

Establishing Internal & External Pay Equity

Presented by: Mike Umphres

Principal

Compensation Advantage

Pay Equity

- Two perspectives
 - External Equity
 - Internal Equity

External Pay Equity

What is your objective?

External Pay Equity

Compensation Statement

- What do you consider part of your compensation?
- How do you define your market?
- How competitive do you intend to be?
- When do you intend your structure to be market?
- What behaviors are going to be rewarded?

External Pay Equity

Market Data

- Market data should
 - Represent the same geography you recruit from
 - Be repeatable
 - Statistically sound
 - Set Data Effective Date

External Pay Equity

Safe Harbor Guidelines for Surveys

- Comply to avoid anti trust suits
 - Survey conducted by a third party
 - Data 3 months old
 - Minimum of 5 companies per statistic
 - No company represents >25% of incumbents per job
 - Company data cannot be identifiable

Market Data Example

Telephone Survey

Accountant	\$49,521
Engineer	\$72,521
Secretary	\$31,325

Market Data Example

Accountant

Company	# of Employees	Lowest Pay	Average Pay	Highest Pay
A	3	\$9.00	\$13.00	\$17.50
B	5	\$12.00	\$16.00	\$18.75
C	25	\$7.25	\$12.00	\$19.00
D	12	\$10.00	\$12.50	\$15.00
E	10	\$15.00	\$17.50	\$20.00
F	7	\$12.50	\$17.00	\$20.00
G	5	\$18.00	\$30.00	\$35.00
H	37	\$10.00	\$13.00	\$15.00
I	50	\$14.50	\$17.00	\$21.00
J	2	\$20.00	\$25.00	\$32.00
Averages	16	\$7.25	\$17.30	\$21.33

Market Data Example

Comp-at-a-Glance

From the 2008 Nashville Area Compensation and Benefits Survey

Survey Job Number	Survey Job Title	Reported as	Company Count	Employee Count	Median Base	Average Base	Median Total	Average Total
101	Controller	S	50	66	\$102,553	\$110,358	\$115,075	\$129,927
112-a	Accountant a	S	10	41	\$40,034	\$42,015	\$40,789	\$43,021
112-b	Accountant b	S	43	91	\$45,000	\$47,454	\$47,902	\$50,943
112-c	Accountant c	S	28	66	\$53,000	\$53,598	\$55,425	\$56,646

Market Data Example

Base Compensation - All Companies										
Survey Code	Salaried or Hourly	Survey Title	# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value
101	S	Controller	50	66	63,000	88,020	102,553	110,358	127,260	255,000
Base Compensation - Incentive Eligible										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value			
26	40	63,900	87,220	104,280	111,038	126,899	255,000			
Base Compensation - Not Incentive Eligible										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value			
24	26	63,000	90,250	101,407	109,314	131,820	180,250			
Incentive Pay - Reported as \$										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value			
26	40	1,261	7,999	12,522	19,568	22,510	136,335			
Incentive Pay - Reported as % of Base										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value	% Receiving Incentive		
26	40	2.0	9.2	12.0	17.6	17.7	53.5	60.6		
Total Cash Compensation - All companies										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value			
50	66	64,261	96,019	115,075	129,927	149,770	391,335			
Total Cash Compensation - Only Incentive Eligible										
# of Companies	# of Employees	Lowest Value	25%	50%	Average	75%	Highest Value			
26	40	65,161	95,219	116,802	130,606	149,410	391,335			

External Pay Equity

Building a Salary Range

- Best to have multiple sources
- Focus on jobs critical to your mission
- Price more than 50% of benchmarks
- Bring data to desired target date

External Pay Equity

Aging Market Data

Projecting what the market values will be based on 'Point-in-time' data and known growth rate.

Example: As of February 1, Accountant = \$46,176

Rate of Growth = 3% per year or .0025 MO

What is market on July 1?

$$46,176 \times (5 \times .0025) = 577.20$$

$$46,176 + 577.20 = 46,753.20$$

External Pay Equity

Building a Salary Range

- Based on market point

	Minimum	Maximum
50% Spread	80%	120%
85% Spread	70%	130%
100% Spread	67%	134%

External Pay Equity

Building a Salary Range

- How many Segments?
 - 2
 - 3
 - 4
- Definitions
- FLSA Compliance

External Pay Equity

Measuring Performance to Target

- Policy
- Employee Pay

External Pay Equity

Annual review of policy to market

- Use original market sources
- Use benchmark survey matches
- Be on the lookout for additional
 - Sources
 - Survey matches
- Compare annual Market summary to Salary Ranges.

External Pay Equity

Annual review of Employee Pay to market

- Compa-Ratio
- Range Penetration
- Distribution across range segment
 - Below Minimum
 - Above Maximum
- Analysis used to help determine annual increase pool

Internal Pay Equity

Job Evaluation

Formal placement of jobs into groups with similar levels of responsibility and or impact to the business.

Internal Pay Equity

Types of Job Evaluation

- Point factor
- Whole job Slotting
- Paired Comparison
- Market Pricing
- Combinations

Internal Pay Equity

Regulatory Requirements

- Equal Pay Act of 1963 (EPA)
- Civil Rights Act of 1964 (Title VII)
- Age Discrimination in Employment Act (ADEA)
- Americans with Disabilities Act (ADA)
- State Laws

Internal Pay Equity

Equal Pay Act of 1963

- Outlaws disparate pay treatment based on sex of employees
 - Same skill, effort, responsibilities under similar conditions = same pay
 - Except
 - Seniority
 - Merit System
 - Piece work
 - Other non-sexual factor
- Enforced by EEOC

Internal Pay Equity

Civil Rights Act of 1964 (Title VII)

- Outlaws discrimination
 - Race
 - Color
 - Religion
 - Sex
 - National Origin
- Enforced by EEOC

Internal Pay Equity

Lilly Ledbetter Fair Pay Act of 2009

- Timeframe within which pay discrimination claim can be filed
 - 180 days of last pay

Internal Pay Equity

So what must we look for?

How do we measure pay equity?

Internal Pay Equity

Pay across similar jobs is comparable

- Age, Color, Disability, Gender, National Origin, Race, nor Religion result in lower pay
- Similar = comparable skill, effort, & Responsibility performed in similar conditions

Internal Pay Equity

Distribution Test - 1

		Men	Women	Sub-Total	
Above	Actual	18	26	44	44.4%
Median	Expected	19	25		
Below	Actual	24	31	55	55.6%
Median	Expected	23	32		
	Sub-Total	42	57		99

Internal Pay Equity

Distribution Test - 2

		Men	Women	Sub-Total	
Above	Actual	24	20	44	44.4%
Median	Expected	19	25		
Below	Actual	18	37	55	55.6%
Median	Expected	23	32		
	Sub-Total	42	57		99

Internal Pay Equity

Fisher's Exact Test < 100 Employees

Chi Squared > 100 Employees

- Both consider 2X2 factors.
- Determine the probability of the distribution occurring naturally.
- If low probability, under 0.05 probability, you need to investigate.

Internal Pay Equity

Compare Averages - 1

	Count	Average	
Females	513	25,230	
Male	390	25,237	
Total	903	25,233	
Caucasian	308	25,241	100%
African American	287	24,813	98.3%
Oriental	109	25,686	100%
Hispanic	199	25,578	100%

Internal Pay Equity

Compare Averages - 2

	Count	Average	
Females	513	23,230	92.1%
Male	390	25,237	100%
Total	903	25,233	
Caucasian	308	25,241	100%
African American	287	23,813	94.4%
Oriental	109	26,686	105.8%
Hispanic	199	23,578	93.4%

Internal Pay Equity

How to investigate...

- Gather details for all employees in the group
- Sex, Age, Race, Education, Years Experience, Race, Performance Rating History, Special Licensure, Market Data for the Job, etc.
- Compare Protected Vs non-Protected
- Document any difference >5%

Internal Pay Equity

Do all issues require action?

What might explain a difference?

Experience

Education

Performance

Productivity

Internal Pay Equity

What justifies a difference?

- \$ per years of experience
- \$ per level of performance rating
- Varied job responsibilities

Internal Pay Equity

What do we do if we identify a potential issue?

Inform Leadership

Develop a plan

Build a communication plan

Document your findings

Internal Pay Equity

How to protect against Issues

- Document all processes
- Ensure decisions based on
 - Employee Performance
 - Market Facts
 - Job requirements
- Train Managers

Historical Trend Data

Attachment 1

NACE Fall Survey - Bachelor Degrees						
	Year					
Title	9/1/03	9/1/04	9/1/05	9/1/06	9/1/07	9/1/08
Accounting	40,647	41,058	42,940	44,928	46,292	48,020
Economics	39,438	40,630	41,994	44,588	47,782	51,062
General Business	36,012	38,254	39,480	41,155	43,256	46,171
Marketing	34,038	34,712	36,409	37,191	39,269	41,506
HR	35,400	36,425	37,017	39,195	41,070	49,203
average % Growth		3.0%	3.5%	4.6%	5.1%	8.6%
WorldatWork Merit Budget Survey						
% Merit Budget						
Hourly	3.5%	3.5%	3.6%	3.7%	3.8%	3.8%
Non Exempt	3.4%	3.4%	3.6%	3.7%	3.8%	3.8%
Exempt	3.6%	3.6%	3.7%	3.8%	3.9%	3.9%
Executives	3.6%	3.6%	3.8%	3.9%	4.1%	4.0%

Resources

- The U.S. Equal Employment Opportunity Commission
 - <http://www.eeoc.gov/policy/docs/compensation.html>
- Berkshire Associates
 - <http://www.berkshireassociates.com/compensation/salaryequity.aspx>
- BNA
 - <http://www.bna.com/products/labor/eeom.htm>
- Fisher's Exact Test
 - <http://www.exactoid.com/fisher/index.php>

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Compensation Advantage

Job Title	Salary Range			Base	Sex	Ethnicity	Age	Perf Rating	Yrs Exp	
	Id	Min	MP							Max
Accountant	1	35,800	50,400	65,000	31,000	F	C	23	2	1
Accountant	2	35,800	50,400	65,000	38,000	F	AA	27	3	6
Accountant	6	35,800	50,400	65,000	39,000	F	H	26	5	5
Accountant	7	35,800	50,400	65,000	39,285	F	A	28	3	7
Accountant	9	35,800	50,400	65,000	40,000	F	H	32	4	10
Accountant	12	35,800	50,400	65,000	41,066	F	C	38	2	15
Accountant	13	35,800	50,400	65,000	41,217	F	C	42	3	20
Accountant	16	35,800	50,400	65,000	42,502	F	AA	33	4	11
Accountant	18	35,800	50,400	65,000	44,423	F	C	34	4	15
Accountant	21	35,800	50,400	65,000	50,897	F	AA	35	4	8
Accountant	4	35,800	50,400	65,000	38,000	M	H	30	3	9
Accountant	3	35,800	50,400	65,000	38,000	M	A	24	5	3
Accountant	5	35,800	50,400	65,000	38,500	M	C	28	5	7
Accountant	8	35,800	50,400	65,000	39,517	M	C	36	3	15
Accountant	10	35,800	50,400	65,000	40,000	M	C	45	3	10
Accountant	11	35,800	50,400	65,000	41,000	M	A	40	3	15
Accountant	14	35,800	50,400	65,000	41,566	M	C	28	4	5
Accountant	15	35,800	50,400	65,000	41,635	M	A	30	3	7
Accountant	17	35,800	50,400	65,000	43,324	M	C	29	4	9
Accountant	19	35,800	50,400	65,000	45,000	M	A	33	3	15
Accountant	20	35,800	50,400	65,000	45,000	M	AA	32	3	13

MEDIAN 41,000
 AVERAGE 40,902
 Female 10
 Male 11

	Count	Male	Female	Perf Rating	
A = Asian	5	41,409	39,285	94.9%	5 14.3%
AA = African American	4	45,000	43,800	97.3%	4 28.6%
C = Caucasian	9	40,581	39,427	97.2%	3 42.9%
H = Hispanic	3	38,000	39,500	103.9%	2 9.5%
Average		41,049	40,739	99.2%	

Establishing Internal and External Pay Equity

Job Title	Salary Range				Base	Sex	Ethnicity	Age	Perf Rating	Yrs Exp
	Id	Min	MP	Max						
Accountant	1	35,800	50,400	65,000	31,000	F	C	23	2	1
Accountant	6	35,800	50,400	65,000	34,000	F	H	26	5	5
Accountant	2	35,800	50,400	65,000	35,000	F	AA	27	3	6
Accountant	7	35,800	50,400	65,000	38,000	F	A	28	3	7
Accountant	21	35,800	50,400	65,000	39,000	F	AA	35	4	8
Accountant	16	35,800	50,400	65,000	40,000	F	AA	33	4	11
Accountant	9	35,800	50,400	65,000	40,000	F	H	32	4	10
Accountant	12	35,800	50,400	65,000	43,000	F	C	38	2	15
Accountant	18	35,800	50,400	65,000	45,000	F	C	34	4	15
Accountant	13	35,800	50,400	65,000	50,000	F	C	42	3	20
Accountant	3	35,800	50,400	65,000	38,000	M	A	24	5	3
Accountant	15	35,800	50,400	65,000	40,000	M	A	30	3	7
Accountant	14	35,800	50,400	65,000	41,000	M	C	28	4	5
Accountant	5	35,800	50,400	65,000	42,000	M	C	28	5	7
Accountant	4	35,800	50,400	65,000	43,000	M	H	30	3	9
Accountant	17	35,800	50,400	65,000	43,324	M	C	29	4	9
Accountant	10	35,800	50,400	65,000	45,000	M	C	45	3	10
Accountant	20	35,800	50,400	65,000	51,000	M	AA	32	3	13
Accountant	11	35,800	50,400	65,000	55,000	M	A	40	3	15
Accountant	19	35,800	50,400	65,000	55,000	M	A	33	3	15
Accountant	8	35,800	50,400	65,000	56,000	M	C	36	3	15
MEDIAN					42,000					
AVERAGE					43,063					
Female					10					
Male					11					
Count					Male	Female	Perf Rating			
A = Asian					5	47,000	38,000	80.9%	5	14.3%
AA = African American					4	51,000	38,000	74.5%	4	28.6%
C = Caucasian					9	45,465	42,250	92.9%	3	42.9%
H = Hispanic					3	43,000	37,000	86.0%	2	9.5%
Average					46,302	39,500	85.3%			

Exercise 1

	Male	Female	Sub-Total	
Above Median	Actual 6	Female 5	11	52.4%
	Expected 6	5		
Below Median	Actual 5	Female 5	10	47.6%
	Expected 5	5		
Sub-Total	11	10		21

Exercise 2

	Male	Female	Sub-Total	
Above Median	Actual 8	Female 3	11	52.4%
	Expected 6	5		
Below Median	Actual 3	Female 7	10	47.6%
	Expected 5	5		
Sub-Total	11	10		21