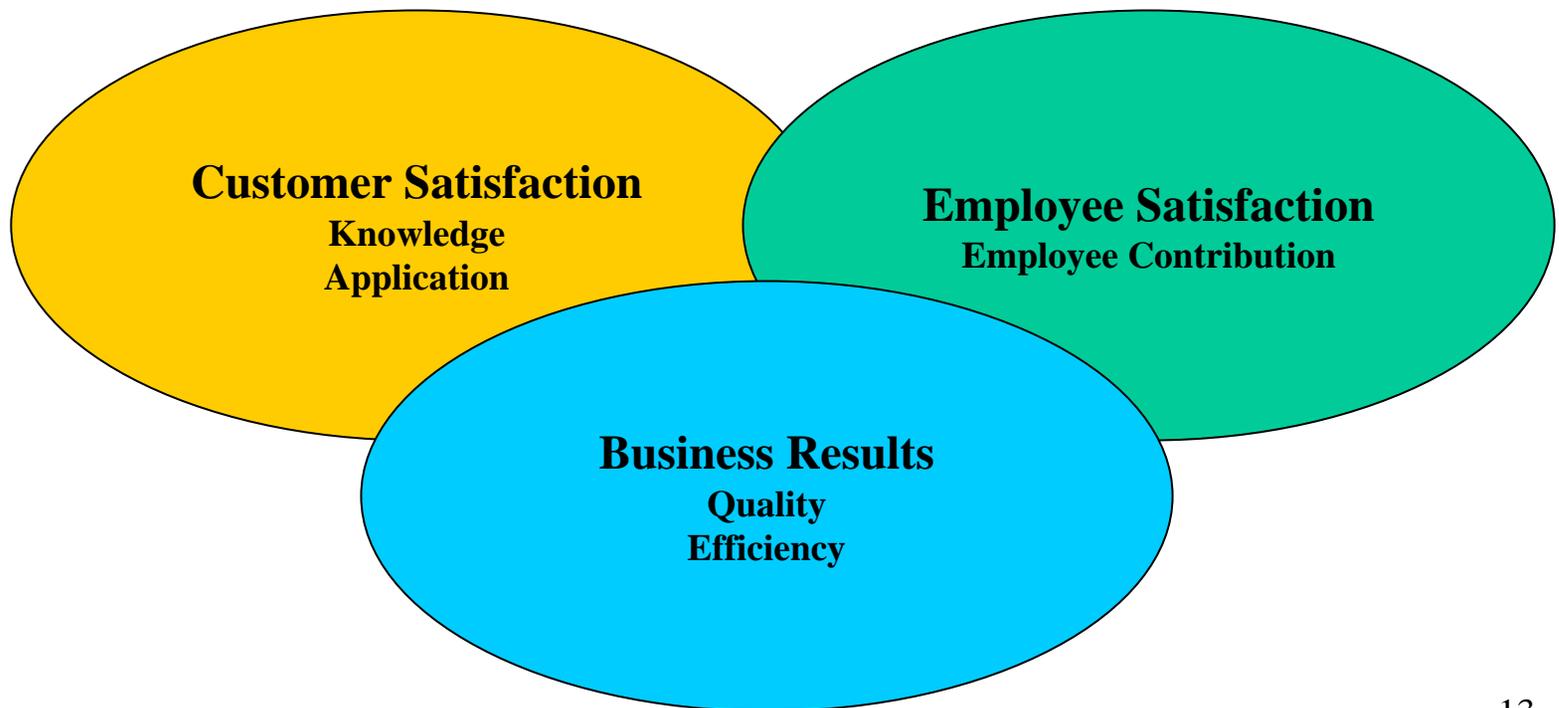
- **Conduct Performance Evaluation Meeting**

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Phase II - Implement New Employee Performance Standards

- **Align to Balanced Measures**
- **Maintain Consistency Across the IRS**
- **Partnership with NTEU**
- **Over 100,000 Employees**
- **Implemented in 2001**

Pay for Performance System

Employee Critical Job Elements Alignment with Balanced Measures

Customer Satisfaction
Knowledge
Application

Employee Satisfaction
Employee Contribution

Business Results
Quality
Efficiency

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Pay for Performance System

Critical Job Elements (CJEs)

- **<u>CJEs:</u> A number of critical actions, objectives and results expected to be accomplish during the year**

- **<u>Performance Aspects</u>: The portion of each CJE that describes the unique requirements for each occupation**

- **<u>Performance Levels:</u> The measure of performance for each CJE and aspect**

Pay for Performance System

Critical Job Elements (CJEs)

- **Standardization to 5 CJEs for All Occupations**
  - **Employee Satisfaction - Employee Contribution**
  - **Customer Satisfaction - Knowledge**
  - **Customer Satisfaction - Application**
  - **Business Results - Quality**
  - **Business Results - Efficiency**

- **Specific Aspects Tailored for Each Occupation**

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Phase III - Design, Deploy New Performance-Based Pay System for Executives and Managers

Guiding Principles

- **Base Compensation on Performance, Not Longevity**

- **The Higher the Pay, the Higher the Performance Expectations**

- **Increase Rewards for High Performance**

- **Keep Mechanics Simple**

- **Cost-neutral**

Pay for Performance System

Base Compensation on Performance…

- **Replaced GS Entitlement to Step Increases**

- **Put Base Pay Increases at Risk**

- **Provide Annual Comparability Adjustments**

- **Increase Bonus Pool Aggregate**

- **Only Top Performers Will Reach Payband Maximum**

Pay for Performance System

Two Pay Components:

- *Biennial **Base Pay** Salary Review*
  - **Allows Larger Dollar Step Increments Than GS**
  - **Increases Determined by Two Years' of Performance Ratings**
  - **Performance Review Boards Provide Oversight, Ensure Ratings Consistency and Fairness**
- *Annual **Performance Bonus***
  - **Shorter-term Focus on Performance**
  - **Provides Flexibility to Reward Highest Performers, Over and Above Minimums**
  - **Determined and paid yearly**

IRS Managerial Payband Structure
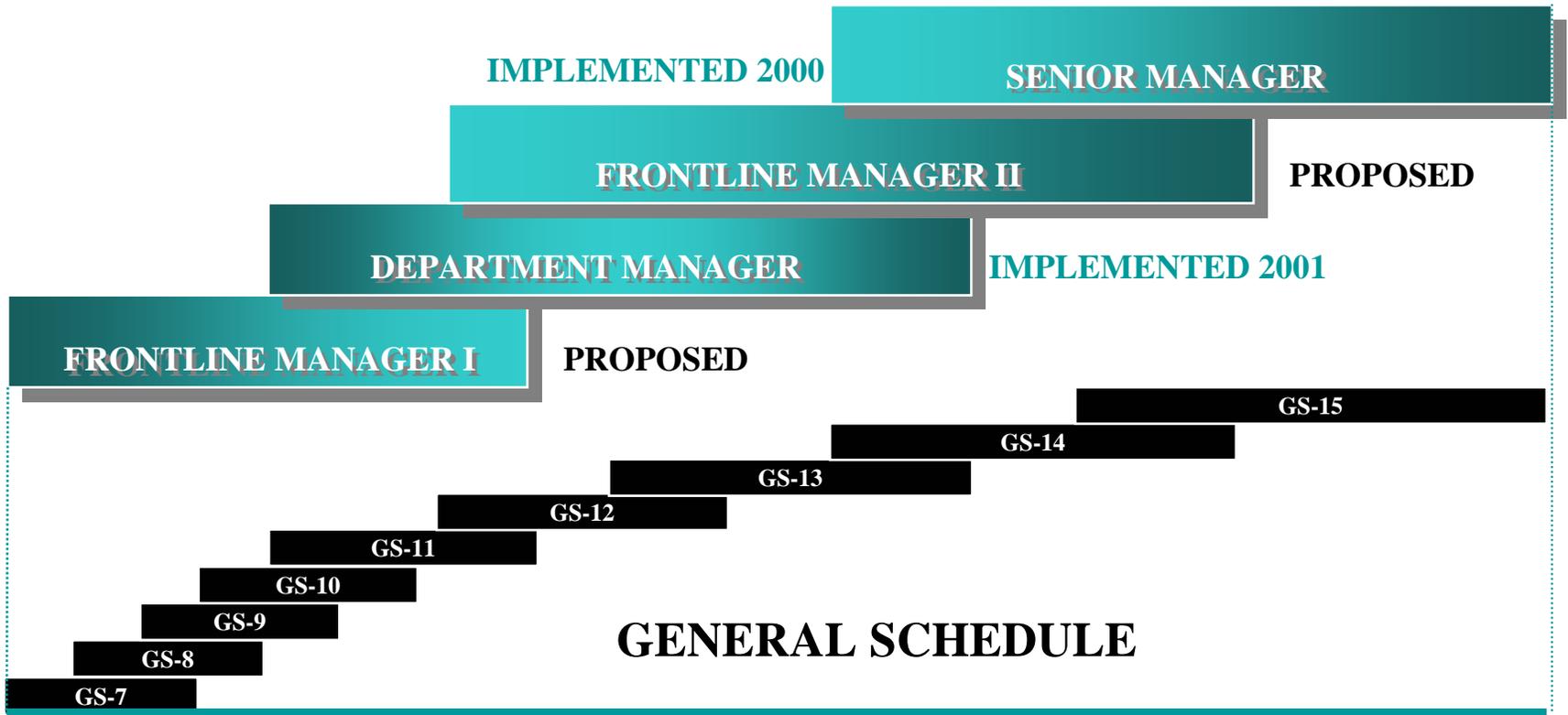
Pay for Performance System

Senior Manager Payband

- Implemented March 2001
- 1,500 Senior Managers
- Banded GS-14 and 15 Second Level Managers and First Level Managers Reporting to Executives

Department Manager Payband

- Implemented 2001
- 260 Department Managers
- Banded GS-11 to 13 Mid-Level Managers at IRS Campus Locations

- Managerial pay bands under review based on internal "lessons learned" and external factors

Pay for Performance System

Maintain Cost-Neutral Stance…

- Payband Base Pay and Bonus Compensation Budget Approximates GS Steps, QSIs, Promotions, Bonuses

- Must Make Performance Distinctions
  - Rating Point Budget System Provides Diagnostic Tool
  - 4 Points Per Employee Constitutes Rating Point Budget
    - Met Costs 2 Points
    - Exceeded Costs 4 Points
    - Outstanding Costs 6 Points

Pay for Performance System

Performance Review Boards

- Organized to review all business unit performance appraisals within each payband
- Ensures consistency and objectivity of summary evaluation ratings within the business unit
- Ensures that summary evaluation ratings are commensurate with overall organizational performance results
- Ensures that summary evaluation ratings consistently reflect similar performance across work units
- May change the recommended rating in consultation with the approving official

Pay for Performance System

Phase IV - Front Line Employees

Enhance the current Performance Management System to:

- Better differentiate between higher and lower performers
- Better distinguish the linkage of organizational goals and objectives and individual performance

Internal Revenue Service
Pay for Performance System

Proposed Enhancement Options:

- Institute Performance Culture Education to Foster Results-Oriented Environment

- Adaptation of the Performance Management System to Better Distinguish between High and Low Performers

- Establish Clear Line of Sight Between Individual Performance and Organizational Results

- Explore Automation Alternatives

AGENDA

- **US Postal Service background**

- **Operational metrics**

- **Performance evaluation process**

- **Pay distinctions**

USPS Pay-For-Performance
POSTAL BACKGROUND

- **USPS quasi-independent since 1970**

- **Business mandate to cover expenses from postal revenues, not taxes**

- **Compensation mandate to achieve comparability to private sector of US economy**

- **White collar pay-for-performance since 1996**

SYSTEM REQUIREMENTS

- **Provide nation-wide focus on results**

- **Standardized & completely objective**

- **Relatively simple**

- **Drive continuous improvement**

- **Account for differences/variability**

- **Perceived as "fair"**

TRANSFORMATION PLAN

- **Improve Service**

- **Manage Costs**

- **Enhance Performance-Based Culture**

- **Grow Revenue**

- **Pursue Legislative Change**

BALANCED SCORECARD DESIGN

- **Indicators:**

  - 10 Corporate (every position)

  - <u><</u>8 Unit (position/function specific)

- **Indicator Dimensions:**

  - Performance (target & thresholds)

  - Weight

  - Depth of Measurement

- **Summary Score (weighted average)**

CORPORATE INDICATORS

- **Improve On-Time Service Performance**
  - **Priority Mail**
  - **Express Mail**
  - **First Class Mail**
- **Enhance a Performance-Based Culture**
  - **Safety (OSHA Injury & Illness Rate)**
  - **Voice of the Employee (VOE) Survey**
- **Generate Revenue**
  - **Total National Revenue**
- **Manage Costs**
  - **Total Factor Productivity**

CORPORATE INDICATOR TARGETS

- **Set at corporate level annually**

- **Fairly consistent from year to year**

- **Measured at national/area/cluster level**

- **Specific performance number <u>or</u>**

- **"Better than last year" <u>or</u>**

- **Improvement over corporate plan**

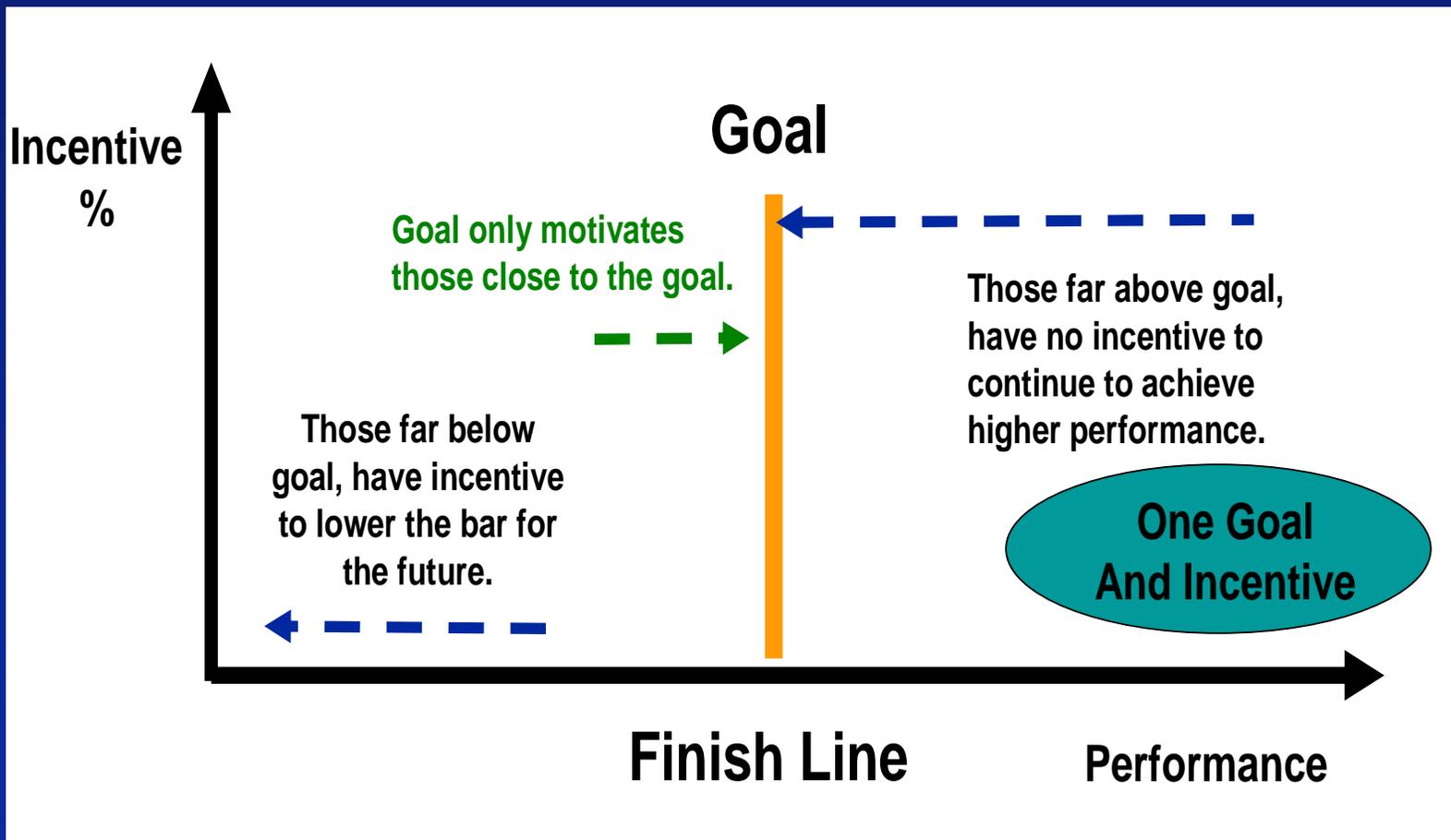- **Target is the same for all participants**

CORPORATE INDICATOR WEIGHTS

- **Set at corporate level annually**

- **Emphasize corporate priorities (emphasis shifts from year to year)**

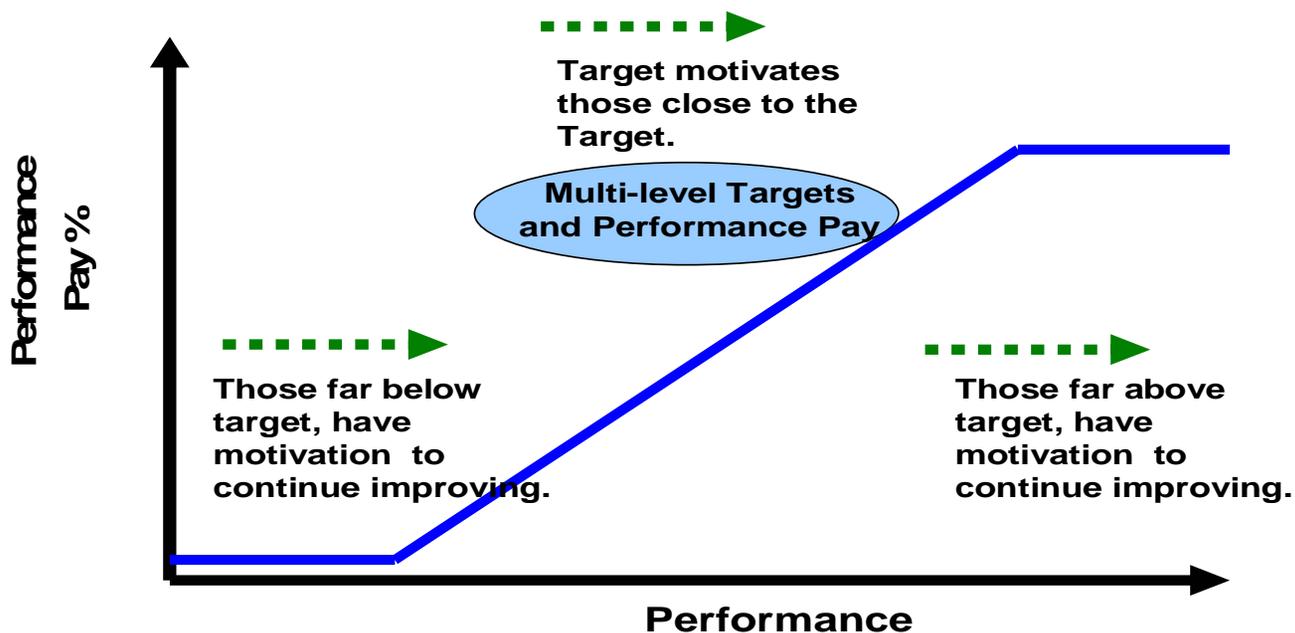- **Relative weights are the same for all**

FINISH LINE MENTALITY

Incentive %

Goal

Goal only motivates those close to the goal.

Those far above goal, have no incentive to continue to achieve higher performance.

Those far below goal, have incentive to lower the bar for the future.

One Goal And Incentive

Finish Line

Performance

NEW STRATEGIC DIRECTION

No finish line in sight…

Target motivates those close to the Target.

Multi-level Targets and Performance Pay

Those far below target, have motivation to continue improving.

Those far above target, have motivation to continue improving.

Performance Pay %

Performance

NATIONAL PERFORMANCE ASSESSMENT (NPA)
15 CELL MATRIX

CLUSTER FREQUENCY AP09FY03YTD
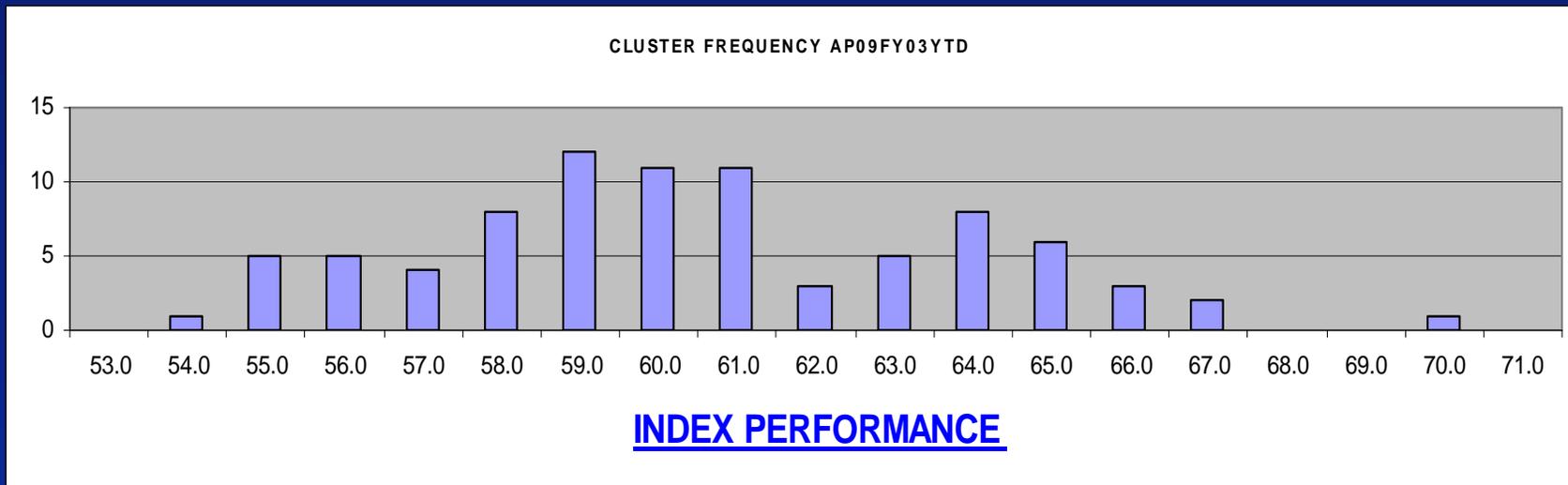
INDEX PERFORMANCE

Indicator: "Voice of the Employee" Survey

Non-Contributor			Contributor						High Contributor			Exceptional Contributor		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
52.1	53.5	54.9	57.1	59.3	61.2	62.3	63.7	65.2	66.6	68.0	69.5	70.9	72.3	73.7

NATIONAL PERFORMANCE ASSESSMENT (NPA)
CORPORATE INDICATOR MATRIX

INDICATORS	WEIGHT	Non-Contributor			Contributor						High Contributor			Excep. Contributor		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Priority Surface	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
Priority Air	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
Express Mail	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
Overnight	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
Two-Day	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
Three-Day	10.0%	90.0	91.0	92.0	93.0	94.0	**95.0**	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	99.5
OSHA I&I Rate	10.0%	5.5	5.4	5.3	5.2	5.1	**5.0**	4.9	4.8	4.7	4.6	4.5	4.4	4.3	4.2	4.1
OSHA I&I %SPLY		1.0	0.8	0.6	0.4	0.2	**0.0**	-0.2	-0.4	-0.6	-0.8	-1.0	-1.2	-1.4	-1.6	-1.8
VOE Survey Index	10.0%	67.5	68.0	68.5	69.0	69.5	**70.0**	70.5	71.0	71.5	72.0	72.5	73.0	73.5	74.0	74.5
VOE %Baseline		-2.5	-2.0	-1.5	-1.0	-0.5	**0.0**	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5
Total National Revenue	10.0%	-0.70	-0.50	-0.30	**0.00**	0.30	1.00	1.25	1.50	1.75	2.00	2.30	2.60	3.00	4.00	5.00
Total Factor Productivity	10.0%	-0.60	-0.50	-0.40	-0.30	-0.10	**0.00**	0.20	0.40	0.60	0.90	1.20	1.50	2.00	2.25	2.50
	100.0%															

NOTE: all targets, weights, and thresholds on this page are for illustration purposes only and do not represent the actual goals of the USPS

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UNIT INDICATORS

- **Support Corporate indicators**

- **Set by HQ & Field officers**

- **More actionable at the local level**

- **Differentiate individuals' contribution**

- **Specific to the unit's organizational function:**

Mail Processing	**Delivery**
Finance	**Marketing & Sales**
Retail	**etc.**

WEIGHTS: CORPORATE vs. UNIT

LINE OF SIGHT

FISCAL YEAR 2004 RESULTS (YTD)

- **Broke last year's record for overnight service performance**

- **OSHA I&I rate 15% lower than last year**

- **Maintaining good employee satisfaction rates**

- **Total Factor Productivity even higher than last year's phenomenal rates**

PERFORMANCE EVALUATION PROCESS
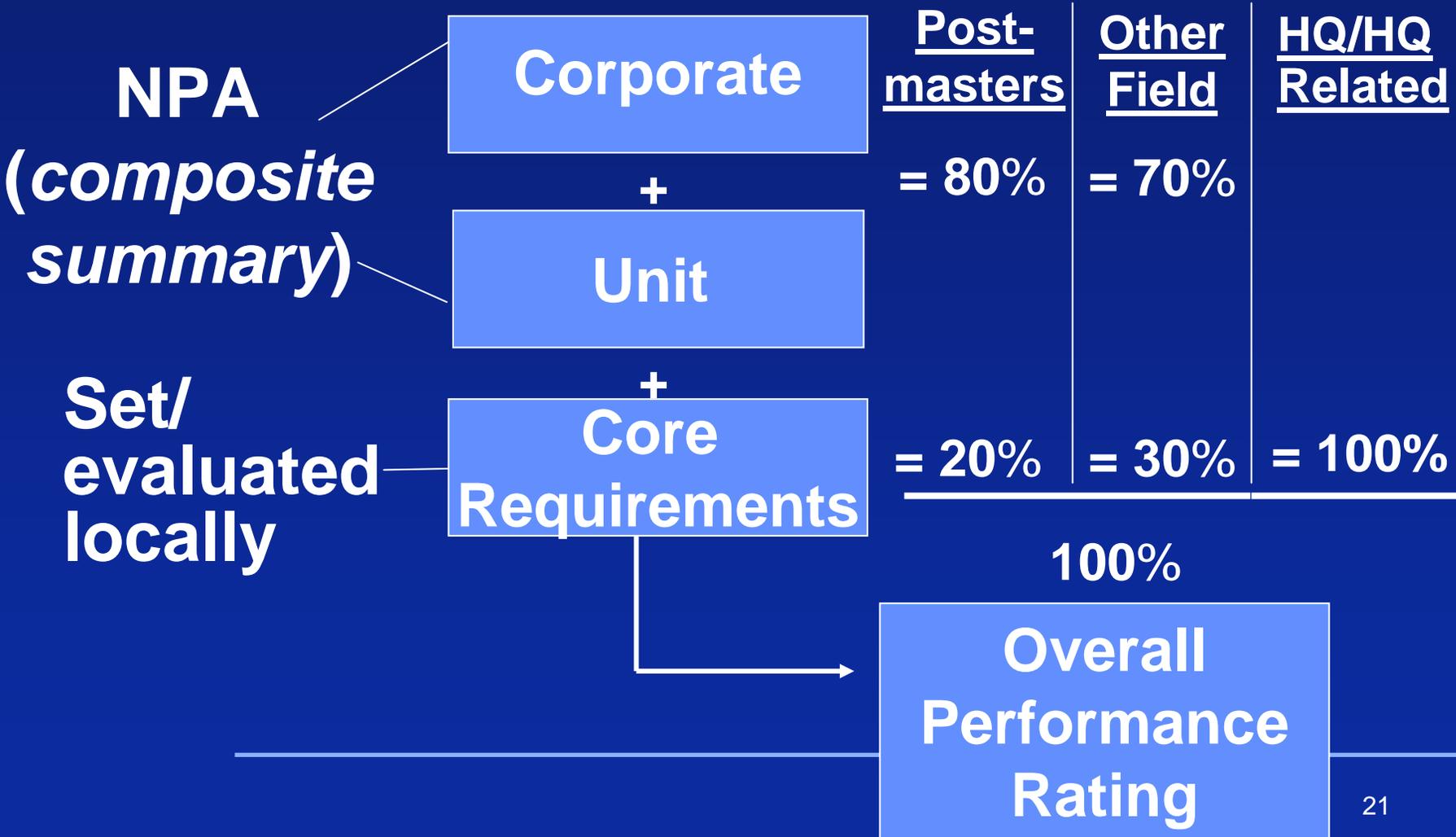
EVALUATION PROCESS

CORE REQUIREMENTS

- **Set by employee and evaluator**
- **Target performance set at Contributor**
- **Aligned to functional/organizational focus**
- **Creates focus on individual results**
- **Allows evaluator to set expectations and target outcomes**
- **Must be measurable**

EVALUATION PROCESS
HQ RATING RULES

Non Contr	Contributor		High Contr	Excep Contr
3	6	9	12	15
2	5	8	11	14
1	4	7	10	13

- **Avg. of HQ ratings $\leq$ EOY corporate NPA**
- **Avg. of function's performance ratings $\leq$ VP's functional score**
- **One numeric rating against 4 core requirements**

PERFORMANCE FUNDAMENTALS

- **Performance evaluation phases:**
  - ➜ **Objective Setting**
  - ➜ **Mid-Year Review**
  - ➜ **End-of-Year Evaluation**
  - ➜ **Rating**

- **Performance components are defined**

- **Distinctions in performance form the basis of compensation decisions.**

EVALUATION PROCESS
OBJECTIVE SETTING

- **Objective-setting process must be interactive**

- **Evaluator responsibilities:**
  - **Plans unit's direction and focus**
  - **Knows historical results/trends**
  - **Considers unit employees' line of sight**

EVALUATION PROCESS

MID-YEAR PERFORMANCE REVIEW

- **Employee documents contributions toward core requirements**

- **Evaluator conducts mid-year performance review discussion**

- **Evaluator provides specific feedback on performance with employee**

- **Evaluator <u>MUST conduct review</u> for every employee**

EVALUATION PROCESS

END-OF-YEAR EVALUATION

- **Employee documents contributions toward core requirements**

- **Evaluator reviews accomplishments**

- **Evaluator conducts end-of year discussion**

- **Evaluator provides specific feedback on employee's performance**

No one discusses ratings at this time!

EVALUATION PROCESS
ADMINISTRATIVE RULES

- **Evaluator must conduct performance reviews and ratings – must document**

- **One point reduction may be imposed on evaluator who fails to complete process**

File   Edit   View   Favorites   Tools   Help

Back | Search   Favorites   Media

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UNITED STATES POSTAL SERVICE®

Performance Evaluation System

.::: PLEASE NOTE – You Are Currently in Fiscal Year 2004 Objectives :::.

Home | Change Fiscal Year | Logout

Welcome to the Performance Evaluation System

Calendar of Required Actions

◉ Objective Setting Process

Approve objectives (or whatever text is supplied)

◉ Mid-Year Process

Perform mid-year reviews and enter the date of mid-year discussions.

◉ End-of-Year Process

Perform end-of-year reviews and enter the date of end-of-year discussions.

◉ Rating Process

| Perform Rating Actions for Executives |
| Perform Rating Actions for EAS |

Provide end-of-year ratings, ...ngs.

◉ Reports

Print out reports for objectives and accomplishments.

◉ Manage Your Profile

Set your email address and phone number.

July 2004						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

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Back | Search | Favorites | Media

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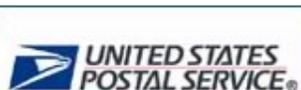
Performance Evaluation System

Home | Logout | Change Fiscal Year

End of Year Ratings for Executives - Fiscal Year 2004 - Required Actions

[View as Hierarchy]

Provide Ratings and comments

You will need to provide a rating for all your direct reports. As you provide ratings to your direct reports the average will be calculated in the current functional average box. You may be under or equal to your functional average. You cannot exceed your functional average.

You may change or add comments to a recommended rating for any employee within your organization. To access other employees in your organization click on the employee's name who has direct reports within your organization.

Ratings that have been provided to employees who report to your direct reports will not affect your Functional Average. (or something like that)

Functional Average Cap	10

Running Functional Average	0

Executives

Name	Overall Rating	Actions		
William Doe	N/A	Enter/Edit Rating	Exclude From Rating	No Rating
Cheryl Doe	N/A	Enter/Edit Rating	Exclude From Rating	No Rating
Janice Doe	N/A	Enter/Edit Rating	Exclude From Rating	No Rating

Perform Required Actions

Below you will find a list of direct reports and the employees that report to them for which you have a required action in the performance evaluation process. In many cases

Start | PESstoryboards | EOY | Inbox - Micro... | USPS | Perf... | UseCases | PES UC EOY ... | 5:44 AM

File   Edit   View   Favorites   Tools   Help

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Mid-year accomplishments: Accomplishments entered by executive - executive MM/DD/YYYY

Mid-year review comments: Comments - Evaluator name MM/DD/YYYY

End-of-year accomplishments: Accomplishments entered by executive - executive MM/DD/YYYY

End-of-year review comments: Comments - Evaluator name MM/DD/YYYY

Objective	Target to Be Measuerd	Trackable System	Target Performance Outcome
Develop workforce repositioning strategies that provide alternatives to reduction in force.	Utilize repositioning strategies in 85% of the competitive areas that require adjustments to complement	Workforce Complement monitoring in various competitive areas.	85% of the competitive areas use alternative repositioning strategies.

Objective approval comments: Comments - Evaluator name MM/DD/YYYY

Mid-year accomplishments: Accomplishments entered by executive - executive MM/DD/YYYY

Mid-year review comments: Comments - Evaluator name MM/DD/YYYY

End-of-year accomplishments: Accomplishments entered by executive - executive MM/DD/YYYY

End-of-year review comments: Comments - Evaluator name MM/DD/YYYY

Rate the above objectives (place mouse over adjective rating to view rating standard)

Non-contributor	Contributor	High Contributor	Exeptional Contributor
○ 1 ○ 2 ○ 3	○ 4 ○ 5 ○ 6 ○ 7 ○ 8 ○ 9	○ 10 ○ 11 ○ 12	○ 13 ○ 14 ○ 15

Rating Comments

[Save Rating]   [Save and Finish Later]   [Return to Previous Screen]

Home | **Terms and Definitions** | **Process Flow**

EVALUATION PROCESS
FY 2004 STATUS

- **Almost 75,000 midyears conducted and documented in system – 100% compliance**

- **End of year evaluation begins October 1**

- **Objective-setting for FY 2005 begins October 1**

PAY DISTINCTIONS

RECAP OF EVALUATION CALCULATION

Factors	Wgt	Non-C			Contributor						High C			Excep C		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
NPA	80%								X							
Core Req	20%					X										
Final Rating	100%							X								

15-POINT EVALUATION SYSTEM

NC	C		HC	EC
3	6	9	12	15
2	5	8	11	14
1	4	7	10	13

PAY DISTINCTIONS
EXECUTIVE SALARY INCREASES

Salary Below Maximum	Range of Increases by Performance Rating				
	NC	C		HC	EC
	1, 2, 3	4, 5, 6	7, 8, 9	10, 11, 12	13, 14, 15
At or above	0%	0%	0%	0%	0%
0.1% to 9.9%	0%	3%	4%	6%	8%
10% to 19.9%	0%	3%	6%	8%	10%
20% to 29.9%	0%	5%	8%	10%	12%
30% or more	0%	7%	10%	12%	14%

PAY DISTINCTIONS
EXECUTIVE LUMP SUM PAYMENTS

NC	C			HC	EC
3 0%	6 3%	9 6%		12 10%	15 15%
2 0%	5 2%	8 5%		11 9%	14 13%
1 0%	4 1%	7 4%		10 8%	13 12%

NON-EXECUTIVE PAY ACTIONS

NC	C		HC	EC
3 0%	6 3.5%	9 6.5%	12 9.5%	15 12%
2 0%	5 3%	8 5.75%	11 8.75%	14 11%
1 0%	4 2.5%	7 5%	10 8%	13 10.25%

Paid as salary increase up to grade maximum; balance as lump sum.