



DoD INSTRUCTION 1400.25, VOLUME 920

DEFENSE CIVILIAN PERSONNEL MANAGEMENT SYSTEM: SENIOR EXECUTIVE SERVICE PERFORMANCE MANAGEMENT SYSTEM AND COMPENSATION POLICY

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Purpose: This instruction is composed of several volumes, each containing its own purpose. In accordance with the authority in DoD Directive 5124.02:

- The purpose of the overall instruction is to establish and implement policy, establish procedures, provide guidelines and model programs, delegate authority, and assign responsibilities regarding civilian personnel management within the DoD.
- This volume establishes and implements policy, assigns responsibilities, delegates authorities, and prescribes procedures to create the SES Performance Management System (PMS) in accordance with the authority in DoD Directive 1400.25 for SES performance and compensation management within DoD. For the purposes of this volume, members of the SES are referred to as "executives."

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SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY.

a. Applies to OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the DoD (referred to collectively in this volume as the “DoD Components”).

b. Applies to DoD SES members.

c. May be administratively extended to Defense Intelligence SES (DISES) positions (established pursuant to Sections 1601 and 1606 of Title 10, United States Code (U.S.C.)) by the Under Secretary of Defense for Intelligence and Security (USD(I&S)).

d. Does **not** apply to:

(1) Positions that may be serviced by a DoD Component’s senior executive management office but which are not SES positions, including:

(a) Expert and consultant appointments pursuant to Section 3109 of Title 5, U.S.C.

(b) Senior level and scientific and professional personnel in accordance with Section 5376 of Title 5, U.S.C., or to Defense Intelligence senior level personnel in positions established pursuant to Sections 1601 and 1607 of Title 10, United States Code.

(c) Highly qualified expert appointments pursuant to Section 9903 of Title 5, U.S.C.

(2) SES members in the Office of the Inspector General of the Department of Defense.

1.2. POLICY. The DoD will:

a. Promote a positive executive performance culture in which contributions are fully recognized and rewarded.

b. Align an executive’s contributions to results accomplished throughout DoD and within organizational performance goals, and recognize superior leadership and results with appropriate recognition applied in a consistent, transparent, trusted, credible, equitable, nondiscriminatory, and non-political manner.

c. Comply with the Office of Personnel Management (OPM) requirements for full certification of the SES PMS, as set forth in Section 430.404 of Title 5, Code of Federal Regulations (CFR).

d. Assign the highest performance scores and performance ratings to executives who demonstrate the highest levels of individual performance and make the greatest contributions to

DoD's performance and mission. Executives with the highest performance scores and ratings will receive the highest annual summary ratings and the largest corresponding pay adjustments, highest performance bonuses and levels of payout, or other appropriate recognition. Raters, pay pools, performance review boards (PRB), and appointing authorities should, where applicable, consider the impact of documented misconduct on the individual's performance under the relevant performance requirements or performance standards. Forced or artificially constrained distribution of performance ratings and scores by a rating official, pay pool, PRB, or appointing authority is prohibited.

SECTION 2: RESPONSIBILITIES

2.1. UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

(USD(P&R)) The USD(P&R) exercises overall responsibility for the SES PMS as established in this volume. The USD(P&R) serves as the oversight official for the SES PMS.

2.2. ASSISTANT SECRETARY OF DEFENSE FOR MANPOWER AND RESERVE AFFAIRS (ASD(M&RA))

Under the authority, direction, and control of the USD(P&R), and in accordance with DoD Directive 5124.02, the ASD(M&RA) has overall responsibility for the development of DoD civilian personnel policy covered by this volume.

2.3. DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR CIVILIAN PERSONNEL POLICY (DASD(CPP))

Under the authority, direction, and control of ASD(M&RA), the Deputy Assistant Secretary of Defense for Civilian Personnel Policy supports the development of civilian personnel policy covered by this volume and monitors its execution by DoD Components, ensuring consistent implementation and continuous application throughout DoD.

2.4. USD(I&S). If this instruction is administratively extended to DISES positions, the USD(I&S) implements performance management for DISES positions and performs the functions of the appointing authority with respect to DISES positions.

2.5. DEPUTY SECRETARY OF DEFENSE AND SECRETARIES OF THE MILITARY DEPARTMENTS.

a. The Deputy Secretary of Defense and Secretaries of the Military Departments ensure that executives receive training in the requirements and operation of the SES PMS to ensure its effective implementation.

b. The Secretaries of the Military Departments serve as appointing authorities for SES positions in their respective Military Departments. The Deputy Secretary of Defense serves as the appointing authority for all other SES positions other than DISES positions and those in the Office of the Inspector General of the Department of Defense.

SECTION 3: Performance Management Procedures

3.1. OVERVIEW.

a. The rating official prepares his or her recommended performance appraisal, including an initial summary rating. If permitted by DoD Component procedure, the rating official recommends a performance payout.

b. The executive may respond in writing to the recommended performance appraisal. The executive is entitled to one higher level review (HLR), and may request this HLR after receiving the recommended performance appraisal.

c. For DoD Components with pay pools, a pay pool considers the recommended performance appraisal, any response by the executive, and any response by a higher level reviewer. The pay pool manager (PPM) makes a recommendation to the PRB regarding the executive's performance appraisal and performance payout (which, if a payout is awarded, may include a performance-based pay increase and/or a performance bonus).

d. The executive may request a HLR after receiving the PPM's recommendation if he or she previously did not request a HLR.

e. The PRB makes a recommendation to the appointing authority regarding the executive's performance appraisal and any performance payout.

f. Before official submission to the USD(P&R), the DoD Component senior executive management office, on behalf of the appointing authority, submits the collective recommendations of the PRB to the DASD(CPP), on behalf of the USD(P&R), for technical review to assess compliance of the Component's appraisal process with guidance applicable to the SES PMS. The DASD(CPP), on behalf of the USD(P&R), returns recommendations to the senior executive management office.

g. The appointing authority forwards the DoD Component's performance cycle results to the USD(P&R). The USD(P&R) will assess, and as appropriate, validate, the compliance of the DoD Component's appraisal process with guidance applicable to the SES PMS.

h. The appointing authority approves the performance appraisals of DoD Component executives, including assigning annual summary ratings and approving any performance payouts. Upon approval, performance appraisals are final and performance payouts may be made.

i. Appointing authorities provide required documentation to the USD(P&R) for oversight purposes, to include submission to OPM, as required.

3.2. PERFORMANCE APPRAISAL PERIOD AND ELIGIBILITY FOR A PERFORMANCE APPRAISAL.

- a. The annual performance appraisal period will be on a fiscal year basis from October 1 through September 30.
- b. The minimum performance appraisal period is 90 days.
- c. The performance appraisal period may be extended when an annual summary rating cannot be prepared at the end of the performance appraisal period because the executive has not completed the minimum performance appraisal period, the executive is under investigation for misconduct that may have a bearing on the executive's performance, for the reasons set forth below, or for other reasons approved by the appointing authority. The appointing authority determines how long the performance appraisal period will be extended to provide the executive ample opportunity to achieve the critical elements and performance requirements. The extension may not result in a performance appraisal period that exceeds 15 months, unless the extension pertains to an ongoing investigation of misconduct by the executive.
- d. When an executive is reassigned or transferred in the same or different DoD Component with a different pay pool:
 - (1) If the executive has been under a performance plan for the minimum appraisal period, and there are 90 or more days remaining in the performance appraisal period, the losing rating official will prepare an interim performance appraisal narrative (and may provide a recommended summary rating for the period of performance) and provide it to the gaining rating official. The gaining rating official must consider this performance information when preparing the recommended performance appraisal at the end of the performance appraisal period. The executive will be included in the gaining DoD Component's pay pool at the end of the regular performance period.
 - (2) If the reassignment or transfer is within the last 90 days of the performance appraisal period, the losing rating official will evaluate the executive and assign an initial summary rating on the last day of the performance appraisal period. The executive's payout will be calculated and paid based on the pay pool funding factor of the gaining pay pool.
 - (3) If the reassignment or transfer is after the end of the rating period but before annual summary ratings and performance payouts have become final, the executive will receive his/her annual summary rating from the DoD Component or organization to which the executive was assigned on the last day of the rating period. The executive's payout will be calculated and paid based on the pay pool funding factor of the gaining pay pool.
- e. When an executive transfers to a DoD component from another federal agency and the executive has been under a performance plan for the minimum appraisal period, the executive will receive a written appraisal of his or her performance before the executive leaves. The executive's most recent annual summary rating and any subsequent written appraisals will be transferred to DoD. The DoD rating official must consider the rating and subsequent appraisal(s) when preparing a recommended performance appraisal at the end of the performance appraisal period.

f. Executives who received a final performance appraisal but who are no longer employed by DoD at the time of the performance payout, either because they have left federal service or because they have transferred to another federal agency, are not entitled to a performance-based pay increase. However, such executives will receive any performance bonus awarded by the appointing authority.

g. No performance appraisal is completed for executives who leave federal service before the end of a rating period.

h. When an executive is detailed for 120 days or longer, the gaining organization must set performance goals and requirements for the detail and must provide an interim performance appraisal narrative (and may provide a recommended summary rating for the period of performance) to the organization from which the executive is detailed. The organization from which the executive is detailed must consider this performance information when preparing the recommended performance appraisal at the end of the performance appraisal period.

i. When a rating official leaves his or her position with 90 or more days remaining in the performance appraisal period, and an executive has been under a performance plan for the minimum performance appraisal period, the rating official will provide an interim performance appraisal narrative (and may provide a recommended summary rating for the period of performance) to the rating official who succeeds him or her. The new rating official will consider this performance information when preparing a recommended performance appraisal at the end of the performance appraisal period. When the rating official leaves within the last 90 days of the performance appraisal period, and the executive has been under a performance plan for the minimum performance appraisal period, the rating official will prepare a recommended performance appraisal for the executive.

3.3. USE OF EXECUTIVE PERFORMANCE AND APPRAISAL TOOL (EPAT).

a. All stages of the performance appraisal process must be accomplished using EPAT or a subsequent electronic appraisal system established through USD(P&R) guidance. In cases where an electronic appraisal system cannot be accessed, the template on the OPM Website will be used; the template is available at: <http://www.opm.gov/policy-data-oversight/senior-executive-service/basic-appraisal-system/>.

b. Appointing authorities may add DoD Component-specific instructions for completing the appraisal in EPAT.

3.4. PERFORMANCE PLANNING.

a. Performance plans must be:

(1) Established annually in consultation with the executive:

(a) Within 30 days of the effective date of the performance appraisal period;

(b) Within 30 days of appointment or reassignment for executives assigned after the beginning of the performance appraisal period, and any detail or temporary assignment of 120 calendar days or longer; or

(c) Whenever there is a change in mission, workload, or performance requirement.

(2) Signed by the executive. By signing his or her performance plan, the executive acknowledges receipt and consultation on its development.

b. Content of executive Performance Plans will be developed by rating officials using the criteria in Appendix A to this section.

3.5. MONITORING PERFORMANCE.

a. Rating officials must monitor executive performance during the performance appraisal period. Rating officials must provide ongoing feedback to executives on progress in accomplishing the critical elements and performance requirements described in their performance plans. Feedback should reinforce, acknowledge, and remedy performance.

b. Executives may request feedback, and feedback may be provided, at any time during the performance appraisal period.

(1) At least one progress review must be held between the rating official and the executive during the performance appraisal period. Rating officials must provide advice and assistance to executives on how to sustain or improve performance, and provide positive reinforcement as appropriate. The rating official will document the feedback in the EPAT.

(2) Rating officials must take steps to promptly address performance deficiencies whenever an executive is failing to meet performance requirements. When addressing unacceptable performance, rating officials will identify and communicate to the executive the specific performance deficiency requiring improvement and identify necessary evidence that will demonstrate successful proficiency or performance.

3.6. DEVELOPING PERFORMANCE.

a. Developing executive performance is integrated in the performance management process. Along with meaningful performance-related discussions that assist the executive in reinforcing strengths and correcting weaknesses, employee development opportunities should also be discussed as part of an ongoing effort to systematically assess, develop, and enhance an executive's ability to carry out top-level roles in the organization.

b. Critical elements and performance requirements serve as the basis for assessing and discussing executive developmental needs.

c. Rating officials should discuss and encourage executives to seek developmental opportunities that promote achievement of the strategic initiatives of the DoD and the applicable DoD Component.

d. Rating officials should discuss and encourage executives to develop a portfolio of diverse experiences to broaden perspectives and view their responsibilities in the context of the entire DoD, the national security mission, and public policy interests of DoD.

3.7. APPRAISING PERFORMANCE AND DETERMINING PERFORMANCE PAYOUTS.

a. Preparing the Recommended Performance Appraisal.

(1) Rating officials must provide a recommended performance appraisal, including a recommended initial summary rating, at the end of the rating period for each executive eligible for a performance appraisal.

(2) Executives may provide written input to the rating official describing accomplishments toward critical elements and performance requirements to assist in preparing the recommended performance appraisal.

(3) In preparing the recommended performance appraisal, rating officials will assess individual and organizational performance against the established critical elements and performance requirements. The rating official considers any input from the executive as well as input from individuals in the executive's rating chain, subordinates, and customers, if received. The rating official must use the appropriate organizational assessment results to inform his or her recommendations on individual performance ratings. An explanation of the SES PMS rating levels and the steps for completing the performance appraisal, including the rating derivation formula, are contained in Appendix A to this section.

(4) Rating officials must share the recommended performance appraisal with the executive. Signatures are required from the rating official and the executive in EPAT to document receipt.

(5) Although DoD Component procedures may allow rating officials to recommend a total performance payout, the performance discussion with the executive will not include any recommendations or information about projected performance payout or other performance payout information, which are subject to pay pool or PRB deliberations, and decision by the appointing authority.

(6) The executive must be given an opportunity to respond in writing to the recommended performance appraisal, whether or not the executive requests an HLR.

b. HLR.

(1) Only one HLR request can be made. If the DoD Component uses a pay pool, an executive may request an HLR either after receiving the recommended performance appraisal

from the rating official or after he or she receives the PPM's recommendation. If the DoD Component does not use a pay pool, the executive may request an HLR after receiving the recommended performance appraisal from the rating official. The executive must request an HLR in writing within 7 work days of receiving the recommended performance appraisal or the PPM's recommendation.

(a) In requesting an HLR, the executive should provide a justification for changing the rating of one or more of the critical elements or performance requirements that, if approved, would change the initial summary rating, consistent with the derivation formula for the SES PMS.

(b) Requests to change the proposed performance payout or the rating of one or more performance requirements that would not affect the derivation formula result for the overall rating level will not be accepted as a valid reason for an HLR.

(2) The DoD Component head must designate a reviewing official at a higher organizational level in the DoD Component or DoD, either an executive or general or flag officer (G/FO), as the higher level reviewer to consider the executive's HLR request. The HLR function must be performed by an individual, not a panel or board.

(a) When a DoD Component cannot provide review by a higher-level official for an executive because no such official exists, the DoD Component must offer an alternative review as it determines appropriate, except that the review may not be provided by a member of the PRB or an official who participated in determining the initial summary rating.

(b) When a G/FO is involved in the review, the affected executive must agree to the military member's involvement.

(c) If an executive declines review by DoD Component-designated higher-level officials (other than G/FOs), the DoD Component may offer an alternative review but it is not obligated to do so. The DoD Component must document the executive's declination of the HLR opportunity provided by the DoD Component before offering an alternative review.

(3) The higher level reviewer or official performing the alternate review must respond in writing within 7 work days of receiving the request for HLR. The higher level reviewer or alternate reviewer may recommend changes to the performance appraisal but he or she may not make any changes.

(4) The higher level reviewer or the official providing an alternate review must submit his or her recommendations to the executive, the rating official, the PPM (if applicable), the PRB, and the appointing authority.

(5) Outside of the HLR process, an executive may not grieve or otherwise request review of his or her performance appraisal. Executives also may not request HLR, grieve, or otherwise request review of their number of allocated shares or share values, proposed percentage of performance payout, non-receipt of a performance-based pay increase, amount of a performance-based pay increase, non-receipt of a performance bonus, or the amount of a performance bonus.

c. Pay Pools and the Performance-Related Pay Decision Process.

(1) DoD Components may use pay pools in the performance appraisal review process to ensure performance standards are applied consistently across the organization and in the pay decision process to manage, control, and distribute performance-based pay increases and performance bonuses.

(2) Pay pools review recommended performance appraisals and consider eligibility for performance-based pay increases or performance bonuses in accordance with the criteria set forth in Section 4. Pay pools consider the recommended performance appraisal, any response by the executive, and any HLR request and recommendations (or recommendations from an alternate review) in conducting their review. The pay pool may discuss recommended changes to the performance appraisal with the rating official.

(3) The PPM makes written recommendations to the PRB, including any recommended changes to the performance appraisal, the justification for the changes, and the amount of any performance payout.

(4) Rating officials must provide executives with the PPM's recommendations. If an executive has not already requested an HLR of his or her recommended performance appraisal, the executive may request an HLR after receiving the PPM's recommendation.

d. PRB.

(1) Appointing authorities will establish one or more PRBs to make written recommendations on recommended performance appraisals and performance payouts.

(2) Each PRB must have three or more members who are designated by the appointing authority in accordance with Section 430.311 of Title 5, CFR.

(3) When reviewing and evaluating a recommended performance appraisal, PRBs must consider any written response to the initial summary rating by the executive, any HLR requests, any results of an HLR or alternate review, and any PPM recommendation. The PRB may discuss recommended changes with PPMs and/or rating officials.

(4) If the DoD Component does not use a pay pool, the PRB may discuss recommended changes to the performance appraisal with the rating official.

(5) PRBs must consider eligibility for performance-based pay increases or performance bonuses in accordance with the criteria in Section 4 of this issuance.

(6) PRB members may not take part in any PRB discussions involving their own appraisals and performance-based payouts.

(7) The PRB chair makes written recommendations to the appointing authority containing any recommended changes to the performance appraisal, the justification for the changes, and the amount of any performance payout. The PRB chair will provide these written

recommendations to rating officials who, in turn, will provide the recommendations to the executive.

e. Review by USD(P&R).

(1) The DoD Component senior executive management office, on behalf of the appointing authority, submits the collective recommendations of the PRB to the DASD(CPP) for technical review to ensure compliance of the SES PMS with applicable guidance. DASD(CPP), on behalf of the USD(P&R), returns recommendations to the senior executive management office.

(2) The appointing authority considers input from the rating official, the executive, higher level reviewer or alternate reviewer, pay pool manager (if any), the PRB chair, and DASD(CPP). The appointing authority makes initial determinations on performance appraisals, to include annual summary ratings, performance-based pay increases, and performance bonuses. The appointing authority forwards the DoD Component's performance cycle results to the USD(P&R).

(3) The USD(P&R) will assess, and as appropriate, validate, the compliance of the DoD Component's appraisal process with guidance applicable to the SES PMS. The USD(P&R) will make final recommendations, if any, to the appointing authority.

f. Determinations on Performance Appraisals.

(1) The appointing authority will consider any final recommendations from the USD(P&R) and make final determinations on performance appraisals.

(2) The appointing authority certifies the following in writing as part of his or her final determination:

(a) Performance appraisals for executives under his or her purview make meaningful distinctions in ratings as appropriate based on individual and organizational results; executives are held accountable for organizational performance and rigorous performance management of subordinate employees; and performance-based pay increases, performance bonuses, and annual summary ratings reflect and recognize individual performance and contribution to the DoD mission.

(b) Performance appraisals do not reflect a forced or artificially constrained distribution of performance ratings and scores.

(c) Annual summary ratings, performance-based pay increases, and performance bonuses accurately reflect the executive's performance, based on the criteria established in the executive's performance plan.

(d) The guidelines established within this volume and all applicable references are followed and meet the intent of the SES PMS.

(3) The appointing authority provides the certification and any other documentation required by the USD(P&R) to the USD(P&R) in accordance with timelines established in annual opening guidance.

g. USD(P&R) Oversight.

(1) USD(P&R) oversees the SES PMS for purposes of compliance with the OPM requirements for full certification of the SES PMS under Section 430.404 of Title 5, CFR.

(2) To maintain OPM certification, USD(P&R) must certify to OPM that:

(a) The appraisal process makes meaningful distinctions based on relative performance as appropriate.

(b) The results of the appraisal process take into account, as appropriate, the agency's organizational performance assessment.

(c) Pay levels and adjustments and performance awards based on the results of the appraisal process accurately reflect individual performance and/or contribution to the agency's performance.

(3) USD(P&R) will identify any issues of concern with DoD Component implementation of the SES PMS and provide guidance as appropriate.

(4) USD(P&R) will communicate aggregate performance rating, performance-based pay increases, and performance bonus results to executives to foster understanding of the basis for annual summary ratings and accompanying performance payouts. Results will be aggregated in a manner that preserves confidentiality.

3.8. ADDRESSING POOR PERFORMANCE.

a. For career appointees who have completed a probationary period in the SES, DoD Components must, in accordance with the procedures in Section 359.502 of Title 5, CFR:

(1) Reassign or transfer within the SES an executive who has been assigned a Level 1 (Unsatisfactory) annual summary rating;

(2) Remove from the SES an executive who receives less than a fully successful annual summary rating twice (i.e., two Level 2 ratings or a combination of Levels 1 and 2) in any 3-year period; and

(3) Remove from the SES an executive who receives two unsatisfactory annual summary ratings in any 5-year period.

b. Career appointees may be removed from the SES for unacceptable performance pursuant to Section 359.402 of Title 5, CFR.

c. A career appointee's pay may also be decreased for poor performance in accordance with Paragraph 4.4.d.

APPENDIX 3A: DOD SENIOR EXECUTIVE PERFORMANCE APPRAISALS: CRITICAL ELEMENTS, PERFORMANCE LEVELS, AND DERIVATION FORMULAS

3A.1. CRITICAL ELEMENTS.

a. Five mandatory critical elements are established for DoD executive performance appraisals. Each critical element (except results driven) has mandatory language which must be used as identified in Paragraphs 1.a.(1) through (5).

(1) **Leading Change.** To exemplify leading change, the executive:

(a) Develops and implements an organizational vision that integrates key organizational and program goals, priorities, values, and other factors.

(b) Assesses and adjusts to changing situations, implementing innovative solutions to make organizational improvements, ranging from incremental improvements to major shifts in direction or approach, as appropriate.

(c) Balances change and continuity; continually strives to improve service and program performance; creates a work environment that encourages creative thinking, collaboration, and transparency; and maintains program focus, even under adversity.

(2) **Leading People.** To exemplify leading people, the executive:

(a) Designs and implements strategies that maximize employee potential, connects the organization horizontally and vertically, and fosters high ethical standards in meeting the organization's vision, mission, and goals.

(b) Provides an inclusive workplace that fosters the development of others to their full potential; allows for full participation by all employees; facilitates collaboration, cooperation, and teamwork, and supports constructive resolution of conflicts.

(c) Ensures employee performance plans are aligned with the organization's mission and goals, that employees receive constructive feedback, and that employees are realistically appraised against clearly defined and communicated performance standards.

(d) Holds employees accountable for appropriate levels of performance and conduct. Seeks and considers employee input.

(e) Recruits, retains, and develops the talent needed to achieve a high quality workforce that reflects the diversity of the nation, with the skills needed to accomplish organizational performance objectives while supporting workforce diversity, workplace inclusion, and equal employment policies and programs.

(3) **Business Acumen.** To demonstrate business acumen, the executive:

(a) Assesses, analyzes, acquires, and administers human, financial, material, and information resources in a manner that instills public trust and accomplishes the organization's mission.

(b) Uses technology to enhance processes and decision making.

(c) Executes the operating budget; prepares budget requests with justifications; and manages resources.

(4) Building Coalitions. To demonstrate building coalitions, the executive:

(a) Solicits and considers feedback from internal and external stakeholders or customers.

(b) Coordinates with appropriate parties to maximize input from the widest range of appropriate stakeholders to facilitate an open exchange of opinion from diverse groups and strengthen internal and external support.

(c) Explains, advocates, and expresses facts and ideas in a convincing manner and negotiates with individuals and groups internally and externally, as appropriate.

(d) Develops a professional network with other organizations, and identifies the internal and external politics that affect the work of the organization.

(5) Results Driven.

(a) This critical element includes the specific performance results expected from the executive for the appraisal period, focusing on measurable outcomes from the strategic plan or other measurable outputs and outcomes clearly aligned to organizational goals and objectives.

(b) The rating official will work with the executive to include at least one, and normally not more than four, performance requirements for the results driven element. The performance requirements will be written using the specific, measurable, aligned, realistic or relevant, and timely framework.

(c) Results driven performance requirements must:

1. Apply to the executive's scope of responsibility.

2. Be mission-focused, results-oriented, and aligned with strategic plans and initiatives of the DoD Component or DoD; reflect expected agency or organizational performance outcomes.

3. Clearly describe performance that is attainable, measurable, verifiable, or apparent.

4. Focus on tangible outputs, outcomes, milestones, or other deliverables that will allow the rating official to make meaningful distinctions in performance.

5. Reflect the perspectives of distinct groups, including customers and employees.

6. Demonstrate the complexity and scope of the work and describe the level of performance required to be rated “Fully Successful.” It is recommended that the performance requirements also describe the level of performance at performance rating levels “Minimally Satisfactory” and “Outstanding.”

7. Contain only measurable results-oriented performance requirements and include a specific reference to an organizational strategic plan, initiative, goal, or objective in the DoD Organizational Assessment after each one (e.g., Organization Goal #4).

b. The main characteristics of these critical elements are:

(1) *Leading Change.*

(a) Balances change and continuity.

(b) Innovates, integrates, and implements needed change based on the organizational vision, mission, and goals.

(2) *Leading People.*

(a) Rigorous performance management of subordinates.

(b) Equal employment opportunity, affirmative employment program, and diversity and inclusion.

(c) Two-way communication with the employee and active solicitation of employee feedback.

(d) Use of employee feedback to inform decisions.

(3) *Business Acumen.*

(a) Use of technology to enhance process and decision making.

(b) Proper and mission-beneficial use of human, financial, material, and information resources.

(4) *Building Coalitions.*

(a) Two-way communication with the customer and active solicitation of customer feedback.

(b) Use of customer feedback to inform decisions.

(c) Development of professional networks.

- (d) Explains, advocates, and expresses facts and ideas in a convincing manner.
- (e) Securely leverages information systems to support communication goals.

c. In annual performance appraisal cycle opening guidance, the USD(P&R) will provide minimum weights for the critical elements, based upon OPM guidance and any DoD-specific requirements. Each DoD Component must develop a single standard set of weights for its executives consistent with the opening guidance. The sum of the weights for each critical element must equal 100 percent.

d. Performance requirements may be written as competencies, specific results, or commitments for the critical elements other than results driven, to reflect the duties, responsibilities, and expected outcomes. DoD Component-specific performance requirements may be added to the critical elements other than results driven, if needed, to evaluate performance. When crafting these additional requirements, executives and rating officials must use the specific, measurable, aligned, realistic, and timely framework, as defined in the Glossary.

3A.2. PERFORMANCE STANDARDS FOR CRITICAL ELEMENTS. The performance ratings in this system are:

a. Level 5 (Outstanding). The executive demonstrates exceptional top-level performance in fostering a climate that sustains excellence and optimizes results in the executive's organization, agency, department, or government-wide. This represents the highest level of executive performance, as evidenced by the extraordinary impact on the achievement of the organization's mission. The executive is an inspirational leader and is considered a role model by agency leadership, peers, and employees. The executive continually contributes materially to or spearheads agency efforts that address or accomplish important agency goals, consistently achieves expectations at the highest level of quality possible, and consistently handles challenges, exceeds targets, and completes assignments ahead of schedule at every step of the way. Performance may be demonstrated through these types of examples:

(1) Overcomes unanticipated barriers or intractable problems by developing creative solutions that address program concerns that could adversely affect the organization, agency, or government.

(2) Through leadership by example, creates a work environment that fosters creative thinking and innovation, core process re-engineering, and accomplishment of established organizational performance targets.

(3) Takes the initiative to identify new opportunities for program and policy development and implementation, or seeks more opportunities to contribute to optimizing results; takes calculated risks to accomplish organizational objectives.

(4) Accomplishes objectives under demands and time pressure beyond those typically found in the executive environment.

(5) Achieves results of significant value to the organization, agency, or government.

(6) Achieves significant efficiencies or cost-savings in program delivery or in daily operational costs of the organization.

b. Level 4 (Exceeds Fully Successful). The executive demonstrates a very high level of performance beyond that required for successful performance in the executive's position and scope of responsibilities. The executive is a proven, highly effective leader who builds trust and instills confidence in agency leadership, peers, and employees. The executive consistently exceeds established performance expectations, timelines, or targets, as applicable. Performance may be demonstrated in such ways as:

- (1) Advances progress significantly toward achieving one or more strategic goals.
- (2) Demonstrates unusual resourcefulness in dealing with program operations or policy challenges.
- (3) Achieves unexpected results that advance the goals and objectives of the organization, agency, or government.

c. Level 3 (Fully Successful). The executive demonstrates the high level of performance expected, and the executive's actions and leadership contribute positively toward the achievement of strategic goals and meaningful results. The executive is an effective, solid, and dependable leader who delivers high-quality results based on measures of quality, quantity, efficiency, and effectiveness within agreed upon timelines. The executive meets and often exceeds challenging performance expectations established for the position. Performance may be demonstrated in such ways as:

- (1) Seizes opportunities to address issues and effects change when needed.
- (2) Finds solutions to serious problems and champions their adoption.
- (3) Designs strategies leading to improvements.

d. Level 2 (Minimally Satisfactory). The executive's contributions to the organization are acceptable in the short term, but do not appreciably advance the organization towards achievement of its goals and objectives. While the executive generally meets established performance expectations, timelines, and targets, there are occasional lapses that impair operations and cause concern from management. While showing basic ability to accomplish work through others, the executive may demonstrate limited ability to inspire subordinates to give their best efforts or to marshal those efforts effectively to address problems characteristic of the organization and its work.

e. Level 1 (Unsatisfactory). In repeated instances, the executive demonstrates performance deficiencies that detract from mission goals and objectives. The executive generally is viewed as ineffectual by agency leadership, peers, or employees. The executive does not meet established performance expectations, timelines, and targets and fails to produce—or produces unacceptable—work products, services, or outcomes.

3A.3. COMPLETING THE PERFORMANCE APPRAISAL.

a. The performance rating process uses performance rating descriptors, critical element rating derivation formula, and an initial summary rating derivation (Table 1), the calculation process described in paragraph 3b(2)c, and the conversion process described in paragraph 3b(3)e to complete the performance appraisal and determine the initial summary rating. These steps are also used to complete an interim performance rating or assessment.

b. The first step in the process is the assessment of the executive’s accomplishments for the rating period. The rating official documents accomplishments in the executive’s accomplishment narrative, the rating official’s narrative found in Table 1, and in the mandatory summary rating narrative. When any critical element has more than one measurable, results-oriented performance requirement, rating officials will use the SES critical element rating derivation formula found in Table 1 to assign a rating level to that critical element.

(1) Rating official narratives do not need to repeat the description of accomplishments provided by the executive’s accomplishment narrative, but should add appropriate context and impact statements, and the results of customer, employee, and peer feedback.

(2) Rating officials who use the optional rating official narrative blocks to document the performance results that support the ratings for one or more of the elements may use the mandatory summary rating narrative to briefly summarize the accomplishments and their impacts, and the resulting overall rating level as determined by the derivation formula.

(3) Rating officials who do not to use the optional rating official narrative blocks must provide sufficient narrative in part 6 of EPAT to document the performance results that support the ratings of each of the elements.

Table 1. SES Critical Element Rating Derivation Formula

Element Rating Levels	Element Derivation	Final Elemental Rating Score
Outstanding	Overall, the performance requirements in the element were performed at the Outstanding level, with none below the Exceeds Fully Successful level, as defined by Level 5 in the performance rating definitions.	5
Exceeds Fully Successful	Overall, the performance requirements in the element were performed at least at the Exceeds Fully Successful level, with none below the Fully Successful level, as defined by Level 4 in the performance rating definitions.	4

Table 1. SES Critical Element Rating Derivation Formula, Continued

Element Rating Levels	Element Derivation	Final Elemental Rating Score
Fully Successful	Overall, the performance requirements in the element were performed at least at the Fully Successful level, with no more than one performed at the Minimally Satisfactory level, and none performed at the Unsatisfactory level, as defined by Level 3 in the performance rating definitions.	3
Minimally Satisfactory	Two or more of the performance requirements in the element were performed at the Minimally Satisfactory level, with no more than one performed at the Unsatisfactory level, as defined by Level 2 in the performance rating definitions.	2
Unsatisfactory	Two or more of the performance requirements in the element were performed at the Unsatisfactory level, as defined by Level 1 in the performance rating definitions.	1

c. The rating official will multiply the assigned numerical rating of each critical element by the element’s whole number weight, and sum the results to arrive at the performance score. The maximum performance score is 500 points.

d. The rating official will use the derivation formula to convert the total performance score to the initial summary rating. An example, with the initial summary rating determined to be Level 4 (Exceeds Fully Successful), is shown in Table 2.

e. If any critical element is rated at a performance rating level 1 (Unsatisfactory), the overall summary rating is Unsatisfactory. If no critical element is rated at the performance rating level 1 (Unsatisfactory), continue to the next step. Convert the total performance score to the initial summary rating using the ranges below:

- (1) 475-500 = Level 5.
- (2) 400-474 = Level 4.
- (3) 300-399 = Level 3.

(4) 200-299 = Level 2.

(5) Any critical element rated Level 1 = Level 1.

Table 2. Example SES Derivation Calculation

Critical Element	Rating Level	Weight	Score	Summary Level Range
	Initial Element Score		Initial Point Score	
Leading Change	4	15	4 x 15 = 60	475-500 = Level 5
Leading People	5	15	5 x 15 = 75	400-474 = Level 4
Business Acumen	3	15	3 x 15 = 45	300-399 = Level 3
Building Coalitions	4	15	4 x 15 = 60	200-299 = Level 2
Results Driven	4	40	4 x 40 = 160	Any Critical Element Rated Level 1 = Level 1
Total:		100	400	

APPENDIX 3B: STEPS IN THE PERFORMANCE APPRAISAL PROCESS

Table 3. Steps in the Performance Appraisal Process – Rating Official

Step	Action Type	Action
1.	Planning	Develop performance plan in consultation with the executive.
2.	Monitoring	Provide ongoing feedback during the performance appraisal period.
2.a.	Monitoring	Hold at least one progress review during the performance appraisal period and document it. Conduct interim rating or assessment, if required.
3.	Appraising	Ask executive for narrative input to the end-of-year annual performance appraisal.
3.a.	Appraising	Consider input provided by the individual executive, subordinates, and customers.
3.b.	Appraising	Assess executive’s accomplishments and contributions to the mission against critical elements and performance requirements as they relate to results of the annual organizational assessment.
3.c.	Appraising	Prepare a recommended performance appraisal, including an initial summary rating, using the methods, benchmarks, and derivation formulas for the performance appraisal SES PMS.
3.d.	Appraising	If required by the DoD Component, use prescribed ranges to recommend a performance payout in accordance with Section 4.
3.e.	Appraising	Discuss initial summary rating with executive. Advise executive of his or her opportunity to respond to the rating official in writing and to request HLR.
3.f.	Appraising	Consider any written responses from the executive and higher level reviewer, and adjust initial summary rating, if appropriate.
3.g.	Appraising	Provide feedback to the PPM or PRB (when combined) as requested.
3.h.	Appraising	Provide the executive with the PPM and PRB’s recommendations.
3.i.	Appraising	After the appointing authority makes final determinations, the rating official discusses the performance appraisal and the performance payout with the executive, and provides the executive with a copy of the performance appraisal.

Table 4. Steps in the Performance Appraisal Process – Pay Pool and PRB

Step	Action
1.	Review executive’s recommended performance appraisal, any response by the executive, and any performance payout recommended by the rating official.
2.	Review the HLR request and the HLR official’s recommendation (if any).
3.	Discuss recommended changes to the critical element rating(s), summary performance rating level, performance score, and recommended payout with the rating official. (Pay pool function only or PRB when the functions are combined.)
4.	Finalize summary performance rating and payout recommendations, and submit to the appointing authority.

Table 5. Steps in the Performance Appraisal Process – Appointing Authority

Action
Determine annual summary ratings, performance scores, and performance payout (including split between bonus and increase to basic pay) considering input from the rating official, the executive, higher level reviewer or alternate reviewer, pay pool manager (if any), the PRB chair, and any recommendations from DASD(CPP) and USD(P&R).

SECTION 4: TIER STRUCTURE AND COMPENSATION MANAGEMENT

4.1. COVERAGE. This section applies to all appropriated fund executives in any DoD Component. This does not apply to non-appropriated fund executives.

4.2. OVERVIEW. Executive positions will be classified into three tiers based on the position characteristics described in Appendix 3A.

a. The hierarchy resembles the G/FO hierarchal structure, and is based on the position's level of complexity, impact on mission outcomes, and influence on joint national security matters. Tier 1 positions are the equivalent of a one-star G/FO; Tier 2, two-star; and Tier 3, three-star.

b. The position characteristics described equally value operational and non-operational positions with significant responsibilities at higher organizational levels as shown in Table 6.

c. Appointing authorities determine the placement of a position in a specific tier in consultation with their respective Executives Resources Boards. Appointing authorities will ensure that comparable positions are designated similarly. To accomplish this, appointing authorities and Executive Resources Boards may consult with supervisors, functional community leaders, human resources professionals, or other appropriate personnel within and outside their DoD Component to help inform tier designation decisions.

d. Each tier has a pay limit for the purposes of appointment in the SES, henceforth known as the "ceiling," that is set by the USD(P&R) based upon the presidential adjustment of rates of pay, mission requirements, labor market conditions, availability of funds, recruitment, and retention issues, pay comparability to other federal agencies, and any other relevant factors.

4.3. TIER LEVELS. The ranges (minimum and maximum) of pay for positions designated at each tier level are computed as described in Paragraph 4.3.b.

a. Minimum and Maximum SES Pay Ranges. An executive's basic pay, as defined in Section 534.402, of Title 5, CFR, is exclusive of locality-based comparability payments and additional pay of any other kind. In accordance with Section 5382 of Title 5, U.S.C., an executive's basic pay cannot exceed EX-III for a non-certified SES PMS and cannot exceed EX-II for a certified SES PMS.

(1) The minimum government-wide rate of pay of the SES range is equal to 120 percent of the basic pay rate for the General Schedule (GS) grade 15, step 1 (excluding locality-based comparability payments), and the maximum rate of basic pay is equal to the Level III of the Executive Schedule (EX-III). However, under Section 5382(b) of Title 5, U.S.C., for any agency having a certified PMS, the maximum rate of pay is Level II of the Executive Schedule (EX-II).

(2) The minimum rate of basic pay for the SES rate range will increase consistent with any increase in the rate of basic pay for the GS-15, step 1. The applicable maximum rate of

basic pay for the SES rate range will increase with any adjustment in the rate for levels EX-II or EX-III under Section 5318 of Title 5, U.S.C. The adjustment usually occurs at the beginning of the first pay period beginning on or after the first day of the month in which salary rates are adjusted.

(3) An executive's aggregate pay cannot exceed the limits established in Section 5307 of Title 5, U.S.C. The aggregate limit applies to pay, awards (e.g., Presidential Rank Awards (PRA), performance-based bonuses, or special act awards), recruitment and relocation bonuses, retention allowances, and other similar payments. Under a certified PMS, total compensation paid to an SES member during a calendar year (CY) may not exceed the Vice President's salary at the end of the CY. If the PMS is not certified, the aggregate limit is EX-I. Any excess amount of aggregate compensation that exceeds the established limits is carried over and paid as a lump sum at the beginning of the next CY. The excess payment must be taken into account when applying the applicable aggregate limitation for the new CY.

b. Tier Ceilings. When operating a certified SES PMS pursuant to Section 5382(b) of Title 5, U.S.C., the DASD(CPP) will adjust the salary ceilings for the SES tiers annually to reflect the following:

- (1) The ceiling of Tier 3 is the rate for EX-II.
- (2) The ceiling of Tier 2 will be set annually by the DASD(CPP) at approximately the midpoint between the rates for EX-III and EX-II.
- (3) The ceiling of Tier 1 is the rate for EX-III.
- (4) Table 6 illustrates the three-level tier structure using the maximum tier rates established for CY 2020.

Table 6. DoD Tier Structure (CY 2020) Based on Certified PMS

Tier	Salary Ceiling
Tier 3	\$197,300 (EX-II)
Tier 2	\$190,000 (midpoint between EX-III and EX-II rounded up to nearest \$1,000)
Tier 1	\$181,500 (EX-III)

c. Exceptions to the Tier Ceilings. Only as provided in Paragraphs 4.4. and 4.5., or as approved by the USD(P&R), may an executive's salary exceed his or her designated position's tier ceiling.

4.4. EXECUTIVE PAY SETTING.

a. Executive Pay Considerations.

(1) When DoD Components set pay upon appointment, they should consider a number of factors: the position's designated tier; the individual's experience; pay history; and qualifications as they relate to the requirements of the position.

(2) Appointing authorities should be sensitive to the pay scale of civilian personnel in alternate personnel systems, laboratory demonstration pay bands, and GS employees such that, to the extent possible, the pay of executives is set at competitive rates within the tier.

b. 12-Month Rule.

(1) **General.** The basic pay of an executive may not typically be adjusted, whether increased or decreased, more than once during any 12-month period, except as permissible in accordance with Paragraphs 4.4.b.(2) and 4.4.b.(3). The following actions start a 12-month waiting period:

(a) Initial appointment to the SES, reappointment, or reinstatement, including pay increases related to transfers and reassignments.

(b) Transferring to a new agency if the SES member's rate of pay is increased at the time of transfer. Otherwise, the 12-month waiting period begins at the time of the last pay adjustment in the losing agency.

(c) Receiving a performance-based pay adjustment that advances an SES member's position in the SES rate range.

(2) **Pay Actions that Do Not Count Against the 12-Month Rule (Section 534.404(c)(3) of Title 5, CFR).** The following pay actions may be taken regardless of whether the executive received a pay adjustment during the previous 12-month period and does not initiate a new 12-month waiting period:

(a) Zero adjustment after review of an executive's annual summary rating or when an executive transfers from another agency and does not receive an increase in pay.

(b) Increase based on an increase in executive schedule rates.

(c) Increase to maintain an executive's relative position in the SES rate range pursuant to Paragraph 4.4.(c).

(d) Increase to ensure the executive's rate of basic pay does not fall below the minimum rate of the SES rate range.

(3) **Exceptions to the 12-Month Rule (Section 534.404(c)(4) of Title 5, CFR).**

(a) The appointing authority has the authority to adjust an executive's rate of basic pay more than once during a 12-month period where the USD(P&R) determines that an additional increase is warranted for:

1. Exceptionally meritorious accomplishment significantly contributing to the agency’s performance. A pay adjustment for this purpose is rare and unusual.
2. Reassignment to a position with greater scope and responsibility or to recruit a senior executive with superior leadership or other competencies from a position in another agency.
3. Retention, when the retention of the senior executive is critical to the DoD mission and the senior executive would be likely to leave the agency in the absence of a pay increase.
4. Conforming to the pay cycle.

(b) Any adjustment authorized as an exception to the 12-month rule is considered a pay adjustment and begins a new 12-month waiting period.

(c) The appointing authority must approve these exceptions in writing, setting forth the basis for granting the exception.

c. Increasing Pay to Maintain Relative Position in the Rate Range (MRP) (Section 534.404(b)(4) of Title 5, CFR).

(1) When the minimum or maximum rate of basic pay of the SES rate range is increased (typically during the first pay period beginning on or after January 1), the appointing authority may determine it is appropriate to increase the rate of basic pay of an executive by an amount that does not exceed the amount necessary to allow the executive to maintain his or her relative position in the SES rate range. To be eligible, an executive must meet or exceed his or her performance expectations as demonstrated through a performance rating. Appointing authorities may only grant MRP when making performance-based pay adjustments.

(2) MRPs must be effective on the date that the minimum or maximum rate of basic pay of the SES rate range is adjusted (e.g., the first day of the first pay period beginning on or after January 1).

(3) Table 7 depicts the criteria for awarding MRPs.

Table 7. Criteria for Awarding MRPs

Rate of Basic Pay Prior to Increase	Resulting Rate of Basic Pay After Increase	Rating for Most Recent Appraisal Period	MRP
Above EX-III	Above EX-III	Outstanding	May be granted upon approval by the USD(P&R)
		Exceeds Fully Successful	May be granted upon approval by the USD(P&R) in limited circumstances (e.g., exceptionally meritorious accomplishment)

Table 7. Criteria for Awarding MRPs, Continued

Rate of Basic Pay Prior to Increase	Resulting Rate of Basic Pay After Increase	Rating for Most Recent Appraisal Period	MRP
Above EX-III	Above EX-III	Fully Successful or Below	May not be granted.
At or Below EX-III	Above EX-III	Outstanding	May be granted upon approval by the USD(P&R).
		Below Outstanding	May not be granted.
Below EX-III	Below EX-III	Fully Successful or above	May be granted by the appointing authority.

d. Reducing SES Pay. A decrease in basic pay will be considered for an executive who receives a “Minimally Satisfactory” or “Unsatisfactory” annual summary rating, or otherwise fails to meet a critical performance requirement. An executive may also receive a reduction in pay as a disciplinary or adverse action resulting from conduct-based activity, including, but not limited to, misconduct, neglect of duty, or malfeasance.

- (1) The reduction may not be greater than 10 percent of the executive’s basic pay.
- (2) The procedures in Section 534.404(j) of Title 5, CFR, must be followed.
- (3) Reductions in pay for performance or conduct reasons are not appealable under Subchapter 5 of Chapter 75 of Title 5, U.S.C.
- (4) The 12-month rule applies to decreases in pay.

e. Non-Career SES. Pay setting, and changes to the pay, of non-career executives must be approved by the White House Presidential Personnel Office and OPM before the effective date of the action.

f. New Career Appointees into the DoD SES. The tier ceilings, shown in Paragraph 4.3.b., act as a control point when determining the appropriate pay rate for new career appointees.

- (1) The minimum rate of basic pay for newly appointed career executives within DoD is the GS-15, step 4 rate plus locality (e.g., locality is that designated for the new appointee’s duty location).
- (2) DoD Components may offer a salary up to 10 percent above the appointee’s existing pay, not to exceed the position’s designated tier ceiling. Appointing authorities may approve a salary above 10 percent when necessary to reach the minimum rate required in accordance with Paragraph 4.3.a. or for the reasons described throughout Paragraph 4.4., but may still not exceed the position’s designated tier ceiling.
- (3) An individual receiving an initial career SES appointment who has at least 5 years of current continuous service in the competitive service and who is appointed without a break in service must receive a salary that is not less than the rate of basic pay (including applicable

locality payment, special rate supplement, or similar payment or supplement) immediately preceding the SES appointment pursuant to Section 5383 of Title 5, U.S.C.

g. Transfers from Other Federal Agencies.

(1) Appointing authorities may set the pay of an executive transferring from another agency at any rate of basic pay up to the EX-II based upon the nature and quality of the individual's experience, qualifications, and accomplishments as they relate to the requirements of the SES position, as well as the individual's current responsibilities.

(2) Pay is normally set at least equivalent to the rate of basic pay earned at the former agency and within the new position's designated tier range, unless the executive voluntarily accepts a lower rate. If the executive's current pay exceeds the ceiling of the new position's tier designation, the executive's pay will be grandfathered at his/her current pay rate. Appointing authorities may either provide performance-based pay adjustments using the 50-percent rule or may fully execute performance-based pay adjustments.

h. Reassignments.

(1) Movements Within a Tier.

(a) Reassignment of an executive to a position within the same tier designation generally does not result in an increase in pay. However, subject to Paragraph 4.4(b)(3)(a), appointing authorities may approve an increase, not to exceed the tier ceiling, if the reassignment is to a position of substantially greater scope and responsibility.

(b) If the executive's current pay exceeds the ceiling of the position's tier designation, the executive's pay will be grandfathered at his/her current pay rate. Appointing authorities may either provide performance-based pay adjustments using the 50-percent rule or may fully execute performance-based pay adjustments.

(2) Movements to a Position in a Higher Tier. Reassignment of an executive to a position in a higher tier designation may result in a pay increase up to 6 percent of the executive's basic pay upon approval by the appointing authority.

(3) Movements to a Position in a Lower Tier. When reassigning an executive to a position in a lower tier designation, pay considerations differ depending upon the circumstance. When the movement to a lower tier:

(a) Is at the request of the appointing authority to meet organizational needs or at the executive's request. The executive's pay will be grandfathered at his/her current pay rate. Appointing authorities may either provide performance-based pay adjustments using the 50-percent rule or may fully execute performance-based pay adjustments.

(b) Is for cause, and the annual performance rating is "Minimally Satisfactory." The appointing authority has the discretion to retain or decrease the salary of the executive in accordance with the provisions in Paragraph 4.4.d. The executive's pay will be grandfathered at

his/her current pay rate. Appointing authorities may either provide performance-based pay adjustments using the 50-percent rule or may fully execute performance-based pay adjustments.

i. Reappointments.

(1) Pursuant to Section 534.404(i) of Title 5, CFR, when a former executive is reappointed to an executive position after a break in service of more than 30 days, the appointing authority may set the rate of basic pay at any rate corresponding to the executive's new position's tier designation, responsibilities, and requirements.

(2) If there has been a break in executive service of 30 days or less, the executive's rate of basic pay must be set consistent with Section 534.404(i) of Title 5, CFR, and may not be set (without regard to whether the employee received a pay adjustment during the previous 12-month period) higher than the executive's former SES rate of basic pay. The USD(P&R) may grant exceptions to this rule and approve a higher rate than the executive's former rate of basic pay, if warranted, for such reasons as the need to attract skills and leadership expertise that are critical to the success of the mission and not readily available in the existing workforce or the external applicant pool.

(3) If the executive's pay exceeds the ceiling of the position's tier designation, at their option, appointing authorities may either provide performance-based pay adjustments using the 50-percent rule or may fully execute performance-based pay adjustments.

j. Reinstatement from a Presidential Appointment Requiring Senate Confirmation.

Pay for an executive who is reinstated in the SES following appointment to a presidentially-appointed, Senate confirmed position will be set pursuant to Section 534.404(i) of Title 5, CFR.

4.5. PERFORMANCE-BASED PAYOUTS. Adjustments in executive pay must be based on performance and adjusted based on achievement of individual and organizational performance results and targets.

a. Performance-Based Payout Eligibility. An executive may be considered for either a performance-based pay adjustment or a performance-based bonus, or both, as part of the annual performance appraisal process. To be eligible for a performance-based payout, a current SES member must be rated at least "Fully Successful" at the end of the performance cycle.

b. Annual Closeout Guidance. At the end of the performance appraisal cycle, the USD(P&R) issues closeout guidance to ensure consistency and transparency across the DoD. The guidance provides information used for calculating funding for performance-based pay adjustments and performance-based bonuses, subject to availability, and incentive awards pool funding, subject to availability. All performance-based payouts are paid from the DoD Component's pay pool values.

c. Rewarding Executives. The highest performance-based payout amounts will be based on an executive's achievement and contributions to individual and organizational results.

(1) Overview.

(a) An SES member who receives an annual summary rating of “Fully Successful” or above must be considered for either an annual performance-based pay adjustment or bonus, or both. Executives receiving an annual summary rating of less than “Fully Successful” may not receive a performance-based pay adjustment for the appraisal period unless required to maintain the executive’s salary at the minimum salary rate. Executives receiving an annual summary rating of less than “Fully Successful” are not eligible for performance-based bonuses.

(b) Performance-based payouts are not guaranteed and are determined through the SES PMS.

(c) To the extent consistent with annual closeout guidance, appointing authorities may further establish DoD Component-specific guidance for use in determining an individual’s performance-based pay adjustment or performance-based bonus.

(d) In determining the performance-based pay adjustments and performance-based bonus percentages, DoD Components will, to the extent allowable, also consider:

1. Overall pay pool funding.
2. Performance rating and score compared to the range of possible performance ratings and scores.
3. Performance rating and score compared to the distribution of ratings and scores for other executives in the pay pool.
4. Impact of the executive’s performance on the organizational mission.
5. Whether the executive received an out-of-cycle pay adjustment during the rating period that requires completion of a new 12-month waiting period before a performance-based pay adjustment can be approved.
6. If the executive’s pay is subject to the 50-percent rule.
7. Whether the performance-based pay adjustment and performance-based bonus payout for an executive should be subject to proration for less than a full year of service during the performance year or recent receipt of a significant pay adjustment on appointment, reassignment, or transfer.

(2) **Pay Pool Funding.** Pay pool funding is based on a percentage of total basic pay of those executives who are eligible for performance-based pay adjustments and bonuses. The percentage to be used and a description of the executives who are eligible for performance-based pay adjustments and bonuses are included in annual closeout guidance. Funding for performance-based pay adjustments and performance-based bonuses is calculated separately.

(a) Unused funds from the performance-based pay adjustment may be used to fund performance-based bonuses; however, performance-based bonus pool, including the unused funds, cannot exceed statutory limitations in Section 5384 of Title 5, U.S.C. Funds for performance-based bonuses may not be used for performance-based pay adjustments.

(b) Appointing authorities may set aside some of the pay pool funding, referred to as reserve monies, for payouts such as those made outside of the normal performance pay adjustment cycle, as described in Paragraph 4.4.b.

(c) Funding for performance-based awards may not exceed the statutory limitations set forth in Section 5384 of Title 5, U.S.C.

(3) Performance-Based Pay Adjustments.

(a) Executives may receive performance-based pay adjustments only if performance-based pay adjustments are authorized by the OPM.

(b) Appointing authorities may authorize performance-based pay adjustments that exceed a position's designated tier ceiling up to the EX-II (under a certified PMS), subject to the provisions in Paragraph 4.5.b.

(c) Performance-based pay adjustments that would result in an executive's salary exceeding the applicable statutory salary cap or the limitation on the maximum rate of basic pay in Section 534.403(a) of Title 5, CFR (e.g., EX-II under a certified PMS) are prohibited.

(4) Performance-Based Bonuses. As set forth in Section 5384 of Title 5, U.S.C., a performance-based bonus amount must be between 5 and 20 percent of basic pay. Appointing authorities will only award the maximum performance-based bonus, as established in annual closeout guidance, to those executives who truly demonstrate exceptional performance, foster a climate that sustains excellence and optimizes results in their organization, agency, department, or government-wide.

(5) Meaningful Distinctions in Performance-Based Payouts.

(a) DoD Components will ensure that meaningful distinctions in performance-based payouts are reflected between performance rating levels as well as within a single performance rating level. Prorated payouts must be consistent with the requirement for meaningful distinctions between performance rating levels, but need not be consistent with the requirement for meaningful distinctions within a single performance level. Forced distributions and quotas are prohibited.

(b) Executives with the highest performance ratings, corresponding to the highest levels of individual performance and contribution to the DoD mission, will receive the largest corresponding performance-based payouts.

(c) Appointing authorities will review performance-based payout distributions at the DoD Component level for consistency across multiple pay pools.

d. Processing Performance-Based Payouts. DoD Components will ensure that all actions taken to process performance-based pay adjustments and bonuses are made at the beginning of the first applicable pay period commencing on or after the first day of the month in which an annual adjustment takes effect for the GS.

4.6. INCENTIVE AWARDS.

a. Overview. Receiving a performance-based bonus does not preclude an executive from receiving other awards pursuant to Volume 451 of DoD Instruction 1400.25, provided that the executive is not monetarily rewarded twice for the same accomplishment. Special Act or other monetary awards cannot supplement or substitute for an SES performance-based payout.

b. Restrictions. Section 4508 of Title 5, U.S.C. prohibits SES members who are not career appointees from receiving certain awards during a Presidential election period. This period is from June 1 of any CY in which there is a Presidential election through January 20 of the following CY.

4.7. PRESIDENTIAL RANK AWARD (PRA).

a. In accordance with Section 4507 of Title 5, U.S.C., executives may be recognized for exceptional performance over an extended period of time. There are two categories of awards: distinguished executives are recognized for sustained extraordinary accomplishment and receive a cash award of 35 percent of their annual basic pay; and meritorious executives are recognized for sustained accomplishment and receive a cash award of 20 percent of their annual basic pay.

b. To be eligible for nomination, an executive must have at least 3 years of career or career-type federal civilian service at the SES level, hold a career appointment as an SES at the time of nomination, and be an employee of the nominating agency on OPM's nomination date. (e.g., service does not have to be all in same agency.)

c. The recipient of either a Distinguished or Meritorious Rank Award may not receive the same category of award again during the 4 fiscal years following the year in which the award is given. There is no restriction on receiving the other of the two categories (i.e., either Distinguished or Meritorious) of rank award at a closer interval. There is no requirement that an individual receive a Meritorious Rank Award before receiving a Distinguished Rank Award.

d. Executives are eligible to receive a PRA and a performance-based bonus in the same CY. DoD Components will not deny or reduce a performance-based payout to PRA winners solely on the basis of receiving or having been nominated for one of these PRAs. The decision to grant a performance-based payout must be based on accomplishments during the applicable performance period.

APPENDIX 4A: SES TIER STRUCTURE

Table 8. SES Tier Structure Characteristics

Tier 3		
Characteristics		Indicators
Responsibility <ul style="list-style-type: none"> Degree of latitude exercised Degree of policy-making authority Degree of decision-making authority Degree of alignment to enterprise perspective 	Impact on Mission <ul style="list-style-type: none"> Impact on objectives and strategic goals (outside DoD, across DoD, Component, organization) Impact on development of goals and objectives vs reaction to them Complex and multi-Component, multi-function, multi-agency, multi-national or joint interactions Activities that are vital to the mission accomplishment of multiple organizations Most significant levels of latitude and responsibility, as indicated by degree of policy and decision-making authority Impact is extraordinary, tangible, and substantially furthers Department, Component or agency objectives and strategic goals 	<ul style="list-style-type: none"> Leader, deputy, or manager of large line or policy organization at the Component or agency headquarters or major command or equivalent Reports to a Presidential appointee with Senate confirmation or a three or four-star G/FO or equivalent Typically supervises at least one senior executive of G/FO or equivalent Serves as the most senior level in a substantial functional community Represents top leadership to external entities, including Congress, Office of Management and Budget, and White House staff Approves or effects Component or agency-wide policies and programs Represents the Component or agency or organization at key interagency meetings Formulates the Component or agency-wide strategic plans, programmatic objectives, policies and standards
Complexity <ul style="list-style-type: none"> Size of budget Size of staff Degree of consensus, collaboration, coordination required Interplay of policies Degree of precedence Single vs multi-function 		
Scope of Influence <ul style="list-style-type: none"> Number of organizations affected Level of organizations affected Impact inside vs outside DoD or Component or agency 	<i>Characterized by substantial executive-level leadership and managerial skills and competencies; positions at this level are more likely to be encumbered by more seasoned executives from within the federal government or private industry</i>	

Table 8. SES Tier Structure Characteristics, Continued

Tier 2		
Characteristics		Indicators
Responsibility <ul style="list-style-type: none"> • Degree of latitude exercised • Degree of policy-making authority • Degree of decision-making authority • Degree of alignment to enterprise perspective 	Impact on Mission <ul style="list-style-type: none"> • Impact on objectives and strategic goals (outside DoD, across DoD, Component, organization) • Impact on development of goals and objectives vs reaction to them • Interactions are typically less complex than Tier 3 and generally involve multi-Component or intra-Component or agency participants • Activities that are vital to the mission accomplishment of the assigned organization • Latitude and responsibility, as indicated by degree of policy and decision-making authority, typically include Component or agency-level only • Impact is tangible and furthers Component or agency objectives and strategic goals 	<ul style="list-style-type: none"> • Leader or deputy of an organization below headquarters-level or serves as a senior functional authority with accountability for major programs • Manages large programs, personnel, or organizations • Formulates, oversees, and enforces Component or agency policy • Has approval authority on major command or equivalent policies and programs • Represents functional area at Component, agency, organization or Service at interagency meetings • Serves on boards, committees, and other groups pertaining to assigned functional area • Typically reports to Tier 3 Senior Executive or two or three star G/FO or equivalent. May supervise at least one Tier 1 senior executive or G/FO or equivalent
Complexity <ul style="list-style-type: none"> • Size of budget • Size of staff • Degree of consensus, collaboration, coordination required • Interplay of policies • Degree of precedence • Single vs multi-function 		
Scope of Influence <ul style="list-style-type: none"> • Number of organizations affected • Level of organizations affected • Impact inside vs outside DoD or Component or agency 		

Table 8. SES Tier Structure Characteristics, Continued

Tier 1		
Characteristics		Indicators
Responsibility <ul style="list-style-type: none"> • Degree of latitude exercised • Degree of policy-making authority • Degree of decision-making authority • Degree of alignment to enterprise perspective 	Impact on Mission <ul style="list-style-type: none"> • Impact on objectives and strategic goals (outside DoD, across DoD, Component, organization) • Impact on development of goals and objectives vs reaction to them • Interactions are typically less complex than Tier 2 and generally involve intra-Component or agency participants • Activities that are vital to the mission accomplishment of the assigned organization 	<ul style="list-style-type: none"> • Oversees planning and effective execution on the full spectrum of programs • Develops systems and standards for the administration and management of approved plans and programs • Develops policies and programs • Manages medium to small programs that have Component or agency-wide impact • Participates in a primary role in planning, programming, and budgeting activities • Initiates programs and action to ensure adherence to Component or agency-wide policies and national security objectives
Complexity <ul style="list-style-type: none"> • Size of budget • Size of staff • Degree of consensus, collaboration, coordination required • Interplay of policies • Degree of precedence • Single vs multi-function 	<ul style="list-style-type: none"> • Latitude and responsibility, as indicated by degree of policy and decision-making authority, typically include Component- or agency-level only • Impact is tangible and furthers Component or agency objectives and strategic goals 	<ul style="list-style-type: none"> • Technical expertise-based positions, leader or authority within an organization below major command-level and focused as in technical, engineering, contracts, industrial management
Scope of Influence <ul style="list-style-type: none"> • Number of organizations affected • Level of organizations affected • Impact inside vs outside DoD or Component or agency 	<p><i>Characterized by significant functional or technical expertise; positions at this level are more likely to be encumbered by newly-appointed executives.</i></p>	

APPENDIX 4B: DOCUMENTING DoD TIER STRUCTURE DESIGNATIONS

Personnel Action Processing Procedures.

a. All tier designations will be recorded in the DoD's HR personnel system of record. Coding for tier assignment designations are:

(1) 1 – Tier 1.

(2) 2 – Tier 2.

(3) 3 – Tier 3.

(4) A – Grandfathered from Tier 3 to Tier 2; compensation has exceeded the executive's current assigned tier designation as outlined in the conditions of Paragraphs 4.4 and 4.5.

(5) B – Grandfathered from Tier 3 to Tier 1; compensation has exceeded the executive's current assigned tier designation as outlined in the conditions of Paragraphs 4.4 and 4.5.

(6) C – Grandfathered from Tier 2 to Tier 1; compensation has exceeded the executive's current assigned tier designation as outlined in the conditions of Paragraphs 4.4 and 4.5.

b. The servicing human resource office for executives will record tier designations resulting from any change or re-designation in tier structure in the DoD's HR personnel system within 60 days of the effective date of the tier change.

c. When reviewing workforce data or responding to data calls, grandfathered tiers will be converted to their designated position of record to better track positional and compensation data. (e.g. Tier A will be converted to Tier 2; Tier B will be converted to Tier 1; and Tier C will be converted to Tier 1).

GLOSSARY

G.1. ACRONYMS.

ASD(M&RA)	Assistant Secretary of Defense for Manpower and Reserve Affairs
CFR	Code of Federal Regulations
CY	calendar year
DASD(CPP)	Deputy Assistant Director for Civillian Personnel
DISES	Defense Intelligence Senior Executive Service
EPAT	Executive Performance Appraisal Tool
EX	Executive Schedule
G/FO	General or Flag Officer
GS	General Schedule
HLR	higher level review
OPM	Office of Personnel Management
PMS	Performance Management System
PPM	Pay Pool Manager
PRA	Presidential Rank Award
PRB	Performance Review Board
SES	Senior Executive Service
U.S.C.	United States Code
USD(I&S)	Under Secretary of Defense for Intelligence and Security
USD(P&R)	Under Secretary of Defense for Personnel and Readiness

G.2. DEFINITIONS. These terms and their definitions are for the purpose of this issuance.

50-percent rule. The 50-percent rule may be applied to limit the basic pay of an executive whose pay exceeds the tier ceiling of his or her assigned position. Under this rule, performance-

based pay adjustments are limited to 50 percent of the difference between the old and new ceiling, until the salary falls within the range of the position's tier designation.

agency-specific performance requirement. Optional performance requirement written as a competency or specific result and commitment for a particular critical element.

appointing authority. The Secretaries of the Military Departments for SES positions in their respective Military Departments and the Deputy Secretary of Defense for all other SES positions and those in the Office of the Inspector General of the Department of Defense.

appraisal (performance appraisal). The annual process under which performance requirements are established, reviewed, evaluated, assigned a summary rating, and documented in writing. The results of performance appraisals are used as a basis to adjust pay, grant bonuses, and make other personnel decisions.

basic pay. The annual rate of compensation exclusive of awards, bonuses, and differentials as indicated in Title 5, U.S.C. The rate of basic pay may not exceed the applicable maximum rates pursuant to law and regulation, including Section 5307 of Title 5, U.S.C.

closeout guidance. The instructions the USD(P&R) issues to DoD Component related to the closeout process of a fiscal year.

critical element. A key component of an executive's work that contributes to organizational goals and results and is so important that unsatisfactory performance of the element would make the executive's overall job performance "unsatisfactory."

executive. An appropriated fund employee assigned to a positions in the SES.

Executive Resources Board. Defined in DoD Directive 1403.1.

executive schedule. A five-level pay schedule for members of the SES that can be adjusted yearly by the President of the United States.

“grandfather. Retention of pay for executives whose pay exceeds the tier ceiling of their assigned positions.

HLR. A review of an executive's recommended performance appraisal by a person at a higher level than the rating official of the executive. Must be requested by the executive.

incentive award. Recognition or incentive granted for a suggestion, invention, superior accomplishment, or other meritorious effort pursuant to the authority of Chapter 45 of Title 5, U.S.C.

minimum performance appraisal period. The shortest amount of time in which an SES member must have served in a position under an established performance plan in order for an appraisal to be completed. The DoD has established a minimum appraisal period of 90 days, consistent with Part 430 of Title 10, CFR.

opening guidance. The instructions USD(P&R) issues to DoD Components at the beginning of a fiscal year regarding executive performance management and compensation.

oversight official. Provides oversight of the performance management system and issues performance appraisal guidelines.

pay pool. A combination of organizational elements (e.g., divisions, branches, functional communities) and/or tier structures that is defined for purposes of determining performance payouts under the executive pay and performance management system.

pay pool budget. The amount authorized for performance-based pay adjustments and performance-based bonuses.

performance. The accomplishment of the work described in the executive's performance plan.

performance appraisal period (i.e., rating period). The established period of time for which an executive's performance will be appraised and rated. Generally, the performance appraisal period begins October 1 of each year and ends on September 30 of each year.

performance -based bonus. A one-time, lump sum payment paid to executives in recognition of performance during the performance appraisal period. A performance-based bonus is not part of basic pay.

performance-based pay adjustment. An adjustment to an executive's basic pay, awarded as part of a performance-based payout through the SES PMS.

performance-based payout. The total monetary value of a performance-based pay ~~increase~~ adjustment and performance-based bonus.

performance plan. The document that describes the individual and organizational expectations for the performance appraisal period and establishes the elements and performance requirements against which the executive's performance will be evaluated.

performance requirements. Written statements of measurable results expected to be achieved during the performance appraisal period. Typically, there are between one and four specific, measureable, aligned, realistic, and timely written performance requirements for each critical element. They describe both "what is expected" and "how it is to be accomplished," usually for the "Fully Successful" performance rating level. Required by Title 5, U.S.C., these are the standards of performance against which executives will be evaluated.

performance score. The numeric value between 0 and 500 associated with a performance rating.

PMS. The framework of policies and practices that an agency establishes in accordance with Subchapter II of Chapter 43 of Title 5, U.S.C., for planning, monitoring, developing, evaluating and rewarding both individual and organizational performance and for using resulting performance information in making personnel decisions.

PRB. A panel of individuals established in each DoD Component to provide oversight to ensure balance, equity, and fairness in the evaluation and scoring process under the performance appraisal system and to ensure there are meaningful distinctions in relative performance reflected in the performance requirements.

progress review. A review of the executive's progress in meeting the performance requirements. A progress review is not a performance rating.

rate range. The range the executive is paid within the DoD tier structure.

rating official. The individual who is responsible for assessing an executive's performance as part of the annual performance appraisal process and develops the recommended performance appraisal, including the initial summary rating.

ratings.

annual summary rating. The overall rating level that an appointing authority assigns at the end of the performance appraisal period. This is the official rating.

initial summary rating. The overall recommended rating level and score the rating official derives from appraising the executive's performance during the appraisal period and forwards to the PRB.

REFERENCES

Code of Federal Regulations, Title 5
DoD Directive 1400.25, “DoD Civilian Personnel Management System,” November 25, 1996
DoD Directive 1403.03, “The Career Lifecycle Management of the Senior Executive Service Leaders within the Department of Defense,” October 25, 2007
DoD Directive 1403.1, “The Senior Executive Service and Equivalent-Level Positions and Personnel,” October 18, 1982
DoD Directive 5124.02, “Under Secretary of Defense for Personnel and Readiness (USD(P&R)),” June 23, 2008
DoD Instruction 1400.25, Volume 451, “Awards,” November 4, 2013
United States Code, Title 5
United States Code, Title 10