



Compensation Structures

*Design, Implementation, and Maintenance
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Overview



- A compensation (pay) structure is a series of ranges or grades, each with a minimum and maximum pay rate
- Well designed and properly maintained structures are essential for effective pay administration
- Topics covered in this presentation
 - Compensation structure design
 - Financial impact analysis
 - Structure implementation
 - Hiring scales
 - Employee pay assessment
 - Structure adjustments
 - Annual maintenance activities

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Importance of Pay Structures



Drive Business Outcomes

- Attract and retain talent needed to achieve objectives
- Support operations leaders
- Optimize compensation spend

Increase Employee Engagement

- Foster internal equity
- Link pay and performance
- Clarify communication

Enhance Human Resources Service Delivery

- Equip business partners to consult with leaders on pay
- Unify pay decisions
- Promote administrative efficiency

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Number of Structures



- Organizations may elect to have more than one structure
 - Usually in response to differentiation among job groups
 - Based on function or job level
 - Allows flexibility in design and maintenance
- Recommended practice is to have the fewest possible structures needed to effectively administer human resources programs and unify pay practices

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Pay Grade/Range



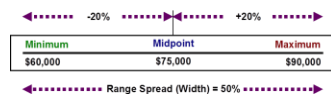
- Range minimum – lowest financial value a job has to an organization
- Range maximum – highest financial value a job has to an organization
- Range midpoint – midway point between minimum and maximum, often the target financial value
- Jobs with similar internal and external worth grouped together in ranges
- Grade assignments based on:
 - Benchmark data
 - Strategic impact
 - Internal equity: job family/organizational level

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Range Spread/Width



- The width of a pay range from minimum to maximum, expressed as a percentage $((\text{max} - \text{min}) / \text{min})$



- Range width is critical to establishing competitive pay rates at all experience levels
- Factors to consider when determining range spread
 - Tenure needed to reach full proficiency in role
 - Career trajectory or expected time in job

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Midpoint Progression/Differential



- Difference between midpoints of adjacent grades
- Calibrate midpoint progression with job levels in organization
 - Target promotional increase
 - Job families
- WorldatWork guidelines
 - 5% to 12% between grades for clericals/production
 - 8% to 15% between grades for professional/management
 - 15% to 25% total midpoint differential between supervisor and subordinates
 - 20% to 35% midpoint differential between grades for executive levels

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Pay Structure Illustration



Grade	Minimum	Midpoint	Maximum	Range Spread	Midpoint Progression
1	\$20,000	\$23,500	\$27,000	35%	–
2	\$21,600	\$25,380	\$29,160	35%	8%
3	\$23,328	\$27,410	\$31,493	35%	8%
4	\$25,194	\$29,603	\$34,012	35%	8%
5	\$27,210	\$31,971	\$36,733	35%	8%
6	\$29,387	\$34,529	\$39,672	35%	8%
7	\$31,737	\$37,292	\$42,846	35%	8%
8	\$34,911	\$41,021	\$47,130	35%	10%
9	\$37,602	\$45,123	\$52,643	40%	10%
10	\$41,363	\$49,635	\$57,908	40%	10%
11	\$45,499	\$54,599	\$63,698	40%	10%
12	\$50,049	\$60,058	\$70,069	40%	10%
13	\$55,054	\$66,064	\$77,075	40%	10%
14	\$60,559	\$72,671	\$84,782	40%	10%
15	\$65,113	\$81,391	\$97,669	50%	12%
16	\$72,926	\$91,158	\$109,390	50%	12%
17	\$81,878	\$102,097	\$122,516	50%	12%
18	\$91,479	\$114,349	\$137,218	50%	12%
19	\$105,201	\$131,501	\$157,801	50%	15%
20	\$120,981	\$151,226	\$181,471	50%	15%
21	\$139,128	\$173,910	\$208,692	50%	15%

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Financial Impact Analysis



- Draft structure, assign jobs to grades
- Estimate cost of implementation by employee
- Modeling scenarios
 - To grade minimum
 - » Least expensive
 - » Compression concerns
 - To current position-in-range
 - » Highest cost
 - » Keep employee 'whole'
 - To current position-in-range, capped (e.g., at midpoint)

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Structure Implementation



- **Budget**
 - Determine cost of preferred approach
 - Establish relationship to annual adjustments
 - » Separate action
 - » Combine merit and structure adjustments
- **Timing**
 - Establish go-live date
 - Adjust all employees to minimum at or before implementation
 - Budgetary constraints may extend timeline – recommend no longer than 18 months
- **Communication**
 - Managers and employees
 - Recruiting

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Hiring Scales



- **Current pay ranges are the foundation for hiring scales**
- **Mechanics vary by job type**
- **Considerations**
 - Is experience the primary determinant of starting rate?
 - Can years-of-experience be consistently calculated?
 - In what other ways are candidates assessed?
 - » Education
 - » Certification
 - » Experience type
 - Industry
 - Leadership
 - Does the organization set maximum hire rates?

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Hiring Scale – Years of Experience



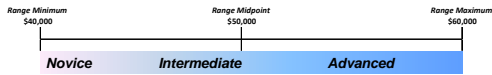
- **Assumptions:**
 - Experience is primary determinant of starting rate
 - Interrater reliability of experience rating
- **Mechanics**
 - Starting rate is equal to range minimum
 - One starting rate per experience year
- **Design considerations**
 - Adjustments (education, certification)
 - Maximum hire rate
 - Calibrate hiring scale to annual increase budget
- **Note that exceptions disrupt internal equity**

	Range Minimum															Range Maximum				
YOE	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15				
Hiring Rate	\$20,000	\$20,400	\$20,808	\$21,224	\$21,649	\$22,082	\$22,523	\$22,974	\$23,433	\$23,900	\$24,380	\$24,867	\$25,363	\$25,872	\$26,390	\$27,000				

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Hiring Scales – Level of Qualification

- **Assumptions**
 - Combination of factors determine hiring rate
 - Hiring managers and recruiters can consistently categorize level of qualification
- **Mechanics**
 - Divide pay range into portions
 - Establish upper and lower offer limits for each
 - Hiring offer based on qualifications, within guidelines



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Employee Pay Assessment

- **Establish target pay levels**
 - Linear progression through pay range
 - » Minimum to maximum
 - » 'Hockey stick' – targets moderated in top part of range
 - Compa-ratio (Employee pay rate / Grade midpoint)
- **Determine individual targets**
 - Experience rating
 - Organizational tenure
 - Career assessment
- **Identify employees below target pay rate**
 - Determine cost to adjust
 - Budget for key increases

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Structure Adjustment

- **Identify update strategy**
 - Consider annual movement
 - Small, frequent adjustments are easier to implement
- **Determine adjustment amount**
 - Market data
 - » Compensation planning surveys
 - » Year-over-year base pay movement
 - Calibrate structure adjustments to annual increase budget

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Maintenance Activities



- **Annual**
 - Update market pricing
 - Adjust structures
 - Confirm grade assignments
 - Assess employee pay levels
- **Ongoing**
 - Implement policy and practice to assign new jobs to grades
 - Link promotion guidelines to structure design
 - Establish governance and process for off-cycle pay adjustments

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Structure Maintenance



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