

## **3 FAH-2 H-200 FOREIGN SERVICE NATIONAL COMPENSATION**

*(TL:FSNH-025; 08-01-2003)  
(Office of Origin DIR)*

### **3 FAH-2 H-210 GENERAL**

#### **3 FAH-2 H-211 PURPOSE**

*(TL:FSNH-025; 08-01-2003)  
(Uniform State/AID/USIA/Commerce/Agriculture)*

The Foreign Service National Compensation (FSNC) chapter of the Foreign Service National Handbook (FSNH) provides instructions to all posts on the conduct of local salary and benefit surveys and the development of local compensation plans (LCP's) for all Foreign Service National employees (FSN's) and foreign national Personal Services Contractors (PSC's).

See 3 FAM 7310 for requirement adherence to these procedures; thus these procedures are not just guidelines but are mandatory. Posts, HR/FSN, parent bureaus or affected agencies may not use other methods of revising local compensation plans or modifications of the instructions contained herein without prior Washington approval. Posts or affected agencies must submit requests for approval of alternative methods or modifications to the Department, Office of Foreign Service National Personnel (HR/FSN), for interagency review and approval.

These procedures apply to the Foreign Affairs Agencies and other agencies who are signatories to the LCP and thus are interagency procedures. These agencies develop these procedures by consensus among the affected agencies represented at the Interagency FSN Personnel Policy Coordinating Committee.

This Chapter of the FSN Handbook provides the procedures for measuring and adjusting compensation, both pay and benefits. Unlike the private sector wherein a personnel manager can do whatever is needed to retain qualified personnel unless prevented by law, Federal managers at a US Mission in any country have no authority to set and adjust FSN pay or benefits unless authorized by the Executive Director of the pertinent regional bureau in State Department for the pay schedule or by HR/FSN for benefits. (See 3 FAM 7313.2 and 3 FAM 7313.3.) This chapter of the handbook contains the authorized procedures to set and adjust FSN compensation in five parts as follows:

Subchapter 3 FAH-2 H-210 General—general information inclusive of the compensation philosophy and principles,

Subchapter 3 FAH-2 H-220 Development of a Local Compensation Plan—procedures for developing or reconstructing a completely new LCP,

Subchapter 3 FAH-2 H-230 Revisions of a Local Compensation Plan—procedures for periodically revising or updating various parts of a LCP,

Subchapter 3 FAH-2 H-240 Exception Rate Ranges, and

Subchapter 3 FAH-2 H-250 FSN-13 Exception Grade Procedures.

Subchapter 3 FAH-2 H-220 is primarily for use of *HR/FSN* and contractors. Subchapters 3 FAH-2 H-230, 3 FAH-2 H-240, and 3 FAH-2 H-250 are primarily for use by the administrative or personnel officers at posts.

## **3 FAH-2 H-212 BASIC COMPENSATION AUTHORITY**

*(TL:FSNH-25; 08-01-2003)*  
*(Uniform State/AID/USIA/Commerce/Agriculture)*

### **A. STATE**

Section 408 (a) (1) of the Foreign Service Act of 1980 prescribes: "The Secretary shall establish compensation (including position classification) plans for foreign national employees of the Service. To the extent consistent with the public interest, each compensation plan shall be based upon prevailing wage rates and compensation practices (including participation in local social security plans) for corresponding types of positions in the locality of employment"

### **B. OTHER US GOVERNMENT AGENCIES**

Section 408 (b) of the Foreign Service Act of 1980 prescribes: "For the purpose of performing functions abroad, any agency or other Government establishment (including any establishment in the legislative or judicial branch) may administer employment programs for its employees who are foreign nationals ... in accordance with the applicable provisions of the Act."

### **C. INTERAGENCY COOPERATION**

Section 204 of the Foreign Service Act of 1980 prescribes: "Where feasible, the Secretary of State shall encourage (in consultation with the other heads of such agencies) the development of uniform policies and procedures and consolidated personnel functions."

All U.S. Government (USG) agencies at a post should work together in developing uniform policies and procedures relative to FSN compensation. In furtherance of this goal, State, AID, USIA, USDA/FAS, USDOC/FCS, Peace Corps and DOD have concluded an agreement regarding the development of local compensation plans (3 FAM 931 Exhibit 931.2). Agencies not covered by the interagency memorandum of agreement should actively participate in the development of FSN compensation policies and revised local compensation plans at the field level. All agencies which voluntarily use the mission's local compensation plan should sign any revised local compensation plan. The mission should promote the concept of the U.S. Government as a single employer whenever possible. In fostering interagency cooperation in Washington, this Chapter is a joint issuance of State, AID, USIA, USDA/FAS, USDOC/FCS, Peace Corps and designated units of DOD.

## **D. LOCAL LAW**

Posts must adhere to local labor, employment and social security laws to the maximum extent practicable in matters that affect FSN's. Posts may be able to claim sovereign immunity in local courts but the USG (Department of Justice) has declined in the past to claim this immunity unless the case interferes with the USG's ability to manage a US mission. Employing non-US citizens outside the US is generally viewed as a commercial (not diplomatic) activity that is subject to local law.

## **E. DELEGATIONS OF AUTHORITY**

### **1. STATE, AID, USIA, USDA/FAS, USDOC/FCS, Peace Corps and designated units of DOD**

Appropriate headquarters agency offices as specified in 3 FAM 7313 and 7314 determine the extent to which Washington review of a mission's administration of its FSN compensation program is required. For example, an agency headquarters office may require submission and prior approval of proposed local salary schedule revisions and supporting salary survey data.

The ranking officer of State, AID, USIA, USDA/FAS, USDOC, Peace Corps and designated units of DOD establishments in each country, or this officer's designated representative, is delegated authority to administer the FSN compensation programs as authorized for all posts under this officer's jurisdiction. Such administration, however, must be within the framework of the interagency memorandum of agreement in 3 FAM 7300 , and any other instructions issued under authority of the above paragraph. To administer means to carry out whatever has been authorized. It does not mean to establish or to authorize a plan or changes thereto.

## **2. Other U.S. Government Agencies**

An agency which has not signed the interagency memorandum of agreement shown in 3 FAM H-931 Exhibit H-931.2 may or may not have similar delegations of authority to those cited in paragraph 1 above. Individual agency issuances therefore are applicable.

## **F. HR/FSN**

*HR/FSN* is the service organization within State Department that coordinates and manages the policies and procedures affecting FSN compensation. This office has no control over budgets or resources for surveys. Any resulting adjustments to FSN compensation remain the responsibilities of offices cited in 3 FAM 7313 and 7314 .

Thus, *HR/FSN* evaluates and recommends actions to be taken, i.e. the technical oversight. The Regional Bureaus within State and other agencies fund actual payments and increases and indicate their ability and willingness to do so in the clearance process. The affected posts implement the results that have been authorized by either the Executive Director or *HR/FSN* and approved by affected agencies.

## **3 FAH-2 H-213 DEFINITIONS**

*(TL:FSNH-025; 08-01-2003)*

*(Uniform State/AID/USIA/Commerce/Agriculture)*

a. **Allowance**—a periodic benefit payment that occurs every pay period (sometimes labeled as a bonus).

b. **Basic Salary Rate**—the annual salary paid for work during basic workweek hours, exclusive of all allowances, premium pay, bonuses, and other benefits. Sometimes the Basic Salary Rate may be called the Adjusted Basic Rate particularly if it includes monetized benefits. Monetized benefits are adjustments added to basic rates as discussed in section 3 FAH-2 H-226 B. These terms Basic Rate and Adjusted Basic Rate are quite specific and different from any others in use by posts, particularly those used to indicate some combination of base pay plus allowances or bonuses, such as, Total Compensation, or Gross Salary. Basic salary rates are the direct cash payments for hours of work in the basic workweek.

c. **Bonus**—a benefit payment that occurs on a specified date or dates, e.g., a Christmas bonus paid in pay period 23, or a vacation bonus paid in pay periods 10 and 25.

d. **Direct Benefit Payment**—a separate payment in addition to the employee's basic salary rate which is made either (1) directly to the employee or (2) to an organization or entity on the employee's behalf, for example, the host government social security system.

e. **Foreign Service Nationals**—all non-US citizens directly hired by the US Mission whether full or part time, intermittent or temporary and inclusive of third country nationals and "expatriates" (third country citizens who are part of the local labor market). This designation is exclusive of official residence employees (ORE's), American family members (AFM's), US citizens, DOD employees covered by a status of forces agreement, Consular Agents, and non-US citizen employees of agencies with separate authorities such as the American Battle Monuments Commission or FBIS who have not administratively adopted the FSN system. (Please note: the term "expatriate" as used in the private sector generically refers to an employee sent out of country to work for a company identified as being from the same country of origin as the employee. Using any nationality here, Greek citizens working overseas in Greek firms would be known as Greek expatriates.)

f. **Grade or Grade Level**—a defined level of difficulty of job duties, responsibilities and qualification requirements that have a corresponding salary range in the local compensation plan.

g. **Local Compensation Plan (LCP)**—a document that contains the local salary schedule of pay rates, statements authorizing separate benefit payments, hours of work, premium pay rates, eligibility and other pertinent facets of compensation applicable to FSN's inclusive of conditions of work.

h. **Maximum Salary Rate**—the highest salary rate or step of the salary range for a grade in the local compensation plan.

i. **Minimum Salary Rate**—the lowest salary rate or step of the salary range for a grade in the local compensation plan that is normally or regularly used as an in-hire rate for the first full year of employment. Posts may use higher steps for advanced in-hiring to recognize higher qualifications (education or experience) that an applicant brings to the job or to recognize a previous salary rate. However, using advanced in-hiring rates must be carefully determined to avoid discrimination.

j. **Personal Services Contractors**—individuals having a contract with the USG for the performance only by that individual of personal services, thereby establishing an employer-employee relationship between the USG and the individual.

k. **Premium Pay**—additional compensation provided for overtime, holiday, specific day and night (differential) work and possibly for standby or on call duty status. Definitions for each of these will vary by country based on prevailing practice.

l. **Salary Range**—the range of basic salary rates from the minimum to the maximum rate (paragraphs H and I, above) for a grade. It is characterized as a percentage that can be determined by dividing the maximum rate by the minimum rate and subtracting one.

m. **Salary Schedule**—that part of the local compensation plan (g, above) showing annual basic salary rates by grade level.

n. **Step Rate**—a specified basic salary rate within the salary range for a grade.

o. **Survey Job**—a position described in the FSN Handbook, Chapter 2 FSN Compensation, 3 FAH-2 H-200 Appendix A, or added by post (section 3 FAH-2 H-223 A) which is designated for comparison with similar positions of local employers surveyed. This comparison is made in order to obtain the going rates of pay and benefits for levels of work as defined in the FSN Classification System.

p. **Within Grade Increase (WGI)**—the fixed amount that is the difference between step rates, that is, the amount of increase between each successive step, the increment.

### **3 FAH-2 H-214 COMPENSATION PHILOSOPHY**

*(TL:FSNH-1; 9-25-91)*

*(Uniform State/AID/USIA/Commerce/Agriculture)*

The primary objective of compensation is to enable Federal agencies to recruit, retain and motivate high quality FSN employees for long-term continued employment with USG agencies under conditions which fully support USG and individual agency objectives in each country. The USG pursues this goal by measuring total compensation levels and achieving comparability with employers in each country who are similar to the USG or with whom the Federal agencies must compete for a similar quality of employee. Criteria for assessing comparability are set forth in section 224B.

#### **A. TOTAL COMPENSATION COMPARABILITY**

The Foreign Service Act requires application of a total remuneration system which includes cash compensation (such as base pay, bonus, allowances, overtime) and other benefits (such as vacation, disability leave, holidays, conditions of work, medical-life-retirement insurance, severance pay) if locally prevailing. The mix of cash and other benefits may differ from prevailing levels, but the bottom line total value to the employee will generally be comparable to the total in prevailing practice. FSN's can thus expect to receive levels of total compensation equivalent to what their counterparts in the local labor market can expect to receive for the same level of work. The mix of cash and benefits and the overall structure of the local compensation plan must also ensure the American managers at a Mission can effectively recruit, retain and motivate FSN's and PSC's. Any compensation feature that exists among at least 40 percent of the surveyed firms will be separately provided to FSN's to the extent practicable. Benefits or cash items not separately provided to FSN's but which are significant among some of the surveyed employers will be monetized and included in the base pay or in a separate comprehensive benefit allowance.

#### **B. DEVIATIONS FROM PREVAILING PRACTICE**

Local compensation plans will have the following features regardless of prevailing practice in order to facilitate cost effective internal management of personnel that is consistent with the public interest:

1. A prescribed number of increments (step rates) within the pay range for each level of work (grade) to be achieved on the basis of performance and length of service;
2. Basic workweek hours (a tour of duty) which will usually vary from those typical among the survey companies;

3. A precedence of internal equity (the ranking of the importance to the USG of work performed into 12 regular levels called grades) over external equity (the going rates measured in the labor market) with the possibility of exceptions for certain types of jobs or groups of types. (Certain types of jobs are given higher priority by the US Government than by private enterprise. Such jobs will as a result receive higher levels of compensation than jobs given less priority or ranking. Administrators should note that in classifying a job to a specific grade level, they are determining the pay level for that job. However, they must ensure the proper grade level first and then see if the resulting pay is adequate. If the resulting pay is not adequate for recruiting, retaining or motivating employees, it is then necessary to pursue an exception. The reverse is not a valid approach, i.e., to determine the pay rate necessary and then to find the grade level (classification) that provides that rate of pay.);

4. Exclusion of prevailing practices that are based on race, color, creed, sex or age discrimination. Exceptions may be warranted when required in local benefit plans, such as age or sex distinctions for retirement eligibility in prevailing practice;

5. Use of market basket measures and U.S. dollar denominated compensation when an economic crisis exists in country wherein prevailing practice cannot be measured and as a result of the crisis the operation of the US mission is hampered;

6. Conditions of work necessary to manage the work flow of a Mission, such as, work scheduling or language requirements (see section 3 FAH-2 H-227 C17 and 3 FAH-2 H-225 B); and

7. Adjustments for compensation losses due to implementation delays during periods of high inflation.

## **C. PERSONAL SERVICES CONTRACTORS**

The terms of personal services contracts (PSC's) will conform to the conditions of employment for direct-hire FSN employees insofar as possible. Compensation, that is, pay and benefits provided to PSC personnel, will be determined by guidelines, policies and standards contained in Chapter 3, Foreign Service National Position Classification (FSNPC), and paid in accordance with the compensation provisions for the appropriate grade and step of the local compensation plan. Throughout this part of the handbook for FSN compensation, any reference to FSN's or employees will include or apply to both FSN's and PSC's.



## **3 FAH-2 H-215 SURVEYS OF PREVAILING PRACTICE**

*(TL:FSNH-025; 08-01-2003)*

*(Uniform State/AID/USIA/Commerce/Agriculture)*

### **A. INITIAL SALARY SURVEY AND COMPENSATION PLAN**

Until the first survey, a new post may develop an interim local compensation plan based on general knowledge of local salary levels and compensation practices for a significant competitor in the area. If this is impracticable, post may use the local compensation plan of a neighboring post as a temporary expedient, if considered appropriate. Post must develop a salary schedule using the guidelines in Subchapter 3 FAH-2 H-220 before any salary payments are made.

### **B. UPDATING LOCAL COMPENSATION PLANS**

To help ensure that FSN's are appropriately compensated, each post must at least annually measure prevailing pay practice. A post may also measure benefits if benefits are significantly changing. Mission personnel should obtain the annual measures. Posts may consider using private contractors or local consultants approved by *HR/FSN*, headquarters agency personnel, or a combination of the foregoing. The decision as to whether a mission, contractors, or other headquarters personnel are to conduct the survey is the responsibility of those officials cited in 3 FAM 7313 or in the specified guidelines for each type of survey.

In determining the need and timing for a survey, a mission should be alert to indications of possible deficiencies in the post's compensation plan. Unusually high or recent changes in personnel turnover, difficulty in recruitment of qualified employees in an area where such employees are generally available, economic or labor reports indicating significant compensation changes, and changes in local laws affecting salaries or benefits may indicate a post should update its local compensation plan.

Posts may use any of the following means to measure prevailing practice under procedures described in subsequent sections:

1. **Full salary and benefits surveys**—a complete new measure of all features of compensation at which time new companies may generally be added or current companies dropped and post's internal equity checked;

2. **Salary change survey**—the normal annual update of basic salary rates at which time significant benefits that are also changing may be updated;

3. **Spot check**—a quick, easy but potentially inaccurate measure of across the board pay adjustments. (This technique is useful during periods of high inflation/devaluation.);

4. **Government decrees**—adjustments mandated by the host government or strongly suggested with the effect that all or most companies comply;

5. **Indexes**—appropriate measures of salary movement used by a post's comparator firms (not measures of cost of living changes based on the prices for a market basket of goods);

6. **Other prevailing practice procedures**—can include survey company use of cost of living indexes or other formula approaches to setting pay including hard currency payments or dollar denomination of pay;

7. **Emergency increases**—adjustments predicated on rapid salary movement that usually occurs during the periods of hyperinflation/devaluation. This method is best used when post does not have the time to conduct a measure of salary movement;

8. **Market basket surveys**—a measure of the local cost of a subsistence basket of goods necessary for FSN's to survive in an economic crisis when measures of prevailing compensation practice are not available or cannot be obtained. This measure is used to establish a minimum wage for FSN's out of which PER/FSN constructs a salary schedule using the characteristics described in 3 FAH-2 H-216 .

## C. PARTICIPATION OF FSN'S IN SURVEY

Selected FSN's from the various mission elements may assist in the various steps in the survey process to the extent deemed practicable by the mission. Close supervision and review of FSN input must be maintained by a US officer. A mission may wish to train an FSN employee in salary survey techniques to assist in the conduct of surveys throughout the country. However, a US officer or contractor should always be the primary data collector. At minimum, post should not permit FSN's to collect data from local employers without the presence of a US officer. Experience has shown that, in some areas, employers may be reluctant to give confidential information to a US officer is accompanied by an FSN employee. Where FSN participation is minimal due to local circumstances, the mission should substantially increase its briefings of FSN's on survey procedures and findings.

It is emphasized that responsibility for the conduct of the salary survey rests with the US officer, normally the post's administrative or personnel officer. The responsible US officer should participate fully in each phase of the survey.

When the mission has subordinate posts, FSN representatives from those posts should also participate in the survey process to the extent deemed practicable.

## **D. APPROVAL OF LOCAL SALARY SURVEY RESULTS**

See 3 FAM 931.3-2 for the authority to authorize salary schedule revisions to the Executive Director of respective Regional Bureaus in State Department.

See 3 FAM 931.3-3 for the authority to authorize benefit revisions to Bureau of Personnel in State Department. *HR/FSN* carries out this function within this Bureau.

See 3 FAM 931.4 for the authority to approve local compensation plan revisions resulting from a survey to headquarters offices. *HR/FSN* coordinates this approval process in an authorizing cable that all affected agencies represented at the Interagency FSN Personnel Policy Coordinating Committee must clear. Those offices may delegate the authority to missions to the extent deemed practicable.

## **3 FAH-2 H-216 STRUCTURE OF A SALARY SCHEDULE**

*(TL:FSNH-1; 9-25-91)*  
*(Uniform State/AID/USIA/Commerce/Agriculture)*

Using data from a group of comparable survey companies within the commuting area of a US Mission, *HR/FSN* develops parameters for local salary schedules that have the following characteristics:

- a. Entry level rates will be the basis for constructing the lowest entry-level rates (step 1) for each grade level;
- b. If available, average rates of incumbents in jobs matched will be the basis for constructing the middle rate within the salary range for each grade level or for constructing a rate corresponding to the same position in the salary range (step rate) that can be reached among the the survey companies in the approximate same amount of time by FSN employees, i.e., years of service;

c. A minimum of a 10 percent difference in pay will exist between grades measured at the entry level (step 1) for each grade unless prevailing practice indicates a significantly different pattern is warranted;

d. Salary ranges for each grade level usually will be based on prevailing practice and usually will have at least 30 percent difference between the minimum and maximum rates for a grade;

e. Salary ranges will have increments (step rates) with a value usually equal to from 3 to 5 percent of the entry level rate;

f. Adjustments (usually increases) to pay rates on a currently authorized salary schedule can vary by grade level or be based on average or modal increases as indicated by the survey data.

### **Limitations**

Payment shall not be made to those FSN employees who separate from the US Mission after the effective date of the change to the LCP and before the payment is authorized.

Payment shall also not be authorized by the Department and affected agencies when:

1. The change to the LCP is the result of a host government decree and the delay between the effective date and the implementation date is the result of a delayed announcement of the decree; or

2. The increase is a result of a salary survey that documents that is prevailing practice is to set effective dates prior to the date survey companies decide to adjust compensation and the delay between the effective date and the implementation date is a result of a similar prior effective date being authorized by the Department.

## **3 FAH-2 H-217 THROUGH H-219 UNASSIGNED**