




**Department of Energy**  
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**MEMORANDUM FOR DISTRIBUTION**

**FROM:** JOEL GONZALEZ   
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(MA-612)

**SUBJECT:** Approval Procedures for Fiscal Year (FY) 2021 – Contractor  
Compensation Increase Plans

This memorandum provides guidance for analysis of FY 2021 Contractor Compensation Increase Plan (CIP) proposals. For Contractors that meet the CIP streamline criteria as set forth in their contracts, a notification must be provided to the Contracting Officer of planned increases and position to market data by mutually agreed-upon employment categories.

Federal Acquisition Regulation (Subpart 31.205-6) and Department of Energy Acquisition Regulation (DEAR) (Subpart 970.3102-05-6) cost principles establish as reasonable, compensation costs that are comparable to those in the labor market which contractors compete for employees. Total compensation (i.e., direct pay and benefits) must be considered in determining market position.

Contracting Officer (CO) approval of contractor CIPs for FY 2021 requires adherence to contract terms and conditions, Department of Energy (DOE) Order 350.1, Chapter IV, Compensation, and Acquisition Guide Chapter 70.3102-05-6, Contractor Compensation - Variable Pay. The following procedures remain in effect until superseded and should be employed in the analyses of CIP proposals:

- COs and contractors must mutually define and document in advance those employee groups (e.g., exempt, non-exempt) to be included under the CIP.
- The FY 2021 contractor operating budget should be included as a factor in the development of the proposal and in the evaluation and determination of the amount of CIP approved. The CIP must be affordable within the constraints of the contractor's operating budget. COs should consult with the Chief Financial Officer (CFO) organizations and Program Secretarial Officers (PSO) to validate that operating budgets beyond FY 2021, can sufficiently bear the costs of the CIP approved for FY 2021 (including consideration of whether the contractor will be required to make contributions to their defined benefit pension plan(s)).

- CIP approvals must be justified by appropriate market data, including relevant markets, balanced comparisons (e.g., base pay to market base pay, and value of total benefit package to average market value total of benefits), accurate benchmarking, and reasonable sampling of surveyed positions. COs' shall consider projected market movement as forecasted by appropriate and recognized surveys. Where contractor total compensation exceeds market position, DOE approved CIPs should be less than the projected market salary and wage movements to bring the pay rates closer to market. This would not have to occur all in one year, but the approved fund for FY 2021 should be reduced below projected market movement, yet be sufficient to address high performers who are below market rates.
- WorldatWork (a global human resource association) reported in its 2020-2021 Annual Salary Budget Survey that the average 2020 total salary budget increase across all organizations, employee categories, regions, and industries was 2.9%. For FY 2021 WorldatWork projects a total salary budget increase for the following employee categories: Nonexempt Hourly Nonunion – 2.9%, Nonexempt Salaried – 2.9%, Exempt Salaried – 2.9% and Officers/Executives – 2.9%.
- For FY 2021, WorldatWork projects a salary structure adjustment of 1.9%.
- For FY 2021, COs should expect to see modest compensation increase budgets of approximately 2.9% for all employee categories based on anticipated market movement (excluding promotion funds which are typically 0.5 – 1 percent). In situations where total CIP budgets exceed 3.9% (excludes variable pay and salary structure adjustments), the CO may want to use the services of DOE's technical support contractor, Deloitte Consulting LLP, to assist in their analysis. Utilization of Deloitte Consulting LLP may be coordinated with Alesia Harmon in the Contractor Human Resources Policy Division at (202) 287-1476 or [Alesia.Gant@hq.doe.gov](mailto:Alesia.Gant@hq.doe.gov).
- Merit, promotion, and adjustment funds should be justified, established, and tracked separately. Normally, merit fund amounts which exceed the employee group's cost to market position should not be approved. While adjustment funds should provide for needed internal and external equity increases and retention pay for particular job classifications or families, **merit funds should only be used for increases based on merit.**
- After receiving DOE approval of CIP, contractors may make minor shifts of up to 10% of approved CIP funds by employment category (e.g., Scientist/Engineer, Admin, Exempt, Non-Exempt) without coming back to DOE for additional approval.
- The DOE Acquisition Guide, Chapter 70.3102-05-6, Contractor Compensation Variable Pay, provides the criteria for DOE approval of variable pay programs.
- The absence of an approved variable pay program under the Acquisition Guide Chapter 70.3102-05-6, does not preclude COs from approving single-purpose

allocations for variable pay, such as lump-sum performance pay and recruitment or retention bonuses. Should it be necessary to continue allocations beyond one fiscal year, the criteria of Acquisition Guide, Chapter 70.3102-05-6, must be adhered to.

- Allocations for variable pay requested in conjunction with the CIP must be incorporated into the overall CIP fund as either a separate item or as a subset of merit or adjustment funds, as appropriate.
- In 2020, the percentage of organizations using variable pay is approximately 84%. A strong commitment to pay for performance was evident even throughout the recession and remains a staple element of rewards as the salary budget increase for merit remains around 3%.
- The Contractor Salary-Wage Increase Expenditure Report (DOE F 350.1) must be used to report actual expenditures under the CIP by employee group and cost category (merit, promotion, adjustments, and variable pay).

The approved CIP and Contractor Salary-Wage Increase Expenditure Report must be submitted annually to Alesia Harmon at [Alesia.Gant@hq.doe.gov](mailto:Alesia.Gant@hq.doe.gov) in the Office of Acquisition Management, Contractor Human Resources Policy Division (MA-612).

Finally, in an effort to support consistency in the assessment of reasonableness pursuant to FAR 31.205-6, as well as collaboration with other DOE specialists, including program and budget officials, the attached guiding principles are provided for the contracting officer's consideration in reviewing contractor compensation proposals, including CIP proposals.

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### Federal CHR Guiding Principles for Compensation Actions

The following guiding principles (i.e., basic tenets that guide Federal CHR personnel decision making) should be followed when evaluating contractor compensation related proposals and providing advice to the Contracting Officer as to whether the contractor proposals are consistent with the Federal Acquisition Regulations (FAR). These guiding principles do not address budget considerations or mission needs as those are the responsibility of the program office.

1. The primary responsibility of the Federal CHR personnel is to oversee and provide advice to the Contracting Officer (CO) in the assessment of contractor human resource programs including compensation related proposals in accordance with the applicable contract and pursuant to the FAR and to rely on appropriate program officials in assessing the technical programmatic aspects of the action (e.g., the need for a particular specialized skill to accomplish the mission or assessment of the relevance of a proposed individual's experience).
2. Formal Federal direction to the contractor comes from COs or from authorized Contracting Officer Representatives that have been designated in writing indicating the limits of their role and authority. However, as functional managers, Federal CHR personnel are expected to communicate and collaborate informally and routinely with contractor partners to ensure the most efficient and effective execution of mission objectives while adhering to Federal and Departmental requirements (e.g., Acquisition letters, Acquisition Guide, DOE Orders).
3. The primary data point for determining the reasonableness of the contractor's compensation-related requests is applicable market data as further described below and in the FAR:
  - a. Reasonableness of compensation is based upon comparison with companies of the same size, same industry, same geographic location, and engages in similar non-government work under comparable circumstance. (Reference FAR 31.205-6(b) (2)).
  - b. Factors to consider in requests for variable pay programs include market survey data, and contractor assurance that the program will be implemented within cost and budget constraints, and mission objectives.
4. The overarching objectives in conducting reviews of the Contractor's compensation system is to assess the internal controls/risks in the contractor's systems and the degree of reliance that can be placed on the contractor's systems. A second objective is to assess whether the contractors compensation systems will likely result in allowable and reasonable compensation charged to the contract. Additional goals in conducting a Contractor's Total Compensation System Review are to: (1) ensure compliance with the applicable contract; (2) increase CHR

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Specialist's comprehensive understanding of the compensation program to facilitate review of annual and/or ad hoc contractor requested salary actions; (3) identify areas of strength and areas for improvement; and (4) enhance oversight in the compensation area.

5. There are many factors to consider in evaluating contractor requests and in providing recommendations to the CO on allowability and reasonableness pursuant to the FAR. These factors include but are not limited to, market data, such as position to market, market movement, and equity. Although DOE managers may, from a mission needs perspective, consider attrition and offer/acceptance rate in assessing whether to approve the contractor's request, the FAR does not include attrition or offer/acceptance rate as a data point to be used in determining the reasonableness of contractor employee compensation.
6. Contractors' compensation policies may target pay levels higher than the 50<sup>th</sup> percentile of market survey data to attract and retain personnel whose positions have been classified as Critical Skills in accordance with the Contractor's Critical Skills policy.
7. Requests for compensation actions are vetted with other specialists (i.e., DOE program officials, field financial officers, budget analyst, contractor personnel, 3<sup>rd</sup> party consultants, etc.), as appropriate, when there is a need to assess reasonableness, allowability, affordability, and alignment with mission needs (e.g., recruitment/retention needs).
8. Federal CHR recommendations to the contracting officers should be accompanied by documentation to support the recommendation that the CHR specialist considers the contractor's proposed action to be reasonable or unreasonable.
9. Compensation for each employee or job class of employees must be reasonable for the work performed. The aggregate of each measurable and allowable element must sum to a reasonable total compensation.