

December 2, 1998

SECY-98-281

FOR: The Commissioners

FROM: William D. Travers /s/
Executive Director for Operations

SUBJECT: RESIDENT INSPECTOR COMPENSATION POLICY

PURPOSE:

To provide the staff's evaluation and planned actions for resident inspector (RI) compensation.

SUMMARY:

Soon after the RI Program was established in 1978, the NRC recognized that special compensation provisions would be necessary to attract qualified candidates for service at remote sites and to retain a corps of experienced RIs. After reviewing the effectiveness of the current compensation incentives in achieving the agency's objectives for the RI Program, the staff believes that changes are warranted to ensure that the NRC maintains its ability to recruit and retain a highly qualified and experienced RI staff.

The staff intends to modify the current pay policy for RIs to provide for full locality pay in addition to the special salary schedule (which provides a 3-step pay incentive) beginning in fiscal year (FY) 2001. In addition, during the upcoming budget cycle the staff will consider reprogramming funds in order to allow for implementation in FY 2000. This change restores a consistent 3-step differential between RI pay and pay received by regional and headquarters counterparts. In addition, the staff intends to modify the current policy related to eligibility for saved pay provisions when transferring out of the RI Program to require a total of 6 years versus 4 years in the RI Program. The current policy related to relocation bonus provisions and promotions to positions outside the RI Program will be continued.

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BACKGROUND:

The RI Program was established in 1978 to improve the NRC's inspection program by providing increased knowledge of conditions at licensed facilities, improved ability to independently verify licensee performance, and improved incident response capability. During the initial staffing effort of the RI Program in the early 1980s, the NRC was experiencing difficulty in recruiting and retaining high quality RIs. In 1981, a special salary schedule for RIs (3 pay steps above the general salary schedule) was authorized to address major problems in recruitment and retention. The 3-step pay incentive has remained an NRC policy since that time.

Several RI Program enhancements were recommended as a result of a study in 1994 as presented to the Commission in SECY-94-181, "Implementation of Changes to the Resident Inspector Program Resulting From a Staff Study of the Program," dated July 8, 1994. The recommendations regarding compensation resulted in policy changes leading to (1) relocation bonuses -- payment of appropriate bonuses, ranging from 10 to 25 percent of annual salary, for all NRC employees who enter, transfer within, or leave the RI Program, provided they have at least a "fully successful" rating on their most recent performance appraisal and sign a mobility agreement; (2) saved pay provisions -- upon leaving the RI Program (after 4 years), inspectors save their pay by not immediately reverting back to the general grade pay scale; and (3) a revised pay schedule -- the current RI pay schedule was revised to incorporate locality pay adjustments for sites in designated "high-cost of living areas," but these adjustments were limited to the difference between the specific area locality pay rate and locality pay rates for sites in the "rest of the U.S."

In response to a staff requirements memorandum (SRM) dated March 25, 1997, the staff issued SECY-97-285, "Discussion of Resident Inspector Demographics and the Balance Between Expertise and Objectivity," on December 10, 1997. The staff noted that a comparison of the demographic data from April 1994 and November 1997 indicated that the average experience level for the RI staff was lower in 1997 than it had been in 1994. In addition, the attrition rates from the RI Program had increased in each of the previous 4 years. The staff indicated its intention to undertake a comprehensive review of the RI Program and develop a Commission paper that would address issues and make recommendations, as appropriate. A summary of the origin and evolution of the RI Program was included as Attachment 1 to SECY-97-285.

On June 29, 1998, the staff issued SECY-98-152, "Summary of Issues and Recommended Improvements to the Resident Inspector Program." In SECY-98-152, the staff reported its plans to address the recommendations of a subcommittee of the Agency Labor-Management Partnership Committee (ALMPC) which had submitted recommendations in April 1998 for improving the RI Program. The subcommittee recommendations included clarification and consistency of the agency's expectations of RIs, clarification of the 7-year RI relocation policy pilot program, and changes to RI compensation policies. The eighth subcommittee recommendation stated that the RI staff should be compensated as necessary to recruit and retain individuals of high quality for the RI Program. The ALMPC subcommittee's recommendations regarding compensation included adopting an RI pay policy that would (1) provide the RI special salary schedule incentive in addition to full locality pay, (2) allow saved pay after 8 years of RI service instead of 4, (3) provide a 2-step equivalent pay adjustment for

promotion to higher graded positions outside the RI program, and (4) provide compensation for time and travel in connection with event response. The staff noted its intent to adjust RI pay policies and practices as necessary to maintain an experienced and qualified RI staff, but recommended in SECY-98-152 that decisions regarding compensation should be deferred until further analysis could be performed, taking into consideration the impact on the agency's budget and policy.

On August 21, 1998, the Commission responded to SECY-98-152 in an SRM, approving the staff's recommendations subject to the specific comments made in the SRM. The SRM did not identify any specific deviations related to the staff's recommended approach for addressing RI compensation. This paper presents the summary of RI compensation issues and related changes to the RI Program.

DISCUSSION:

The RI staff is central to the accomplishment of the agency's mission. The staff and the ALMPC subcommittee agree that compensation for RIs should contain sufficient incentives to recruit and retain high-quality employees for the RI Program. The specific ALMPC subcommittee recommendations regarding compensation as well as the staff's analysis of those recommendations are provided as Attachment 1 to this paper. Pay incentives may be accomplished through direct compensation, relocation bonuses, saved pay provisions, or other means as determined by the agency. RI compensation policy should remain focused on the recruitment and retention of highly qualified and experienced RI staff. The staff's analysis for each piece of the RI compensation package are presented below.

1. Locality Pay

The Commission authorized a special salary schedule for RIs (3 pay steps above the general salary schedule) in 1981 to address major problems in recruiting and retaining RIs. Locality pay was introduced for Federal employees in 1994 to adjust compensation on the basis of the relative cost of living at an employee's official duty station. The NRC allowed RIs at sites designated as "high cost of living areas" to receive a locality pay adjustment, but this adjustment was limited to the difference between the specific area locality pay and the "rest of the U.S."

As noted in SECY-94-181, a review group was established in 1994 to identify issues and develop recommendations pertaining to the RI Program. The RI review group's report stated that although there was concern about maintaining the 3-step differential for RIs, the fluidity in the Federal pay system over the next several years made it difficult to maintain a consistent pay differential. The review group recommended that the RI special pay schedule be revised to retain a consistent differential between the RI pay and the pay received by headquarters and regional counterparts. At that time, the staff considered several options regarding RI pay, including (1) eliminating the RI special salary schedule and providing locality pay similar to other employees, (2) maintaining the status quo -- keeping the RI special salary schedule and providing no locality pay, (3) maintaining the special salary schedule and providing full locality pay, (4) maintaining the RI special salary schedule and providing partial locality pay -- specific area minus "rest of the U.S.", and (5) eliminating the RI special salary schedule and providing double locality pay for RIs. The fourth option was recommended, and subsequently implemented, because it appeared to best differentiate between RI pay in high-cost and low-cost

areas while at the same time retaining the overall financial incentive to enter the RI Program. The review group recognized, however, that the 3-step pay incentive of the RI special salary schedule would likely be eroded by locality pay increases for headquarters and regional counterparts in the future.

The staff recently reanalyzed the aforementioned options for RI pay based on the past five years of experience with locality pay. The staff now believes that the NRC should provide the RI staff with full locality pay (option 3 above). The benefits associated with providing full locality pay to the RI staff in addition to the existing RI special salary schedule include: (1) restoring the intent of the 3-step pay incentive by reestablishing a more consistent differential between RI pay and the pay of their regional and headquarters counterparts, and (2) addressing the reasons given by RIs leaving the program in recent years that the eroding pay differential had a significant impact on their decision to leave.

Over the past five years, annual pay adjustments that have included a full locality pay adjustment for regional and headquarters staff have only provided a partial locality pay adjustment for some RI staff. As a result, some RIs have little or no pay differential when compared to their respective regional or headquarters counterparts. There are some RI sites (i.e., those considered "rest of the U.S." in Region III) where the RIs earn slightly less than their regional office counterparts. Attachment 2 presents the current pay schedules and the proposed pay schedules (including full locality pay for RIs) for headquarters, regional, and a sampling of RI staff. The majority of RI sites (approximately 70%) are considered low cost of living areas or "rest of the U.S." RIs in these areas do not receive any locality pay. RIs at the sites located in "high cost of living areas" receive a partial locality pay adjustment equal to the locality percent authorized for the area minus the "rest of the U.S." locality rate (low, medium, and high range examples are provided in Attachment 2). These data indicate that the intent of the 3-step pay incentive for RI staff has eroded and will continue to erode (absent a change in policy) due to the advent of locality pay. The proposed revision to the RI pay policy to provide full locality pay for RI staff in addition to the 3-step pay incentive reestablishes a more consistent differential between RI pay and the pay of their regional and headquarters counterparts.

As noted in SECY-98-152, inspectors frequently stated that compensation issues were a primary factor influencing their decision to leave the RI Program. The most frequent compensation issue cited was the impact of locality pay on the 3-step pay incentive for RI staff. The attrition data for the RI Program from FY 1994 through the first two-thirds of FY 1998 is provided in Attachment 3. As noted in SECY-97-285, attrition rates from the RI Program had increased in each of the last four years (FY 1994 through FY 1997). The rate of external losses doubled from FY 1994 to FY 1995, and doubled again by FY 1997. Although the FY 1998 rate of external losses appears to be returning to a level consistent with the rest of the agency, the staff recognizes that it would be premature to conclude that the lower attrition rate in FY 1998 will continue in future years. In addition, due to the high turnover of RI staff in recent years (over 50% from FY 1995 through FY 1997) and influx of new RI staff, a lower attrition rate for a year or two may be expected. Retention of highly qualified and experienced RI personnel is particularly critical at this time given the current initiatives to rebaseline the assessment, inspection, and enforcement processes. Therefore, the staff believes that adjusting the RI special salary schedule to give the RI staff full locality pay for their site location would restore the intent of the 3-step pay incentive and stabilize attrition from the RI Program. Consistent with SECY-98-152, the staff will continue to track RI

attrition data and will present the data and the analysis, including any recommendations warranted by the updated data, in future annual reports to the Commission.

The projected additional salaries and benefits costs associated with providing full locality pay to RIs is estimated to be approximately \$900,000 annually, based on current pay and staffing levels. These costs would be expected to increase annually based on cost-of-living adjustments. These costs may be somewhat offset by savings in recruitment and retention costs, assuming fewer individuals leave the RI Program. By adopting these changes in RI compensation it is expected that the tangible and intangible costs associated with filling a vacated RI position with an equivalently qualified replacement would be incurred less frequently.

2. Saved Pay Provisions

Current RI saved pay provisions, as described in Announcement Number 125, dated November 4, 1994, provide that RIs are eligible for saved pay if they (1) successfully completed at least 4 full consecutive years in the RI Program, (2) were transferred out of the RI Program by a management-directed reassignment, and (3) received a performance appraisal of fully successful or better for at least the last 4 years. Saved pay is not available to RIs who are reassigned out of the RI Program for cause (inadequate performance, loss of objectivity, or inappropriate conduct) or solely on the basis of personal request. After reassignment, the former RI receives the same base salary received as an RI and any locality pay applicable to the new duty station. The employee then receives one-half of the subsequent annual nationwide pay adjustments, in accordance with current regulations, as well as applicable locality pay. When the former RI's previous pay level as an RI is equaled or exceeded by applying normal pay setting practices for the new job, the former RI is paid under the normal base pay salary schedule plus applicable locality pay.

The current RI saved pay provisions, which require a minimum of 4 full years in the RI Program for eligibility for saved pay, were developed to coincide with the 5-year RI relocation policy. Under these provisions an RI would have to complete one year less than a full tour in the RI Program in order to receive saved pay. In the August 21, 1998 SRM, the Commission stated that all current RIs should have the option of a 7-year maximum tour length rather than a 5-year maximum tour length and that new RI assignments will stipulate a 7-year maximum tour length. Accordingly, the staff believes that the saved pay policy should be changed to require a minimum of 6 years of service in the RI Program in order to qualify for saved pay, consistent with the intent to have RIs complete essentially one full tour at an RI site before becoming eligible for saved pay. This 6-year minimum requirement would be applicable to all new RI assignments after the implementation date of the policy change. The other provisions of the saved pay policy would remain unchanged.

3. Relocation Bonuses

The NRC's relocation bonus policy is stipulated in Management Directive 10.44, "Relocation Bonus Program." The NRC's policy is to use relocation bonuses to ensure that economic disincentives associated with management-directed relocation are not a barrier to the staffing of agency positions. According to the current RI relocation bonus provisions, as described in Announcement Number 125, dated November 4, 1994, bonuses ranging from 10 to 25 percent of

base salary are typically given to all NRC employees who enter, transfer within, or leave the RI Program by a management-directed reassignment (except for a promotion), provided they have at least a fully successful rating on their most recent performance appraisal and sign a mobility agreement. Relocation bonuses vary by site location based upon recruitment difficulty and geographic economic factors. From FY 1996 through FY 1998, there have been approximately 60 relocation bonuses awarded per year to RIs who entered, transferred within, or left the RI program at an approximate cost to the agency of \$600,000 annually, averaging \$10,000 per RI. The staff believes that the relocation bonus policy has effectively minimized the economic disincentives associated with management-directed relocation and that all eligible NRC employees should continue to receive relocation bonuses consistent with the current provisions.

4. Promotions Out of the RI Program

The NRC's policy for setting pay is stipulated in Management Directive 10.41, "Pay Administration." An employee promoted to a higher GG graded position within the same pay schedule receives a step rate in the pay schedule for the higher graded position that exceeds the employee's step rate in the lower graded position by not less than an amount equal to a 2-step increase in the lower graded position. Individuals in the RI Program are paid based upon a special salary schedule, which is applicable only to positions at RI sites. When an employee is promoted from a position paid in accordance with the RI special pay schedule to an NRC position outside the RI Program paid in accordance with a different pay schedule, the rate of pay is set to either meet or exceed the rate of pay under the RI special salary schedule. To provide a 2-step pay equivalent for promotion out of the RI Program would provide the employee a 5-step pay increase (3 steps from being on the RI pay schedule plus the 2 additional steps for the promotion) upon leaving the RI Program. The staff believes there are currently sufficient pay incentives for RI staff who elect to leave the RI Program via competitive promotion. Similarly, relocation bonuses are not paid to employees who elect to leave the RI Program for a promotion.

SUMMARY:

The staff has reviewed the RI pay policy and related compensation issues and plans to do the following:

- The RI pay policy will be modified to provide for full locality pay in addition to the special salary schedule beginning in FY 2001. This change in policy would restore a consistent 3-step differential between RI pay and pay received by regional and headquarters counterparts. Although funding is not allotted for FY 2000, we will explore reprogramming options during the upcoming budget cycle which might allow earlier implementation. Our assumptions will be provided to the Commission as part of the FY 2001 budget.
- The current policy related to eligibility for saved pay provisions when transferring out of the RI Program will be modified to require a total of 6 years versus 4 years in the RI Program.
- The current policy related to relocation bonus provisions will be continued.
- The current policy regarding promotions to positions outside the RI Program will be continued.

COORDINATION:

The Office of the Chief Financial Officer has reviewed this Commission paper for resource implications and has no objection.

The Office of the General Counsel has reviewed this Commission paper and has no legal objection.

William D. Travers
Executive Director
for Operations

Attachments: As stated

RECOMMENDATIONS REGARDING COMPENSATION FROM THE APRIL 1998 REPORT FROM THE ALMPC SUBCOMMITTEE ON RESIDENT ISSUES

ALMPC Subcommittee Recommendations Regarding Compensation

Compensation should include sufficient incentives to recruit and retain high quality employees for the resident inspection program and must be consistent with appropriate law, regulation, and agency policy. Impact on the agency budget must also be considered. Such incentives may be reflected in a special pay schedule, annual bonuses, locality pay, relocation bonuses, or other means as determined by the Agency.

The current annual basic resident pay is set at 8.82% (3 steps) above the regular GG grade level for non-resident positions. This percentage is consistent with the differential established early in the RI program, which was used as an incentive to recruit and retain high quality residents. Due to the advent of locality pay, this pay incentive has been eroded, since full locality pay is not provided to residents. This erosion has, in some cases, contributed to the increased attrition from the RI program in the past few years. This pay incentive should be restored through the application of full locality pay or additional administratively determined pay comparable to the locality pay of region and headquarters personnel. This should be done in such a manner that all resident inspector compensation is counted toward retirement and thrift savings plan benefits. The pay incentive should not be effective until the individual has been given initial certification as an operations inspector in accordance with IMC 1245 (or the associated NMSS guidance).

Residents should not be discouraged from leaving the RI program via competitive promotion. Therefore, the 2-step equivalent promotion rule should be adopted for resident inspectors consistent with other NRC personnel. The 2-step equivalent calculation should be based on the resident pay schedule and should not exceed the step 10 salary of the new grade. A relocation bonus under these circumstances should also be considered (individuals promoted out of the resident program are not currently entitled to relocation bonuses).

The current saved pay provisions allow resident inspectors to save their resident pay upon leaving the program by a management directed reassignment if they've satisfactorily completed 4 years in the program. There is a perceived encouragement under these provisions for residents to leave the program after one site tour through lateral reassignments to the regions or headquarters. The 4-year minimum should be increased to 8 years to encourage residents to remain in the program for more than one tour, thus increasing the experience level in the resident program. Relocation bonuses should continue for all NRC employees who enter, transfer within, or leave the RI program consistent with the current provisions. Individuals directed to a region or headquarters position as a result of less than fully successful performance or for cause would not retain the RI program incentive pay (saved pay) and would not be considered for a relocation bonus.

If an individual responds to an event, the individual should be paid from the time they leave their location to respond to the site until the time they return to their location. The individual should also be paid mileage for traveling to and from a site in response to an event. These payments would be in accordance with applicable law and regulation.

Staff Analysis of ALMPC Subcommittee Recommendations

The ALMPC subcommittee's recommendations regarding locality pay, saved pay provisions, and relocation bonuses are addressed as part of the recommended compensation package for RIs as described in this paper. The ALMPC Subcommittee recommendations not discussed in the recommended compensation package are addressed below.

The staff considered whether an individual should receive the benefit of the RI special salary schedule (i.e., 3-step pay incentive) only when the individual has been given initial certification as an operations inspector in accordance with IMC 1245 (for reactor facilities) or 1246 (for non-reactor facilities). The staff believes that the 3-step pay incentive is a valuable and effective tool for recruiting and retaining high-quality individuals to the RI Program and should be granted irrespective of whether an individual is certified in accordance with IMC 1245 or 1246.

The staff considered the feasibility of requiring 8 years in the RI Program in order to receive the pay savings provisions. With the continued downsizing of the agency, there will likely be fewer opportunities to move high performing individuals into other positions through promotions and greater reliance on filling needed positions through lateral reassignments. The staff believes that an 8-year minimum eligibility requirement would provide too great a disincentive to accept lateral transfers into regional or headquarters positions.

The staff considered how Individuals should be compensated, consistent with applicable law and regulation, if they are directed to respond to an event. The Office of the General Counsel (OGC) has advised that the law does not support a practice of compensating an individual for time and expense associated with travel to one's duty station, even in emergency situations. An individual would, however, be entitled to full travel benefits if he were directed to respond to an event at a location other than his duty station. In any case, if the employee is directed to report to work outside of regular duty hours, applicable premium pay is paid once the employee reports for duty. Under the current RI duty hour schedule, RIs would be considered eligible for applicable premium pay once they complete their first-forty hours in a given week.

**INSPECTOR SITE LOCATIONS WITH
CURRENT AND PROPOSED PAY SCHEDULES**

GG-14, STEP 4 (TYPICAL SENIOR RESIDENT INSPECTOR)

LOCATION	LOCALITY PERCENT	BASE SALARY	CURRENT PAY ADJUSTMENT	CURRENT ADJUSTED PAY	FULL LOCALITY ADJUSTMENT	PROPOSED ADJUSTED PAY
HEADQUARTERS	7.27%	\$67,821	\$4,931	\$72,752	\$4,931	\$72,752
REGION I	7.67%	\$67,821	\$5,202	\$73,023	\$5,202	\$73,023
REGION II	6.18%	\$67,821	\$4,191	\$72,012	\$4,191	\$72,012
REGION III	9.21%	\$67,821	\$6,246	\$74,067	\$6,246	\$74,067
REGION IV	6.90%	\$67,821	\$4,680	\$72,501	\$4,680	\$72,501
SRI - REST OF U.S.	5.42%	\$73,986	\$0	\$73,986	\$4,010	\$77,996
SRI - LOW RANGE	5.84%	\$73,986	\$311	\$74,297	\$4,321	\$78,307
SRI - MID RANGE	7.86%	\$73,986	\$1,805	\$75,791	\$5,815	\$79,801
SRI - HIGH RANGE	9.76%	\$73,986	\$3,211	\$77,197	\$7,221	\$81,207

GG-13, STEP 4 (TYPICAL RESIDENT INSPECTOR)

LOCATION	LOCALITY PERCENT	BASE SALARY	CURRENT PAY ADJUSTMENT	CURRENT ADJUSTED PAY	FULL LOCALITY ADJUSTMENT	PROPOSED ADJUSTED PAY
HEADQUARTERS	7.27%	\$57,393	\$4,172	\$61,565	\$4,172	\$61,565
REGION I	7.67%	\$57,393	\$4,402	\$61,795	\$4,402	\$61,795
REGION II	6.18%	\$57,393	\$3,547	\$60,940	\$3,547	\$60,940
REGION III	9.21%	\$57,393	\$5,286	\$62,679	\$5,286	\$62,679
REGION IV	6.90%	\$57,393	\$3,960	\$61,353	\$3,960	\$61,353
RI - REST OF U.S.	5.42%	\$62,610	\$0	\$62,610	\$3,393	\$66,003
RI - LOW RANGE	5.84%	\$62,610	\$263	\$62,873	\$3,656	\$66,266
RI - MID RANGE	7.86%	\$62,610	\$1,528	\$64,138	\$4,921	\$67,531
RI - HIGH RANGE	9.76%	\$62,610	\$2,717	\$65,327	\$6,111	\$68,721

NOTE: Headquarters and regional inspectors receive full locality pay while resident inspectors currently receive partial locality pay -- their area minus the "rest of U.S."

RESIDENT ATTRITION RATE

	Agency external <u>losses</u>	Resident external <u>losses</u>	Resident internal <u>losses</u>	Total resident <u>losses</u>
FY 1994	5.5% (175)	2.3% (4)	8.7% (15)	11.0% (19)
FY 1995	5.7% (175)	4.5% (8)	9.0% (16)	13.5% (24)
FY 1996	4.6% (137)	4.6% (8)	11.0% (19)	15.5% (27)
FY 1997	5.2% (154)	9.7% (17)	12.6% (22)	22.3% (39)
FY 1998*	5.5% (159)	5.3% (9)	5.3% (9)	10.6% (18)

* projected, based on annualized data through May 1998

COORDINATION:

The Office of the Chief Financial Officer has reviewed this Commission paper for resource implications and has no objection.

The Office of the General Counsel has reviewed this Commission paper and has no legal objection.

William D. Travers
Executive Director
for Operations

Attachments: As stated

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* See previous concurrence.

** Concurred via e-mail.

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