U.S. Office of Personnel Management
Office of Merit Systems Oversight and Effectiveness

Report of a Special Study

The 3Rs: Lessons Learned from Recruitment, Relocation, and Retention Incentives

December 1999

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I. EXECUTIVE SUMMARY

As part of its Fiscal Year 1999 oversight program, the Office of Personnel Management (OPM) examined the use of recruitment and relocation bonuses and retention allowances in the Federal government. Special attention was given to the general belief that the use of what has been dubbed the 3Rs has been minimal. To do this, we reviewed Central Personnel Data File information to identify historical levels of 3R uses and current distribution by occupation, grade, geographic location and amounts. We also identified a sample of 3R recipients and interviewed all individuals involved with the initiation, approval, receipt and processing of those incentives; they provided information on their experiences, comments on current regulations, and recommendations for improvements. Finally, we looked at the private and the non-Federal public sectors for points of comparisons.

Our key findings and conclusions are summarized as follows:

- The use of the 3Rs has been in an extended period of slow growth, but is experiencing significant recent increases. Non-Federal public and private sectors are also experienc- ing recent increases in use of 3R type payments.

- Once authorized, retention allowances tend to last more than one year. Annual recertification, coupled with many new retention allowances, contributes to the significant percentage increase in the use of this incentive since 1994. It is still too early to evaluate implementation of the new group retention allowance authority.

- Highly skilled professional and technology occupations dominate the 3Rs. The 3Rs are considered by agency users to be highly beneficial in attracting and retaining employees, and are generally used in conjunction with other pay and HR flexibilities. Recipients, initiators, approvers, and human resources staff all basically share the opinion that the compensation flexibilities of the 3Rs should be retained. They offered a variety of suggestions to streamline the approval process and improve their use. Agencies should consider streamlining agency plans and increasing management awareness of the 3Rs' availability to address recruitment and retention issues.

- Women and minorities receive 3R incentives at a level below their representation in the Federal workforce. However, the percentage is closer to their representation in the predominant occupations and grade levels typically targeted for incentives. Agencies should periodically monitor workforce distribution to ensure that 3R use is consistent with and contributes to achievement of their workforce diversity goals and objectives.

- In situations where there has been limited use of the 3Rs, primary reasons given were lack of funds, limited recruiting due to governmentwide downsizing, and little need in some agencies for special incentives to recruit and retain employees. In addition, approval levels have typically been set high within the organization and have discouraged some from initiating 3R requests. Agencies should consider lowering approval levels or easing the justification burden imposed in many agencies plans.

- 3R amounts tend to be significantly less than the maximum authorized under law. Contributing factors are relative success in offering lower amounts, internal require- ments for documented analysis, budgetary limitations, aggregate pay ceilings for highest graded recipients and a growing trend to standardize amounts regardless of location or individual differences.

- There are more similarities than differences in Federal, other public, and private sector employer approaches to 3R type payments. The most significant differences are use of employees' finder fees, more managerial discretion to make decisions on the offer and amount of incentives, limited use of service agreements for recruitment bonuses, and lump sum retention bonuses instead of periodic prorated allowances. Most Federal 3R users prefer to make identical payments to qualified recipients. They avoid making distinctions as to who should or who should not get an incentive, and at what amount. They cite morale and fairness concerns.

- Use of 3Rs by Federal departments and agencies is generally in compliance with current regulations. Most agencies exercise minimal oversight and assessment of 3Rs. The potential increased use of prescribed group criteria with lower approval levels and a general streamlining of the process will increase the need for more oversight and assessment.

II. INTRODUCTION

The 1990 Federal Employees Pay Comparability Act (FEPCA), while dealing primarily with the way pay is set for General Schedule employees, also contained a number of provisions designed to help Federal agencies recruit, relocate and retain employees. Two of these provisions gave agencies the authority to offer one-time bonuses up to 25 percent of basic pay to recruit and relocate employees to staff difficult-to-fill positions. An additional provision gave agencies the authority to offer retention allowances of up to 25 percent to be paid on a biweekly basis. This allows agencies to retain employees with unusually high or unique skills and qualifications or who provide services that fulfill a special agency need and who would be likely to leave Federal service. In June 1998, amended regulations waived the case-by-case determination requirement and allowed retention allowances for groups or categories of employees in certain limited circum-stances. Combined, these three provisions have been dubbed the 3Rs. Federal agencies have had the authority to use the 3Rs since May 1991.

With today's highly dynamic job market, the Federal government's total compensation plan is being reviewed for its competitiveness. Various stakeholders have voiced concerns about some inflexibilities in current compensation law and regulations. Some point to administrative and regulatory restrictions that limit the use and size of the 3R payments. Others express concerns about their ability to attract and retain Information Technology (IT) employees.

In light of stakeholder concerns and the commonly held belief that use of the 3R incentives is minimal, OPM examined these incentives as part of its Fiscal Year 1999 oversight program. The following aspects of these incentives were reviewed:

- the historical distribution of the use of the 3Rs by agency;
- the current distribution of the 3Rs by agency, pay plan, occupation, grade, workforce representation, percentage and amount, geographic location, and concurrent use of special salary rates;
- internal agency policy, support and overall effectiveness;
- impediments to more effective use of the 3Rs and recommendations for improvements;
- the use of the recently authorized group retention allowance; and
- non-Federal public and private sector use of 3R type payments for points of comparison.

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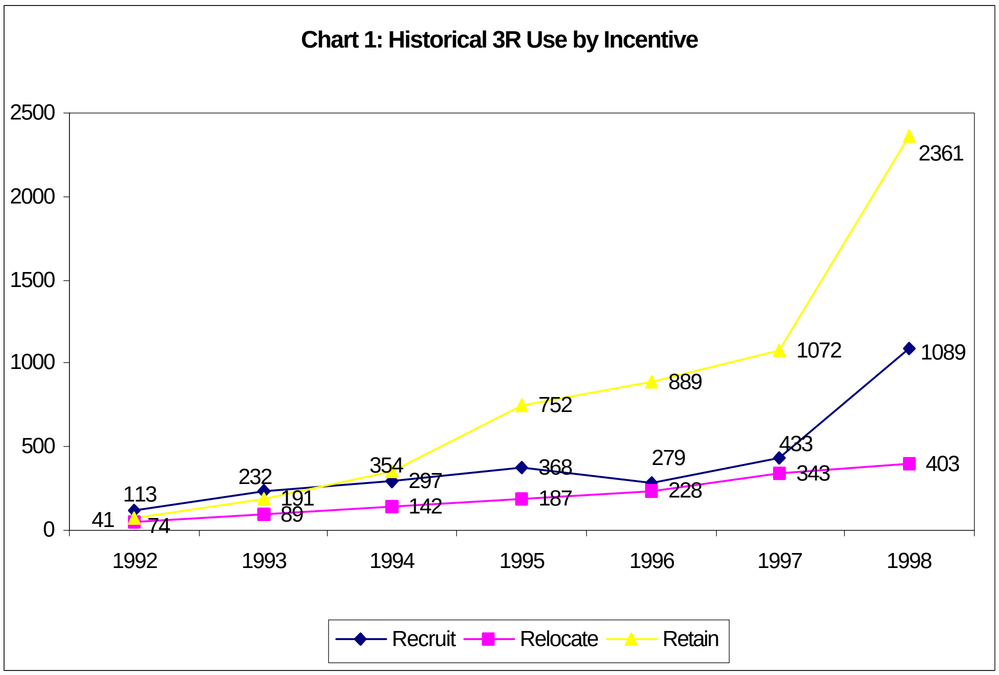
III. USAGE CHARACTERISTICS

Forty-two departments and agencies have used 3R incentives since their inception in May 1991. Current 3R use (based on the OPM Central Personnel Data File as of the end of Fiscal Year 1998) is almost 17 times greater than 1992. Historical analysis indicates that relocation bonuses have had a slow but steady growth while recruitment bonuses started out steady, took a dip in 1996 and moved steeply up in 1998. Retention allowances are the most popular, and have shown the most dramatic growth starting in 1994 and accelerating in 1997. Chart 1 illustrates the trends for each incentive.



Despite the growing use, overall only 0.14 percent of all Executive Branch employees received 3R incentives in Fiscal Year 1998. Recruitment bonuses were given in 0.3 percent of all accessions. Relocation bonuses were given to 1.0 percent of employees who made geographic moves, and 0.09 percent retention allowances were given to Executive Branch employees.

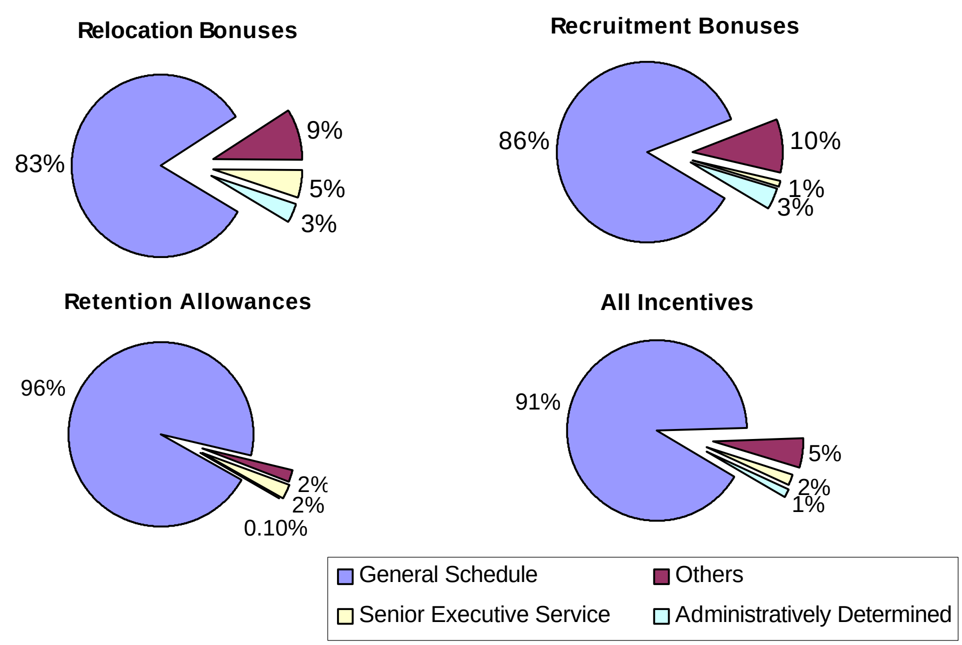
To better understand trends in 3R usage, 3R transactions for Fiscal Year 1998 were analyzed. We specifically looked at distribution by pay plan, occupational series, and grade level; amounts and percentages of incentives; geographic area; concurrent use of special rates; and the rate of retention allowance renewal.

Pay Plan Distribution

The law authorizing 3R incentives covers GS employees only. As authorized by the law, OPM has extended 3R authority to other governmentwide pay plans by regulation, e.g., Senior Executive Service, Senior Level/Senior Technical and to administratively deter-mined single-agency pay plans upon agency request.

Not surprisingly, since 75 percent of Executive Branch employees are under the General Schedule, the overall distribution of 3R incentives by pay plan was overwhelmingly (91 percent) weighted toward the General Schedule (GS, GM, GG). General Schedule employees accounted for over 85 percent of recruitment bonuses; over 83 percent of relocation bonuses; and over 95 percent of retention allowances. (See Chart 2.)

Chart 2: Fiscal Year 1998 3R Distribution by Pay Plan



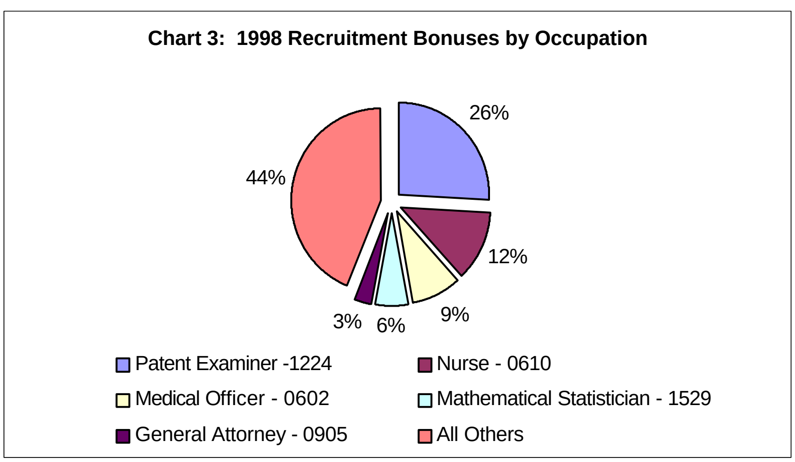
Occupational Series Distribution

In Fiscal Year 1998, the 3R incentives were granted in 172 GS occupational series. This represents approximately 39 percent of the total current GS occupational series.

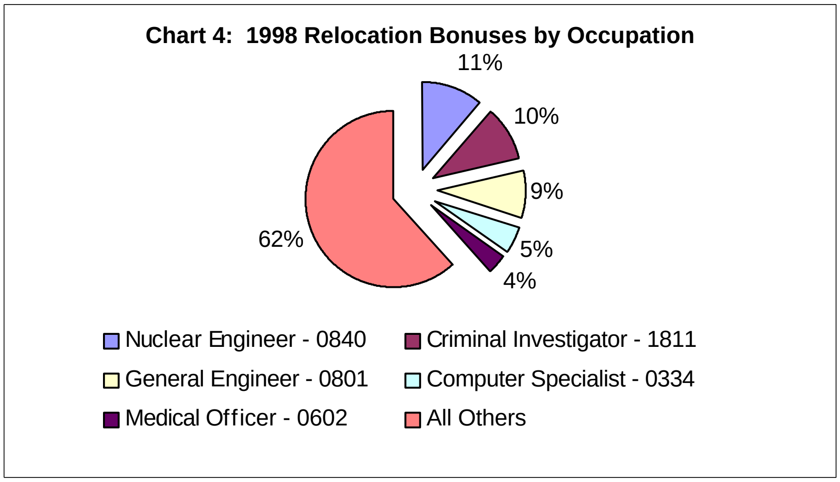
Twenty-nine percent of all these 3R incentives were given to employees in the Computer Specialist Series, GS-334. When the various professional medical (GS-600's) and engi-neering (GS-800's) occupational series are included with GS-334, their combined share of all Fiscal Year 1998 3R incentives is 61 percent.

Table 1: Occupations Receiving the Largest Share of 3R Incentives	
Occupation	**Percent**
GS-334 - Computer Specialist	29
GS-600 - Medical Occupations	21
GS-800 - Engineering Occupations	11
Total	61

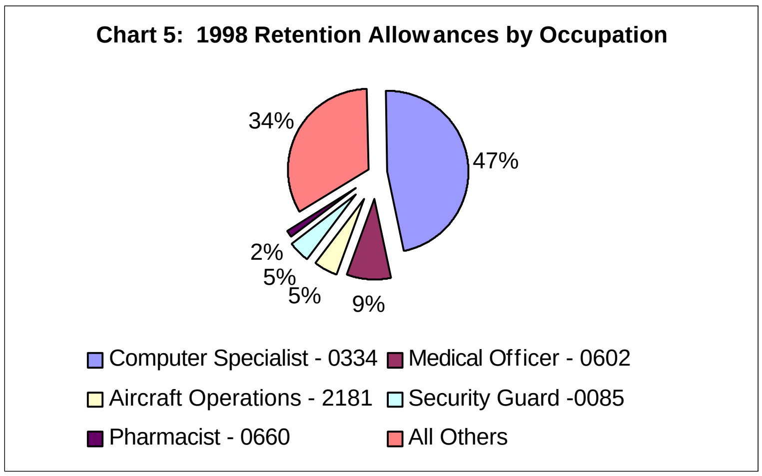
The above three groups also predominate in the three individual incentives categories. Combined for Fiscal Year 1998, they account for over 42 percent of all recruitment bonuses; over 48 percent of all relocation bonuses; and over 73 percent of all retention allowances.



Patent Examining, GS-1224 was the most frequently identified occupational series receiving recruitment bonuses (26 percent) in Fiscal Year 1998. (See Chart 3.)



Nuclear Engineering, GS-840 held that distinction for relocation bonuses (11 percent). (See Chart 4.)



Computer Specialist, GS-334 led the way in retention allowances during Fiscal Year 1998 (47 percent). (See Chart 5.) The retention allowance is the most frequently used incentive and has considerable weight when calcu-lating overall 3R incentive use and characteristics. This is not surprising given current Y2K issues and a continued strong demand for Information Technology (IT) skills. The primary contributor to this significant increase was a single agency's granting of almost 900 retention allowances in Fiscal Year 1998 to critically skilled computer programmers. Interview findings also confirmed that agencies may need to offer retention allowances to more GS-334 employees in addition to recertifying previously initiated retention allow- ances. GS-334's prevalence is expected to continue growing as agencies continue to modernize IT functions beyond January 1, 2000.

Grade Level Distribution

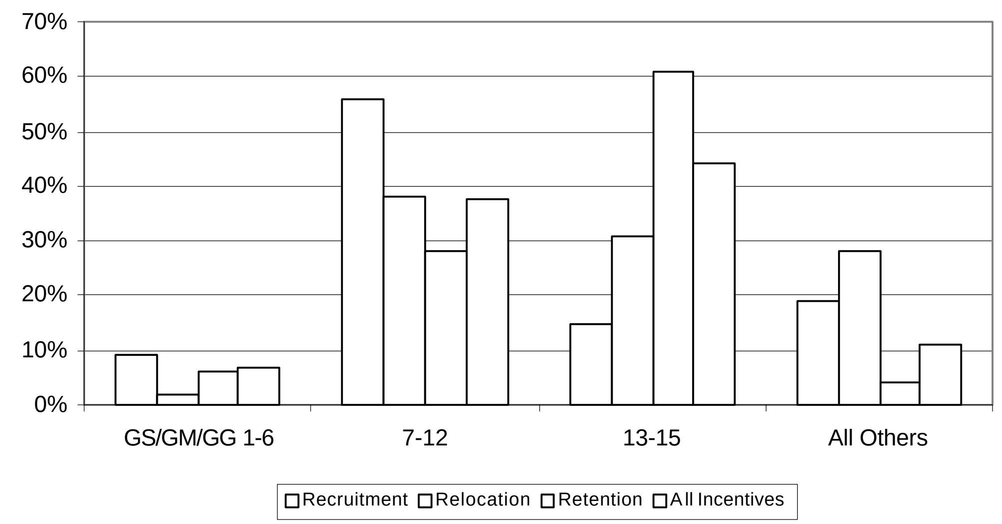
Fiscal Year 1998 3R grade level distribution indicates that 43 percent of all 3R incentives are at the GS-13 to 15 grade levels, GS-13 being the most prevalent grade level at 26 percent followed by GS-12 at 15 percent. Ranking the incentives independently, GS-13 is also the most prevalent grade level for relocation bonuses (22 percent) and retention

allowances (37 percent). GS-13 is followed in both categories by GS-12 at 19 percent and 18 percent.

Unlike relocation and retention incentives, recruitment bonuses are predominantly granted at the trainee and subjourney grade levels. GS-7 is the most prevalent grade level for recruitment bonuses at 26 percent, followed by GS-9 (12 percent) and GS-11 (9 percent). This use of recruitment bonuses is consistent with entry/developmental hiring patterns at the GS-7 and GS-9 for most professional and administrative occupations with full performance positions typically above GS-11.

When grade levels are placed in traditional groupings (i.e., 1-6, 7-12 and 13-15), the following patterns emerge: 57 percent of all recruitment bonuses and 39 percent of all relocation bonuses are at the GS-7 to 12 grade levels; 61 of all retention allowances are at the GS-13 to 15 grade levels. The lowest percentage of use, 7 percent for all incentives, is at the GS-1 to 6 grade levels with one GS-1, no GS-2's and only 8 GS-3's receiving incentives in Fiscal Year 1998. (See Chart 6.)

Chart 6: Fiscal Year 1998 3R Distribution by Grade Level



The data suggests that agencies use recruitment bonuses at the entry levels to attract and develop employees with excellent potential. They use relocation and retention incentives more often at the full performance and senior levels to keep skilled, experienced employees. Although not conclusive, interviews in sampled agencies allude to a general lack of competitive pay at the higher grade levels and the need for incentives to level the job market playing field.

Workforce Diversity

As shown in Table 2, women and minorities receive fewer 3R incentives in comparison with their presence in the Federal workforce. Asian Americans are an exception, having received recruitment bonuses and retention allowances at a rate above their representation in the workforce.

Table 2: Distribution of 3R Incentives - FY 1998

	Recruitment		Relocation		Retention	
	Bonuses	Hires*	Bonuses	Relocations**	Retention Allowances	Percent of Workforce***
Men	66%	50%	75%	67%	65%	56%
Women	34%	50%	25%	33%	35%	44%
American Indian Alaskan Native	1%	4%	1%	2%	1%	2%
Asian / Pacific Islander	15%	5%	3%	4%	7%	5%
Black	13%	18%	5%	12%	12%	17%
Hispanic	4%	8%	4%	8%	4%	6%
Total Minority	33%	34%	14%	27%	24%	30%
Nonminority	67%	66%	87%	73%	76%	70%

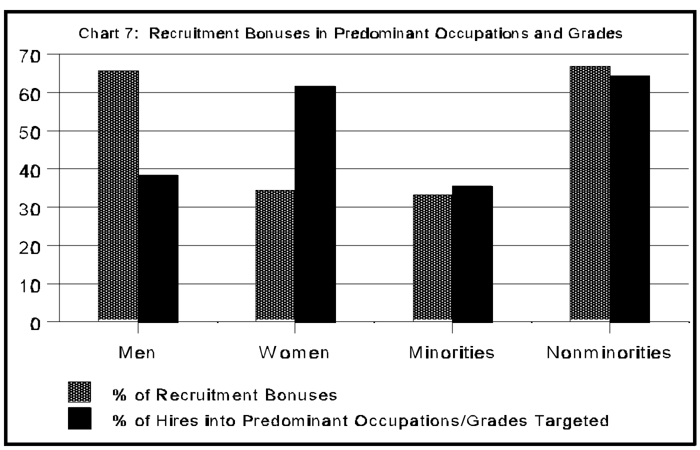
Percentages in Minority column differ due to rounding

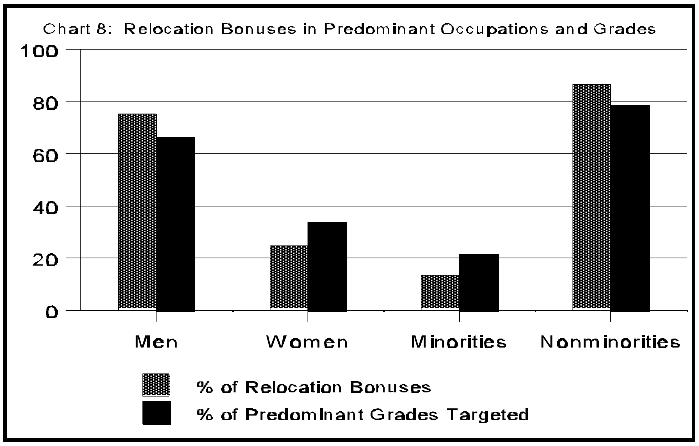
* Includes all accessions and conversions during FY 1998

** Includes geographic changes in MSA

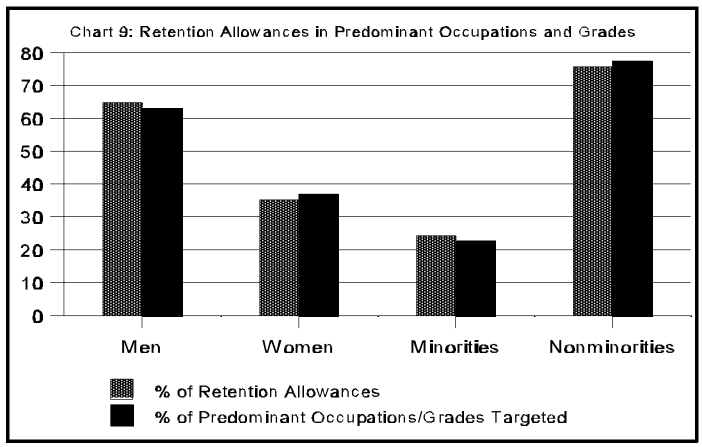
*** Percent of total Federal workforce as of 9/30/98

As shown in Charts 7, 8, and 9, the percentage of 3R incentives granted to women and minorities is closer to their representation in the predominant occupations and grade levels typically targeted for incentives with the exception of recruitment bonuses for women.





Agencies need to continually monitor distribution of these incentives to ensure that 3R use is consistent with and contributes to achievement of their workforce diversity goals and objectives.

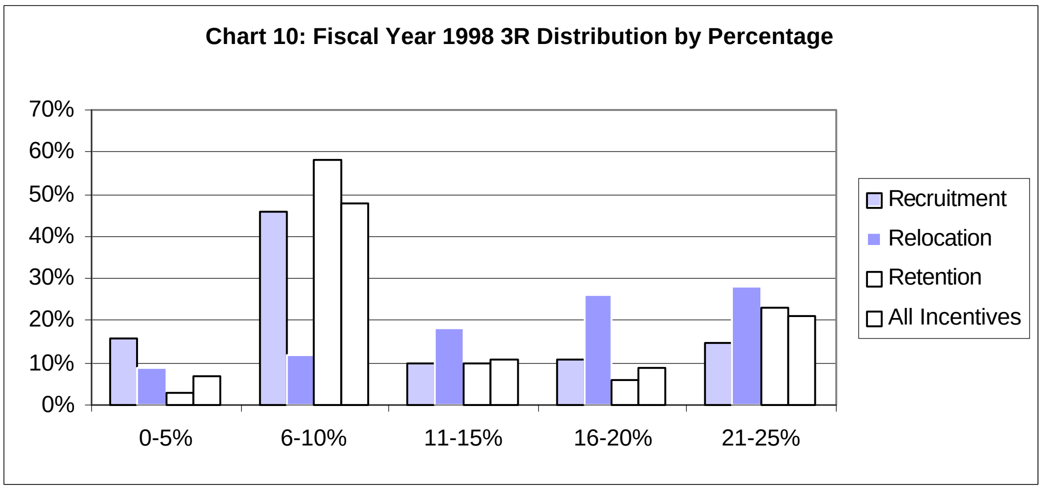


Percentage and Amount of Incentives

3R incentives can be granted for up to a maximum of 25 percent of basic pay. When determining the appropriate amount of a 3R incentive, criteria for payment should include enough labor-market and locality cost factors to competitively meet other job offers or encourage employees to move to less desirable locations. Determining the *right* amount is critical to overall success of recruiting, relocating and retaining employees.

Approximately 56 percent of all incentives were paid at a rate of 10 percent or less. Individually, recruitment bonuses and retention allowances show a similar distribution with approximately 60 percent of these incentives paid at a rate of 10 percent or less. Factors that may contribute to a preponderance of these percentages in the lower ranges are the relative success of lower percentages in attracting, relocating and retaining employees; budget limitations; conservative approaches; aggregate pay ceilings for the highest graded recipients; and standardizing incentive percentages among common groups of recipients. Users interviewed in sampled agencies more often cited standardized incentive percentages, budget limitations and aggregate pay ceilings as contributing factors.

Relocation bonus percentage distribution was different in that approximately 54 percent of the total were paid at a rate of 16 percent or above. The unpopularity of certain geographic locations and the requirement to pay relocation bonuses on a lump sum basis result in higher percentages. (See Chart 10.)



Note: Chart does not include actions containing data entry errors.

Total Fiscal Year 1998 3R cost was $28.7m, with average cost of $8.2k

The total Fiscal Year 1998 amount for all 3R incentives was $28,698,500. The average individual incentive was $8,192.55. The total amount of all recruitment bonuses was $6,569,384 and the total amount of all relocation bonuses was $3,733,569. Consistent with its significantly larger share of all 3R incentives, the total amount of retention allowances was 64 percent of all 3R incentives at $18,395,547. The average recruitment bonus was $6,209.25; for relocation bonuses it was $9,773.74; and the average annual retention allowance was $8,916.89.

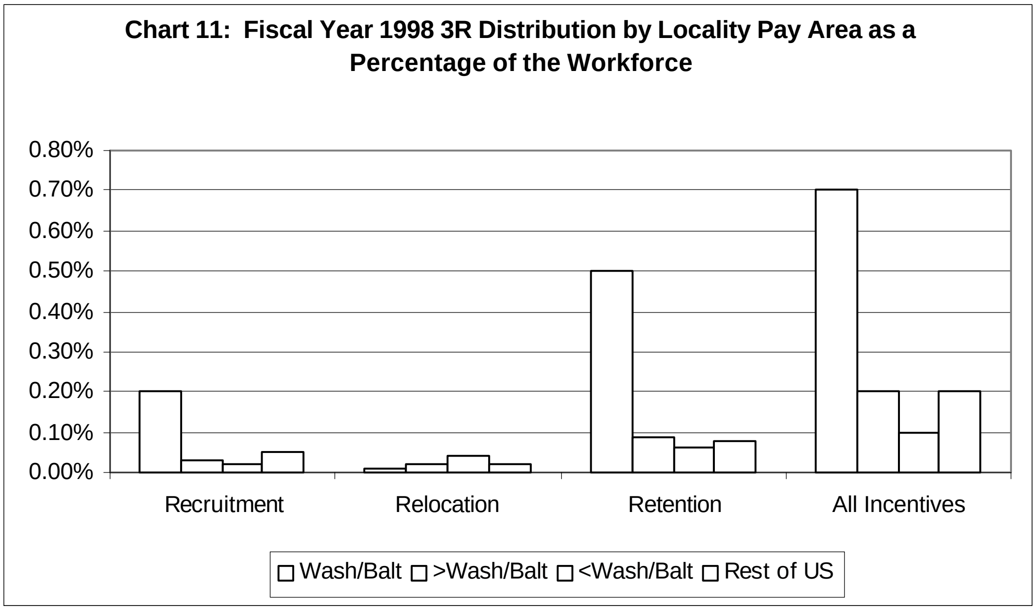
Geographic Distribution

Fiscal Year 1998 3R incentive distribution was reviewed by locality pay areas because of its relationship to the local cost-of-living and labor costs. Comparisons are complicated by the uneven distribution of Federal employees among the various locality pay areas. To allow for equitable comparisons, data was analyzed based on incentives granted as a percentage of the workforce. At 0.7 percent, the Washington D.C./Baltimore locality pay area had the highest level of 3R use, as a percentage of its workforce. This exceeds the combined total of higher locality pay areas (0.2 percent), lower locality pay areas (0.1 percent) and the rest of the United States (RUS) (0.2 percent). The significant numbers of unique, high demand and/or high skilled positions that populate agency central offices and headquarters is the primary reason for the higher percentage of the workforce receiving 3R incentives.

Percent of Washington/Baltimore Workforce receiving 3Rs in 1998:

Retention:	***.5%***
Recruitment:	***.2%***
Relocation:	***.02%***

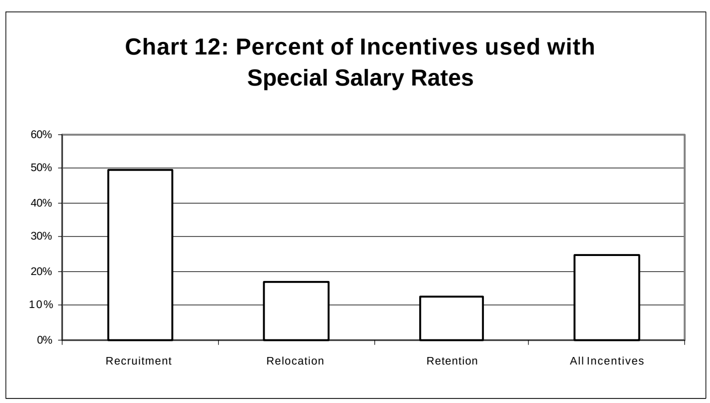
Reviewing the individual incentives, Washington D.C./Baltimore locality pay area has 0.5 percent of its workforce receiving a retention allowance, more than double the 0.22 percent combined total of the other three locality pay area groupings. The significant first time use, in Fiscal Year 1998, of retention allowances for Washington, D.C. employees by a single agency was a major contributor to this disparity. Similarly, the Washington D.C./Baltimore locality pay area, with 0.2 percent of its workforce receiving a Fiscal Year 1998 recruitment bonus, exceeds the 0.13 percent combined total of the other three locality pay areas groupings. Again the significant first time use in Fiscal Year 1998 of recruitment bonuses by two agencies in Washington, D.C. was a major contributor to this disparity. The only individual 3R incentive that did not follow this higher Washington D.C./Baltimore pattern was relocation bonuses. The Washington D.C./Baltimore locality pay area, with 0.02 percent of its workforce receiving relocation bonuses, was individually exceeded by each of the other three locality pay areas groupings. This pattern of relocation bonuses is consistent with an incentive that has as its purpose drawing employees to isolated and less desirable geographic locations. (See Chart 11.)



Concurrent Use of 3Rs and Special Salary Rates

When certain occupations experience significant recruitment and retention problems, agencies can seek OPM approval for increases to minimum salary rates because of pay inequities with non-Federal employees; remoteness or isolation of locations; undesirability of working conditions; or similar circumstances. The authority for special salary rates predates the 3Rs, but looks to address similar impediments to successful recruitment, relocation and retention.

Approximately 10 percent of the Federal workforce is covered by special salary rates. In Fiscal Year 1998, 25 percent of all 3R incentives were used for occupations covered by established special salary rates. (See Chart 12.)



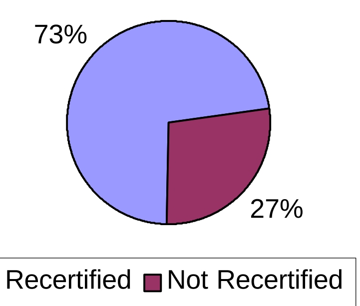
Forty-two percent of all 3R incentives used in conjunction with special salary rates were used with worldwide and nationwide special salary rates. The remaining 58 percent were used only with local special salary rates. Sixty-one percent of all incentives used in conjunction with special salary rates were recruitment bonuses. Sixty-five percent of that total were concentrated in one agency that initiated occupation-specific blanket criteria in Fiscal Year 1998. Thirty-one percent of all incentives used in conjunction with special salary rates were retention allowances. Eight percent were relocation bonuses of which 56 percent were concentrated in one agency that had relied on occupation-specific blanket criteria since 1994.

The special salary rate occupations receiving 3R incentives closely parallel the previously discussed predominant occupations, especially those in the medical field. However, employees in the Computer Specialist, GS-334, occupation generally are not receiving special rates.

Retention Allowance Recertification

Retention allowances, unlike lump sum recruitment and relocation bonuses, are paid on a biweekly basis. Retention allowances may continue as long as the same conditions that led to the original determination still exist. As a minimum, each determination must be reviewed annually and recertified if the incentive is still warranted.

Chart 13: Percent of 1997 Retention Allowance Recertified



In Fiscal Year 1998, 73 percent of the previous year's retention allowances were recertified. (See Chart 13.) This trend is a significant factor in the retention allowance's status as the most used incentive because the recertification of most of these incentives serves as a base that grows with each additional year. We expect that dynamic growth rates will continue given the expected growth in new retention allowances, especially once agencies implement group retention allowance authority. However, as the cost of retention allowances increase, budget limitations in some agencies may become a significant factor in future recertification.

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IV. INTERVIEW FINDINGS

To determine why 3R use has been limited despite complaints about the inadequacies of current Federal compensation, interviews were conducted with a sample of 3R users. However, the comments and recommendations they provided do not necessarily reflect the official positions of any sampled agencies.

A stratified sample of 12 small, medium and large agency users was developed. This included agencies that had experienced a significant fluctuation in their level of 3R use to identify the reasons and relative successes. Individual recipients were pinpointed. Selection criteria maximized the variety of occupations, grades, amounts/percentages authorized, and geographic locations. Based on the identification of specific recipients, selected agencies or sub-agencies were requested to identify the appropriate initiators, approvers, and servicing human resource (HR) office staff. Agency 3R policy and program contacts were identified. Interviews were conducted by telephone from late March through late May 1999.

Of 3,853 3R incentives initiated in Fiscal Year 1998, 195 were selected from 12 agencies. The selected agencies accounted for approximately 53 percent of the 1998 incentives. Four hundred telephone interviews with 3R recipients, initiators, approvers and HR specialists were conducted. (See Table 3.)

Table 3. Sample Size by Incentive

Incentive	Fiscal Year 1998	Sample Size
Recruitment Bonus	1,089	66
Relocation Bonus	403	44
Retention Allowance	2,361	85
TOTAL	3,853	195

In addition, we contacted eight agencies that had little or no 3R use. They reported limited or no recruitment, relocation or retention difficulties which required use of the 3Rs. A few of these agencies indicated that they are considering future use of these incentives as their staffing needs change.

Agency Policy and Support

All of the sampled agencies that used 3R incentives had written plans in conformance with 5 CFR Part 575. Many of the plans dated from the initial implementation of the 3Rs and typically reflected a conservative approach to implementation. When modified, updates usually streamlined the initiation, approval and administrative processing of the incentives, with the intent to facilitate greater use. Common streamlining lowered the approval levels from upper to middle management. In addition, four sampled agencies streamlined the initiation and approval process by setting prescribed criteria. Specific occupations, grade levels, justifications, and award amounts were prescribed, and all candidates meeting the prescribed criteria were eligible to receive an incentive. Each incentive was then processed on a case-by-case basis, citing the agency plan's prescribed criteria and justification. Where streamlining has occurred, most users find the process less "labor intensive," and more expeditious, which has led to greater use of the 3Rs. Conversely, some initiators stated the process was difficult and frustrating when a potential recipient did not fit the prescribed streamlined criteria.

Initiators and approvers generally had reservations about making distinctions among potential recipients and tend to view all those in certain specific groups as eligible and entitled to identical incentive amounts. They feel that avoiding morale problems and third-party challenges as well as the general ease of administration are strong arguments for their approach. The recent authorization of group retention allowances and the increase in use of prescribed criteria will probably serve to reinforce those beliefs.

Increased evaluation of 3Rs needed

By regulation, agencies are required to monitor the use of the 3Rs for applicability and appropriateness. Interviews indicated generally that minimal monitoring and even less assessment has occurred beyond financial tracking. Limited monitoring has led to some problems with the validity of 3R data in agency databases. Two examples of the improper identification and processing of 3R actions were awards erron- eously processed as incentives and using a non-3R recipient as a test of the 3R processing system but forgetting to delete the action from the data base. In addition, during a few interviews, we were told that the CPDF data was incomplete or inaccurate based on the interviewee's personal knowledge of specific recipients.

Knowledge and Awareness

All those interviewed were questioned about their knowledge or awareness of the 3Rs. Responses indicated that there is a correlation between the frequency of 3R use and level of knowledge. Frequent users were more knowledgeable than less frequent users. Among all interviewees, recipients were generally the least knowledgeable. When sampled recipients were asked about the impact of an incentive on their decision to accept employment, relocate or remain with their current employer, over 45 percent stated that it was a factor but not the critical factor in their decision; however, they all appreciated the incentive. Recipients who answered this way were mostly concentrated in those agencies that had taken a group approach in granting 3R incentives.

Compliance

In determining compliance, the primary source of information was telephone interviews that involved questions to validate the initiation, approval, administrative processing and record keeping pertaining to the sampled 3R incentives. Agencies were generally in compliance with regulatory requirements.

The few sampled actions that were not in compliance could readily have been caught and corrected if there was more meaningful internal oversight. Errors included retention allowances above 25% of basic pay, an initiator who also approved an incentive, using retention allowances to address position classification shortcomings, paying an incentive to a Wage Grade employee, and inappropriate justifications. As use of the 3Rs increases, systematic agency oversight is needed to make sure errors do not increase as well.

Effectiveness

> ***"A smarter way of doing business."***
> ***"Very effective."***
> ***"Does the job."***
> ***"A real blessing."***

The overwhelming response by all interviewees was that the 3R incentives were very effective in attracting, relocating and retaining employees. Initiators, approvers, and agency HR staff generally believed that the absence of these incentives would have placed agencies at a distinct competitive disadvantage with direct impact on mission and programs. The sampled agencies have performed little formal assessment of the effectiveness of the 3Rs. They tend to point to anecdotal examples of successful

hiring, relocation and retention when incentives are used, and the fact that overall 3R use is increasing as indicators of effectiveness.

Amounts/Percentage

As noted earlier, 3R incentives can be granted in amounts up to a maximum of 25 percent of annual basic pay. Users are expected to determine the minimal incentive amounts necessary to successfully recruit, relocate and/or retain. The data shows that the majority of incentives are granted for less than the maximum and tend to be identical for identical groups. Some sampled agency plans required documented cost analyses that reflected competitive rates by geographic locality. However, there is a growing trend to standardize the amounts/percentages on a group basis regardless of location. Managers and HR specialists cited a simpler justification process, avoidance of potential morale problems, and the need to accommodate budgetary limitations as reasons for this trend.

Despite the fact that a majority of incentive percentages are less than the maximum, we received some recommendations to increase the maximum amount. Just over 10 percent of all interviewees felt that a sustained highly competitive job market will only “raise the bar” of what constitutes meaningful monetary incentives and current maximums will be insufficient in the near future.

Relationship with Other Human Resource (HR) Flexibilities

The 3Rs are some of many HR flexibilities that are in the Federal government’s arsenal to hire and retain a highly qualified workforce. Interviewees were asked about their use of various other HR flexibilities either in combination with the 3Rs or as alternatives. Other HR flexibilities typically used by sampled agencies included: special salary rates; advanced in-hire rates; advances in pay; first post of duty expenses; quality step increases and monetary awards. Also typically used are non-monetary HR flexibilities typically categorized as “family friendly” programs such as alternative work schedules, telecom-muting or flexiplace, leave banks and child care facilities. Other traditional “benefits” that are used to maximize the perception of the sampled agencies as the employer of choice are fare subsidies, training opportunities, tuition assistance, and time-off awards.

The 3Rs are typically used in combination with one or more additional HR flexibilites. A few agencies prohibit the use of certain incentives and HR flexibilities in combination, e.g., advanced in-hire rates and recruitment bonuses. The overwhelming majority of interviewees felt that the 3Rs alone were not enough to guarantee the successful recruit-ment, relocation or retention of certain unusual and uniquely skilled employees. The interviewees preferred remedy was competitive pay, i.e., basic and/or locality pay.

Group Retention Allowance

Effective June 1998, revised regulations authorized the use of retention allowances for groups or categories of employees who possess high or unique qualifications or when a special need exists for their services that makes retention essential. In addition, agencies must determine that there is high risk that a significant number of the group will leave Federal service without the allowance. Unlike previous regulatory guidance, case-by-case determinations that each employee is likely to leave are not required.

Agencies that set prescribed criteria still processed each allowance on a case-by-case basis. These agencies partially achieved some operating efficiency but without the streamlining benefits of the new group retention authority. We anticipate that the new group retention authority will be well received as another logical step in streamlining the 3R process.

Is the Level of 3R Use Sufficient?

We asked if current levels of 3R use are adequately meeting agency needs. A majority of all interviewees stated that greater use is necessary to remain “in the game” in recruiting, relocating and retaining highly skilled and qualified employees for certain highly competitive positions.

The most common impediments cited to greater use of the 3Rs were prolonged hiring freezes and/or budgetary constraints associated with the recent period of governmentwide downsizing and Federal deficit reductions. The recent upsurge in the use of the 3Rs in the sampled agencies is directly related to the increased availability of funds and renewed hiring. Budget considerations still play a significant role in the amounts authorized. Limited budgets and the previously cited general reluctance to make case-by-case distinctions on incentive amounts means that a given fund tends to be equally divided among all recipients. When identical amounts were used to authorize 3R incentives for large numbers of recipients, budget-driven low individual amounts were less competitive or were not a critical factor in a recipient’s acceptance of employment, relocation or decision to stay.

Another frequently cited impediment to greater use of the 3R incentives is the requirement in many sampled agency plans for high levels of approval. OPM regulation only requires that each determination be reviewed and approved by an official in the agency who is at a higher level than the initiator. When originally written, many sampled agency plans designated very high approval levels with the rationale being budgetary concerns and a need to assure propriety and equity in granting incentives. This initial conservative practice has generally been modified to lower approval levels as 3R use increases and demands on executive management’s time increases.

Both budgetary and approval level impediments are based on agency decisions external to the regulations. However, some legal or regulatory impediments identified by interviewees were:

- prohibition on using incentives to attract current Federal employees and to retain employees with other Federal sector job offers;
- requirement for annual retention allowance recertification;
- aggregate compensation maximum (Level I of the Executive Schedule) too low to allow for meaningful Senior Executive Service (SES) incentives;
- incentive maximums too low; and
- lack of flexibility in methods of paying 3R incentives.

Interviewee Suggestions and Recommendations

An important element of this study was to solicit any suggestions and recommendations to improve the use of the 3Rs. In general, interviewees gave the 3Rs high marks as effective tools in attracting, relocating and retaining employees. However, they feel that the 3Rs alone can not make them competitive employers. They believe there is a need for more realistic basic and/or locality pay rates together with regulations that give management officials more flexibilities to choose and implement a full range of total compensation options. Several references were made to the concept of "manage to budget" where managers exercise considerable compensation authorities within prescribed budgets with full accountability for their decisions.

Recipients, initiators, approvers and HR staff all basically share the opinion that the compensation flexibilities of the 3Rs should not be eliminated. However, 147 of the 400 interviewees offered a variety of suggestions and recommendations for improving the 3R processes. These suggestions are listed below in descending order of frequency:

- increase maximum award amounts (43 comments), the majority of these wanted the 25 percent statutory limit raised from 30 percent to 50 percent and most of the remainder wanted their agency imposed limit raised;
- general streamlining of the 3R processes, e.g., "manage to budget", reduce paperwork, "quit developing systems based on mistrust" (34 comments);
- improve knowledge and awareness level, e.g., more information on agency and OPM websites (27 comments);
- give managers discretion to grant retention allowances without formal job offers as required by agency plans but not by regulation, i.e., timing is imperative and sometimes if there is a formal job offer it is already too late (15 comments);

- pay retention allowances on permanent or multi-year basis without requiring annual recertification (13 comments);
- encourage lower approval levels (8 comments);
- allow greater flexibility in method of payment, i.e., choice between lump sum and

various incremental payments of any incentive (6 comments);
- establish minimum incentive dollar amounts, i.e., sometimes, based on an approved percentage, the after tax amount is embarrassingly low (5 comments); and
- authorize retention allowances for employees who have comparable job offers with other agencies (4 comments).

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V. NON-FEDERAL ENVIRONMENT

In addition to data analysis and interviewing Federal sector users of the 3Rs, OPM commissioned research to look at their use in the non-Federal public and private sectors. The Corporate Leadership Council (CLC) interviewed compensation representatives from three state governments and three private corporations. In addition, CLC reviewed recent literature on the use of 3R type payments and provided a report of overall findings.[1]

The currently strong national economic growth and the demands for more skilled high-technology employees are placing increasing pressure on all employers, private and public, to offer significant incentives to attract the best employees. In addition, once hired, relocating and retaining employees has required employers to provide incentives in order to maintain job satisfaction.

Recruitment Incentives

Two of the state governments contacted used lump sum recruitment bonuses with one additionally establishing a maximum incentive percentage. The third state government did not offer recruitment bonuses, but offered broad salary bands for information technology (IT) personnel only. Those state governments that offered recruitment bonuses required service agreements and all new hires were potentially eligible for the bonuses.

Interestingly, in addition to recruitment bonuses, one state government offered all current employees a “finder’s fee” (employee referral bonus). Finder’s fees up to $1,000 were awarded in two equal payments with one at the time of hire and the other after 6 months of successful employment. Finder’s fees were limited to referral of highly skilled applicants for shortage posts. This was considered highly successful because current employees were good recruiters who had intimate knowledge of the organization and its culture, and avoided referral of marginal or non-qualified job applicants.

The one consumer products and two service industry private sector companies contacted offered one-time lump sum recruitment bonuses. Amounts varied ranging up to 28 percent of base pay. Eligibility ranged from all new hires to offers limited to college degree-specific graduates only. The number receiving recruitment bonuses ranged from a highly specialized few to approximately 50 percent of all new hires. The majority do not require service agreements and overall use of this incentive has increased by as much as 40 percent in the last several years.

[1] Corporate Leadership Council Fact Brief, “Recruitment, Retention and Relocation Incentives (May 1999).

Literature research indicates that the use of recruitment bonuses in the private sector is increasing. In a recent survey of 41 companies offering recruitment bonuses, over half offered bonus amounts of more than $3,500. The majority of all bonuses range from 6 to 15 percent of base pay. Over half of all bonuses went to information technology (IT) employees. Few of the firms offering recruitment bonuses had established administrative guidelines, instead relying on managerial discretion. Forty-six percent of surveyed private firms used employee finder's fees. Amounts are awarded lump sum and range from $50 to $2,000. Payment is typically made after a new hire has successfully completed a specified period of time. Research indicates that employers view finder's fees as cost effective when compared to potentially high cost recruitment techniques such as advertising, contracted recruitment services and participation at college job fairs. They find that current employees turned recruiters are reluctant to make poor referrals.

In comparison to the Federal government's current use of recruitment bonuses, non-Federal public and private sectors have many similarities. The primary differences are limited use of service agreements in the private sector, more managerial discretion and the successful use of employee finder's fees.

Relocation Incentives

Fifty percent of non-Federal public sector and private sector contacts provide relocation incentives as either lump sum bonuses or salary differentials. Maximum amounts are prescribed and eligibility ranges from all current employees to management and executive levels only. The variability in use for relocation incentives range from steady use in one organization to a 50 percent increase in use in another since 1996.

Similar to the Federal government, relocation incentives are mostly viewed as an integral part of a total relocation plan. Both non-Federal public and private sector employers contacted provided varying degrees of relocation expense reimbursement, i.e., real estate and moving expenses. Some provide the services at no cost to the employees, some reimburse for actual expenses incurred, and some provide fixed lump sum payments and leave all relocation responsibilities and expenses to the employee. The CLC contacts indicated they also provide a variety of additional relocation incentives typically not available in the Federal sector. Incentives include: housing allowances; reimbursement for cost of evaluating school systems; additional cash incentives for homeowners; additional cash incentives if married; and spousal career counseling.

Retention Incentives

Contacts and literature research reveal that the use of “stay for pay” incentives outside the Federal government are administered differently. Four of the six contacted state governments and private sector firms offer lump sum retention bonuses instead of allowances paid on a prorated basis. Such bonuses are used to either retain key employees or to guarantee meeting critical project or assignment milestones. Established criteria usually exist cover- ing maximum amounts and, if paid to retain key employees, a service agreement is required. If paid for special projects, payment is made upon completion of the project. Similar to recruitment bonuses, retention incentives are administered with significant management discretion and the use of retention incentives is increasing.

In private sector firms, “stay for pay” incentives are viewed mostly as deferred compensa- tion with the flexibility of allowing employees to choose cash, stock options or 401(k) and IRA deposits. Research indicates that these incentives lower turnover and increase motiva- tion with minimal administrative costs.

In contrast to the Federal government’s current use of retention allowances, non-Federal public and private sector employers make payments on a lump sum basis with the private sector having additional options, e.g., stock options and profit sharing, not available to the public sector. In addition, non-Federal public and private sector managers have considerable discretion in when and how to use a retention incentive.

Other HR Flexibilities

When facing stiff competition for scarce skills, non-Federal public and private sector contacts use additional flexibilities for attracting, relocating and retaining employees. Similar to the Federal government, a variety of family friendly enhancements are used, i.e., flexible work schedules, telecommuting, day care facilities and leave banks. In addition, other benefits not widely available in the Federal sector are offered. These benefits include profit sharing, extensive tuition reimbursement, day care expense accounts and broad banding compensation. Given the state of the U.S. economy and the increased demands for certain professional and high technology skills, especially IT, it is anticipated that creativity in enhancing existing flexibilities and developing new flexibilities will be needed to remain competitive in today’s job market.

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VI. CONCLUSIONS

Today's highly competitive job market is presenting many challenges to Federal agencies as they strive to attract, retain and relocate highly or uniquely skilled and qualified employees. The 3Rs were authorized eight years ago to enhance competitiveness and to assist in meeting compensation challenges. We were able to draw a number of important conclusions from our research and interviews about the nature and success of the 3Rs in meeting that aim.

The 3Rs are effective.

There was an overwhelming endorsement of the 3Rs as an effective flexibility in keeping the Federal government "in the game" for scarce skilled employees in today's highly competitive job market. Besides special salary rates, agencies with significant numbers of medical and engineering occupations have come to rely on the 3Rs as a necessary addi- tional flexibility. In addition, IT positions have quickly joined the list of occupations that have the highest percentages of 3R incentives. This is primarily due to one agency's significant use of retention allowances for their IT positions in Fiscal Year 1998. Still there are clear indications that the use of 3R incentives for IT occupations will continue to grow as a result of projected increases in this highly competitive job market.

Our interviews underscored the fact that the 3Rs alone do not guarantee successful recruitment, relocation and retention. Other HR flexibilities are also required. Flexibilities ranging from special salary rates to providing a family friendly work environment are commonly used in conjunction with the 3Rs.

3Rs alone do not guarantee success

Limited resources and high approval levels deter greater use of the 3Rs.

Historical use of the 3Rs reflects the impact of governmentwide budget cuts, downsizing and prolonged hiring freezes. Although there has been an almost consistent growth in the use of all three incentives, the rate of growth was not dramatic until Fiscal Year 1998. Those agencies with greatest growth in the use of the 3R incentives in 1998 significantly increased their 3R budgets to meet the "raising of the bar" of today's job market, and immediate critical needs such as the Y2K compliance emergency. However, budget limitations still impact the use of the 3Rs. In several instances the amount of individual incentives have been reduced below justifiable levels because of budget limitations and a general reluctance to offer different incentive amounts to individuals in otherwise common groups.

In addition, we received a number of complaints from initiators and approvers about agency 3R plans with very high approval levels. The current regulatory guidance only requires that approvers be at a higher organizational level than the initiator. Those interviewees who complained believe that high approval levels discourage use of the 3Rs even when they are easily justifiable. There is evidence that approval levels, consistent with budget authority, are being lowered in agencies with increased use of the 3Rs. Streamlining the process and the added administrative burden on senior management to review and approve increasing numbers of incentives are the cited reasons for the change.

Agencies are in general compliance with 3R regulations.

Based on interviews and reviews of required 3R plans and supplementary guidance, sampled agencies were generally in compliance with regulations. We did receive some comments on the "rigidity" of agency plans and supplementary guidance. Some of these comments reflect the conservative approach that goes beyond legal requirements some agencies have taken in developing their 3R plans.

The few errors that were identified, e.g., an initiator who served as an approver and inappropriate justifications, would probably have been caught and corrected if agencies had more aggressive internal monitoring and assessment programs.

The typical Fiscal Year 1998 3R recipient is:

- GS-13 or above professional or IT employee;
- working in the Washington, D.C./Baltimore area; and
- receiving an annual 10 percent retention allowance of $8,200.00**.**

Data research indicates that the occupations that receive the most 3R incentives are the same types of positions that demand competitive compensation in the greater national and global job markets. IT occupations have experienced the greatest increase in their share of total 3R incentives. Based on interviews, this trend is expected to continue, if not increase, in the future. Those agencies who have had little 3R activity indicate that they are now addressing their IT "problems" with the use of the 3Rs. Although not currently in use by any of the sampled agencies, the anticipated use of the new group retention authority is expected to facilitate a greater use of this incentive for IT occupations as well as others.

Incentive amounts on average are well below the maximum. Based on the anecdotal comments of interviewees, they believe this is likely the result of budget limitations and a general reluctance to offer different amounts to individuals in predefined groups of eligibles. Alternative explanations could be that the amounts offered are sufficient in the current labor market and that low Federal turnover minimizes the need for maximum retention allowances. Our study methodology precluded us from identifying and interview- ing those who declined job offers or left because of insufficient incentive amounts.

Competitive job markets require creative compensation.

Today's highly competitive job market has forced both the public and private sectors to creatively look at their total compensation if they are going to "stay in the game." The use of cash incentives to attract, relocate and retain employees are common flexibilities in both the non-Federal public and private sectors. The rate of use is also increasing and the types of occupations and high or unique qualifications that are in demand are very similar to the Federal sector. Although the basic approaches are similar, the private sector tends to allow managers more discretion in determining who will get an incentive and what the amount will be with a minimum of guidance.

The private sector also has greater flexibility in terms of other incentives that are not available in the Federal government. Meaningful incentives like profit sharing and stock options are incompatible with the public sector. Others, like pay banding, only exist in the Federal government as limited tests under demonstration project and other separate legislative authorities. However, many other HR flexibilities are now common to all sectors. These include an array workplace and work schedule options that are more compatible with employees' family obligations and quality of life issues.

One commonly used incentive that could be of value to the Federal government is giving "finder's fees" to current employees who assist in recruiting for in-demand occupations. The use of existing incentive awards criteria to grant "finder's fees" to Federal employees is used in at least one agency, primarily for medical occupations. Based on the overall cost effective success of this incentive, additional agencies may choose to use "finder's fees" when circumstances warrant. However, agencies must ensure fair and open competition in order to avoid cronyism, lack of adherence to public policy such as veterans' preference, and potential conflicts of interest among examiners and selecting officials. The use of such "finder's fees" should be limited to employees who otherwise are not involved in the recruitment and hiring process. For employees whose job duties encompass recruiting and hiring, there are other reward options available to recognize exemplary performance in those areas. Furthermore, agencies who choose to use "finder's fees" need to establish clear criteria for when they will be paid. Such criteria could include requirements for the prospective hire to actually take the job and remain on board as a satisfactory employee for some specified period of time. This type of criteria would make it clear that "finder's fees" are not given solely for referrals, but are reserved for actually assisting the agency in acquiring new staff.

Interviewees feel that improvements can be made to the 3Rs.

A major element of our study was to solicit any suggestions or recommendations for improving the use of the 3Rs. As effective as the 3Rs have been, 37 percent of our contacts feel that additional enhancements would improve overall responsiveness and effectiveness. The recommendations reflect the views of individuals interviewed and do not reflect official positions of any of the sampled agencies. In general, granting managers more flexibility and authority to initiate and approve 3R incentives is the common theme of interviewee suggestions. They would look to the private sector approach as a benchmark. Some recurring suggestions such as increased funding, lower approval levels, and minimum incentive dollar amounts are decisions for the suggestors' agencies.

Specific interviewee suggestions to improve use of the 3Rs that would require changes in law or regulation include increasing maximum incentive amounts; allowing flexibility in how incentives are paid; raising the aggregate compensation maximum; allowing retention allowances for employees who would leave for employment in another agency; and eliminating or modifying the retention allowance recertification requirement. Without careful analysis, certain of these recommendations could lead to inappropriate uses of the incentives and potentially costly competition among agencies. For example, elimination of the retention allowance recertification requirement could lead to misuse. Other legal and regulatory changes require more in-depth study by OPM and stakeholders.

VII. RECOMMENDATIONS

This study was initiated to identify the characteristics of governmentwide 3R use and to examine the general perception that the 3Rs are underutilized. We reviewed 3R use data and interviewed numerous users and solicited their experiences with the incentives and their recommendations for improvements. OPM is currently reassessing total compensa-tion in the Federal government and the timing of this study, its findings and user recommendations will make a significant contribution to that reassessment. These recommended actions are separated by those appropriate to Federal agencies and those appropriate to OPM.

FEDERAL AGENCIES SHOULD:

Increase 3Rs knowledge and awareness levels

Interviews and suggestions point to a need to make management officials more knowledge-able about the 3Rs. The knowledge level and awareness of these incentives is directly related to their frequency of use. The new group retention authority has not been used by the sampled agencies and unsurprisingly it had a very low level of awareness.

Reassess 3Rs funding levels

Budget levels were identified as a current or future impediment by a majority of interview- ees in 11 of the 12 sampled agencies. The Federal government's recent overall downsizing and agency imposed hiring freezes have directly impacted the use of the 3Rs. As agencies have begun renewed hiring and experienced the realities of today's competitive job market, those managers with staffing problems understand the need for additional cash incentives to be successful. Similarly, the need to retain and relocate growing numbers of critically skilled employees will require more competitive incentives. Unfortunately, budgets have sometimes been inadequate. To be a competitive employer in a job market characterized by skills shortages, agencies will need to carefully plan their 3R funding.

Consider streamlining agency plans and lowering approval levels

There were many recommendations to lower approval levels and ease the justification burden imposed in many agency plans. Some of these requirements go beyond the basic legal requirements, and interviewees believed agency plans discouraged or impeded greater use of the 3Rs. Four sampled agencies have streamlined the initiation and approval process by identifying prescribed criteria that automatically allow all who meet the criteria to receive a 3R incentive. Streamlining was generally seen as a positive approach, significantly eased the administrative burden, and proved much more responsive.

Improve 3Rs monitoring and assessment

Whether due to lack of activity or program priorities, internal agency 3Rs monitoring and assessment beyond financial tracking have been generally minimal. Identified data input errors would probably have been caught and corrected with more meaningful monitoring. With a trend toward streamlining, the need to more aggressively monitor and assess individual 3R incentive programs becomes even more imperative. With limited resources and increased use of the 3Rs, assessments of costs versus benefits, impact on workforce diversity issues and overall effectiveness will be critical.

OPM WILL:

Increase governmentwide awareness of the 3Rs

OPM will take steps to increase awareness of the 3Rs. OPM will establish a prominent link on the OPM website that will include fact sheets or guides, questions and answers, this report, and other appropriate material. OPM will also highlight the 3Rs at appropriate OPM-sponsored conferences and training sessions and at interagency councils such as the Interagency Advisory Group. In addition, OPM will provide agencies with regular reports on 3Rs usage.

Seek improvements in the 3Rs authorities

Based on the Government's experience since the 3Rs authorities took effect in 1991, OPM believes changes in law or regulation could make the 3Rs more useful and effective tools for agencies. OPM is actively evaluating various possible changes. Our evaluation will include the following interviewee recommendations among the changes under consideration:

- raise maximum 3R incentive amounts;
- raise maximum aggregate pay ceiling for SES employees;
- allow recruitment bonuses for current Federal employees in certain situations;
- review the rationale to prohibit retention allowances for employees with job offers at the same or different agencies; and
- allow flexibility in methods of incentive payment.

Improve 3Rs monitoring and assessment

OPM will work with agencies to help them incorporate coverage of 3R effectiveness and efficiency into agency accountability systems and use accountability results to improve strategic use of the 3Rs in their workforce planning and recruitment.