



Report to the Secretary of Defense

Task Group Report on a Framework to Analyze Executive Schedule Compensation

Report FY07-3

- **Recommendations regarding a framework for studying the compensation of Political Appointees in Executive Levels II, III, IV, and V**

April 2007

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Framework to Analyze Executive Schedule Compensation

TASK

In support of the Department's ongoing transformation efforts, and at the request of the Deputy Secretary of Defense, the Defense Business Board (DBB) formed this Task Group to develop and recommend a framework for a possible future study on the compensation levels for the senior civilian leaders in the Department (Executive Levels II, III, IV, and V-excluding the Deputy Secretary of Defense). In developing the framework, the Task Group identified the questions to be addressed and the analysis to be performed to determine whether the compensation levels and policies for the Department's civilian leadership are reasonable and appropriate. The Terms of Reference for the Task Group study are attached as **Appendix A.**

Task Group Chairman: Fred Cook

Task Group Members: Madelyn Jennings, John Madigan

Task Group Liaison: Patricia Bradshaw, Deputy Under Secretary of Defense, Office of Personnel and Readiness (Civilian Personnel Policy)

Task Group Executive Secretary: Ryan Bates

PROCESS

The Task Group led internal discussions with key stakeholders including the Office of Personnel and Readiness (Civilian Personnel Policy), Washington Headquarters Services (Executive and Political Personnel), and the White House Liaison Office. The discussions were designed to inform the Task Group on current civilian compensation structures and to provide an overview of the employment life-cycle processes (recruitment, selection, appointment, termination) for a politically-appointed senior civilian. The Task Group presented their findings and recommendations to the full Board on April 26, 2007.

OBSERVATIONS

The Task Group recognized that the Department's senior civilians exist in a Defense infrastructure that contains several different compensation systems. Depending on an individual's type of employment, the total compensation mix (salary and benefits) varies. For example, military personnel have different salary and benefit structures than civilians. Likewise, the Department's civilian personnel in the General Schedule, National Security Personnel System, Senior Executive Service and Executives Schedule each have different salary, benefit, and performance pay structures.

While reviewing the Department's compensation systems, the Task Group also observed that the Department has different employment requirements for each employment type. Specifically, Executive Schedule positions have unique financial disclosure requirements, divestiture requirements and Senate confirmation procedures (if necessary). These employment requirements, such as potential divestiture and full financial disclosure of all assets, often create a situation where employment requirements produce a negative financial impact on a candidate.

The compensation system and employment requirements combine to affect the Department's ability to recruit, retain, and appropriately compensate an individual. Therefore, any approach to determining appropriate compensation levels must address not only dollars but also employment requirements.

RECOMMENDATIONS

Given the unique nature of the Executive Schedule and based on the Task Group's expertise, a three-dimensional framework is proposed to guide a future study on appropriate political-appointee compensation. This three-dimensional framework consists of a Top-Down Compensation Review, a Bottom-Up Compensation Review, and an Appointment-Requirements Review.

Compensation Review Framework

Top-Down Compensation Review

The first dimension of the framework, a Top-Down Compensation Review, focuses on creating a compensation structure from a clean slate. The guiding questions for the review are:

- What experience and knowledge are needed for the position and who possesses it?
 - o What are potential candidates doing now?
 - o What will they be doing after they leave government service?
- What are their pay expectations?
 - o And what are their competitive pay opportunities now?
- What is the appropriate offset from private sector pay that should be given due to the public service nature of the position?

Bottom-Up Compensation Review

In contrast to the Top-Down Review, the Bottom-Up Compensation Review focuses on current comparable DoD compensation structures and their internal equity. The core question to be answered is whether the total compensation (base pay, performance bonus, and benefits) of the Executive Schedule is proportionate in comparison to the Department's other senior leaders. Guiding questions include:

- Should there be parity in total compensation between political appointees in the Executive Schedule and General and Flag Officers and SES executives with whom they work?
- If so, should salary levels of Executive Schedule employees be *higher than* comparable salary levels for General Officers and SES executives because (1) political appointees are not likely to receive the retirement and other benefits that are an important part of military and civilian total compensation, and (2) political appointees are not eligible for the merit salary increases and performance bonuses that SES now receive?

The emphasis of this review is pay parity across the Department's senior leadership by taking into account differences in pay structures, performance pay and benefits and also recognizing that the average political appointee only serves two and a half years whereas Flag Officers and SES executives spend 20 or more years in government service.

Appointment-Requirements Review

The last dimension of the framework, an Appointment-Requirements Review, focuses on the requirements that exist in every step of the appointment process of the Department's senior leaders. The core question is whether any part of the on-boarding and off-boarding processes or procedures unreasonably hinders the Department in recruiting, appointing, or retaining a talented individual interested in serving his or her country in an important but usually short-term position. While the Task Group specifically focused on the appointment-requirements for Executive Level positions, the Task Group also recognized that an appointment-requirements review would be beneficial for all the senior leaders in the Department. Guiding questions for analysis include:

- How long does it take from selection to appointment, and is this delay necessary to meet national interests?
- Are the requirements and personal expense necessary to meet conflict-of-interest challenges also necessary to meet national interests?
- Should the Department consider assigning a person to help shepherd the individual through the appointment process, including security clearance and financial disclosure? Should there be funds available to reimburse candidates for legal, accounting and insurance expenses necessary to comply with conflicts requirements?
- Are the special rules in place by the Senate Armed Services Committee for the confirmation of DoD appointees, over and above those required by Federal ethics and conflicts regulations, necessary and effective in preventing abuse of position?

Defense Business Board

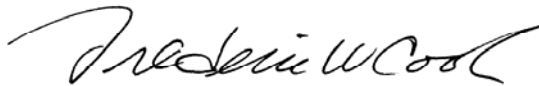
- For new appointees, should DoD provide help with moving expenses, finding a house, and paying for temporary housing?
- Should the individual leaving government service receive an allowance for moving household goods and some continued salary (e.g., one month) for transition back to private employment?

The emphasis of this review is on those aspects of the on-boarding and off-boarding process that are not strictly “compensation” but nonetheless significantly (in some cases) reduce the attractiveness of the position and hence the willingness of talented people to accept the financial sacrifice involved in serving their country.

RESULTS

During the April 26th, 2007 meeting deliberations, the Board fully endorsed the Task Group’s recommendations. During the deliberations, the Board also discussed and agreed that a future study on Executive Level compensation might also include a review of whether the current amount of Executive Level positions in the Department is necessary. The recommendations of the Board were later presented to Deputy Secretary of Defense Gordon England (**see Appendix B**) for his review and consideration.

Respectfully Submitted,



Frederic W. Cook

APPENDIX A:
(Terms of Reference)



DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

FEB 23 2007

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD (DBB)

SUBJECT: Terms of Reference - DBB Task Group to Develop a Framework for Analyzing Compensation for Executive Levels II, III, IV, and V

Request you form a Task Group to prepare a brief report on how the Department (and by extension the whole Federal government) should approach the question of determining appropriate compensation levels for the senior civilian leadership of the Department, excluding the Secretary and Deputy Secretary.

The Task Group should recommend a framework for the future study of this topic, and identify the questions that need to be addressed and the analyses to be performed to determine whether the compensation levels and policies for the Department's civilian leadership are reasonable and appropriate. Such questions could include:

- a. From what source(s) does the Department draw its senior leadership?
- b. What alternate employment opportunities and compensation could these individuals command outside the government?
- c. Do other public sector, senior management employment models exist in the U.S. and other countries to successfully compete with employment opportunities these individuals are afforded in the private sector?
- d. What non-cash aspects of total "compensation" should be considered in any analyses and recommendations, e.g., portfolio investment issues while in public employment, transitioning back to the private sector, and employee benefits and investment savings plans?
- e. What aspects of the application and appointment process should be considered as part of compensation?

In scope, the study will cover compensation levels and policies for Political Appointees in Executive Levels II, III, IV, and V.

Ms. Patricia Bradshaw, Deputy Under Secretary of Defense (Civilian Personnel Policy) will be the DoD Liaison. Mr. Fred Cook will be the Task Group Chairman. Mr. Ryan Bates of the DBB, will be the Task Group Executive Secretary. The Task Group will present recommendations no later than the April 26th DBB meeting.

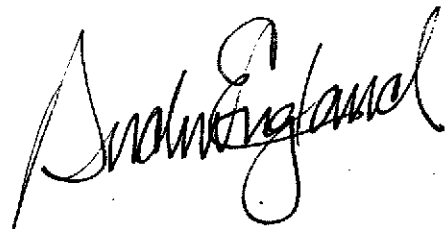


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The Task Group will be operated in accordance with the provisions of P.L. 92463, the "Federal Advisory Committee Act," and DoD Directive 5105.4, the "the DoD Federal Advisory Committee Management Program." It is not anticipated that this Task Group will need to go into any "particular matters" within the meaning of Section 208 of Title 18, U.S. Code, nor will it cause any member to be placed in the position of acting as a procurement official.

A handwritten signature in black ink, appearing to read "Andrew England". The signature is written in a cursive, flowing style with a large initial 'A' and 'E'.

APPENDIX B:
(Final Recommendations)



DEFENSE BUSINESS BOARD

Task Group on Executive Compensation Framework

April 2007



DBB Task Group

Fred Cook (Chairman)

Madelyn Jennings

John Madigan

Ryan Bates (Executive Secretary)

DoD Liaison

Pat Bradshaw, Deputy Under Secretary of Defense,

Office of Personnel and Readiness, Civilian Personnel Policy



Background

- Dr. Chu requested that the Board develop a framework for a future study on Executive Compensation levels
 - Scope was limited to Executive Levels II, III, IV, and V (excluding the Deputy Secretary)
- The Task Group was asked to identify the questions to be addressed and the analysis to be performed to determine appropriate compensation levels
- Interviews were conducted with the Office of Personnel and Readiness (Civilian Personnel Policy), Washington Headquarter Services (Executive and Political Personnel) and the White House Liaison Office



Observations

- The Defense infrastructure contains several different compensation systems
 - Base salary, performance bonuses and benefits
- Employment requirements vary depending on an individual's type of employment
- Employment requirements can produce a negative financial impact on a candidate
 - Asset divestiture/disclosure and post employment restrictions



Recommendation: Three-Dimensional Compensation Framework

- Dimension One (Top-Down Compensation Review)
 - Create a compensation structure from a clean slate
- Dimension Two (Bottom-Up Compensation Review)
 - Focus on total compensation pay parity across the Department's senior leadership
- Dimension Three (Appointment Requirements Review)
 - Review the aspects of the appointment process that may reduce the pool of qualified individuals willing to serve

