Nevertheless, OPM is proposing to offer agencies this flexibility. If performance standards defining the higher levels had been established, an agency would be prohibited from prescribing a distribution of ratings. (See § 430.208(c).)

Within the awards arena of performance management, reinventing the system of Governmentwide policies for recognition and reward programs would be achieved by integrating rating-based cash performance award provisions into the same regulatory part as other awards and by simplifying those regulatory provisions. This would have the effect of giving agencies a framework of broad, flexible principles

for designing and administering decentralized award programs, consistent with NPR recommendations. Within those broad principles, agencies would be free to design and operate a wide variety of tailor-made incentive and recognition programs at the individual and group level, including most of the alternative reward, variable pay, and pay-for-performance schemes that can contribute to improving individual and organizational performance.

Number of Summary Rating Levels

OPM is proposing to permit agencies to use as few as two levels for summary performance ratings. Among summary rating levels, agencies would be required to include a Level 1 ("Unacceptable") and a Level 3 ("Fully Successful" or equivalent). If more than two summary rating levels were used, the agency could choose any combination from the remaining three levels (i.e., Level 2, Level 4, and Level 5). Agencies also would continue to be permitted to use equivalent terms for "Fully Successful" and/or "Outstanding." (See § 430.208(d).)

Using the five possible summary rating-level designators established at § 430.208(d), the following table illustrates the various patterns of levels available.

Number of summary rating levels in program	Summary rating level designator from new § 430.208(d)				
	Level 1 ("un- ac- cept- able")	Level 2	Level 3 ("fully suc- cess- ful")	Level 4	Level 5 ("out- stand- ing")
Two Three:	Х		Х		
Option 1	X		X		×
Option 2	X		X	X	
Option 3	X	X	X		
Four:					
Option 1	X		X	X	X
Option 2	X	X	X		X
Option 3	X	X	X	X	
Five	X	X	X	X	X

Permitting the use of only two summary rating levels would not require a change in the rules governing additional service credit for performance in determining an employee's retention standing for RIF purposes since an appraisal program with only two summary rating levels would be required to use Level 3 ("Fully Successful" or equivalent) to summarize acceptable performance. As set forth in 5 CFR 351.504(d)(3), an employee would receive "Twelve additional years of service credit for each performance rating of fully successful (Level 3) or equivalent.

Number of Levels for Appraising Elements

OPM is proposing to permit agencies to use as few as two levels at which to appraise performance on the elements in employee performance plans. At a minimum, it must be determined whether performance is "Fully Successful" (or equivalent) or "Unacceptable" when appraised against established performance standards. Agencies would still be required to establish performance standards at the

"Fully Successful" (or equivalent) level for critical and non-critical elements. Also, agencies would continue to be permitted to determine performance to be at a level that has no established performance standard but which has been provided for by the applicable performance appraisal program. (See § 430.206(b)(6).)

Regulatory Changes in Awards

OPM is also proposing to revise regulations so that the requirements governing all types of awards for non-SES employees would be in part 451 of chapter 5 of the Code of Federal Regulations. The proposed regulations provide for a few basic requirements within which agencies can design award programs to meet their individual cultures and needs.

The language throughout these regulations has been reviewed for its use of the term "incentive award(s)." For many years since the inception of the consolidated awards authority for Federal employees in 1954, the term "incentive" was used broadly to cover all types of awards including those that are granted retrospectively at

management discretion to recognize past contributions, such as special acts or suggestions. As awards theory and practice have developed in recent years, however, "incentive" typically is applied somewhat more restrictively to award programs, such as productivity gainsharing and performance goalsharing schemes, that are designed to specify clearly in advance what recognition and reward will be granted based on a given contribution. Programs such as these have demonstrated their effectiveness for improving performance. At the same time, awards that recognize past contributions not specified in advance beyond some general criteria remain an appropriate and effective use of the authority to grant awards.

There is no strict definition or distinction for the term "incentive" that can be established or applied.

Nevertheless, to recognize trends in awards theory and practice, OPM is proposing to use only the term "award(s)" in the broad regulations that cover both the prespecified and the retrospective uses of the awards authority and limit use of the term