Salary Structures: Establishing Competitive and Equitable Pay Levels
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Mark has over 35 years experience as a compensation practitioner, and has held compensation, benefits and HR systems leadership roles for a number of organizations including Honeywell, Digital Equipment Corporation, Wang Laboratories, Kronos, Comcast, Progress Software and Lightbridge.

Mark has extensive experience in all aspects of compensation, including the design, development, implementation and ongoing administration of compensation systems and programs including base pay, variable compensation, sales and executive compensation. Additionally, he has experience in international benefits, mergers and acquisitions and HR systems selection and implementation.

In his role here at Salary.com, Mark drives research on trends in compensation practice and spends most of his time meeting with our customers and other compensation professionals to understand the challenges that HR professionals face in today’s market. He speaks on compensation and HR-related topics globally and is a member of the WorldatWork faculty.

Mark holds a Bachelor of Science in Business Administration from Suffolk University and a Master of Business Administration from Western New England College with a concentration in Management Information Systems. He is also a Certified Compensation Professional (CCP), a Global Remuneration Professional (GRP), a WorldatWork Editorial Review Board member, is a recipient of WorldatWork’s Lifetime Achievement Award and is a co-founder of the New England Compensation Consortium (NECC).
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- **Survey Management**
  - Single, centralized tool for survey storage, benchmarking and survey participation
  - Analyze internal pay practices against market rates, ensure internal equity and pay program competitiveness
  - Model cost scenarios and analyze impact of changes in salary ranges, compare internal structures using regression analysis
  - Model and cost multiple merit scenarios, and roll out and administration of increase cycle

- **IPAS**
  - International benchmark salary survey
  - Data reported from more than 100 countries
  - 9 industry segments
  - 19 levels

- **CompAnalyst Executive**
  - Executive and board of directors proxy data for 10,000+ public companies
  - Proxy analysis
  - Management reporting
  - 360 degree peer review

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  - Centralized job description tool
  - Process management with audit trail
  - Proprietary library of 4,000+ job descriptions and competencies
Agenda

- Introduction to salary structures
- Issues in salary structure design
- Building the structure
- Modeling and refining the structure
- Costing and maintaining the structure
- Questions
Introduction to salary structures

Components Illustrated

1. Max
2. Mid
3. Min

Range Spread
Midpoint Differential

Pay Grade | Min | Mid | Max
---|---|---|---
1 | $20,000 | $24,000 | $28,000
2 | $24,000 | $27,000 | $31,000
3 | $27,000 | $30,000 | $34,000
4 | $30,000 | $33,000 | $37,000
5 | $33,000 | $36,000 | $40,000
6 | $36,000 | $39,000 | $43,000
7 | $39,000 | $42,000 | $46,000
8 | $42,000 | $45,000 | $49,000
9 | $45,000 | $48,000 | $52,000
10 | $48,000 | $51,000 | $55,000
11 | $51,000 | $54,000 | $58,000
12 | $54,000 | $57,000 | $61,000
13 | $57,000 | $60,000 | $64,000
14 | $60,000 | $63,000 | $67,000

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Introduction to salary structures

- Range Spread – the width of a pay range measured by the ratio of maximum pay to minimum pay

\[
\text{Range Spread} = \frac{(\text{Range Maximum} - \text{Range Minimum})}{\text{Range Minimum}}
\]

\[
\frac{(25,000 - 20,000)}{20,000} = 25.0\%
\]
Introduction to salary structures

- Midpoint Differential – the *difference* between *midpoints* of two adjacent grades expressed as a *percent*

\[
\frac{(\text{Higher Midpoint} - \text{Lower Midpoint})}{\text{Lower Midpoint}} = 12.5\
\]

\[
\frac{45,000 - 40,000}{40,000} = 12.5%\
\]
Issues in salary structure design

How many structures do you need?

• How complex is your organization?
  − Organizations that are more complex (decentralized/multiple levels of management, highly-varied work, differing pay philosophies) will likely need more structures to align with the market

• How diverse are the labor markets in which you compete?
  − Organizations that compete in a wide variety of labor markets will likely need more structures to align with the market
Poll Question

How many structure does your organization have?

– 0
– 1
– 2 – 4
– 5– 10
– 10+
Issues in salary structure design

How many grades should you have in a structure?

• Depends on degree to which organization structure is *flat* or *hierarchical*

  - Flatter organizations will need fewer grades, while hierarchical organizations will need more grades
    • How many skill and/or responsibility distinctions are evident?
    • How many levels of supervision?
    • How many grades between supervisor and subordinate at each level?
Issues in salary structure design

How do I size my midpoint differentials?

• **Midpoint Differentials** should **increase** as the job hierarchy is ascended
  
  – Avoids compression
  
  – Significant enough to allow growth with a ladder
  
  – Recommended Guidelines Between Grades:
    • 5% to 12% clericals/production
    • 10% to 15% paraprofessional, professional, management
    • 20% to 35% executive levels
Issues in salary structure design

How do I size my range spreads?

- **Range Spreads** should *increase* as the job hierarchy is ascended

  - Lower-level jobs have clear performance indicators; smaller spreads allow for advancement in same job family
  
  - Managerial/Executive jobs have more ambiguous performance indicators; lack of opportunity for advancement
  
  - Increasing spreads allow for tenure in career level positions
Building the structure

Steps

1. Identify lowest and highest market reference points to be included in structure
   - Janitor - $20,000
   - Controller - $125,000

2. Identify appropriate starting Midpoint Differential

3. Multiply lowest Midpoint by appropriate Midpoint Differential to calculate midpoint for next grade

Repeat process, appropriately increasing midpoint differential until there are a sufficient number of grades to accommodate highest Market Reference Point
### Building the structure

**Example**

<table>
<thead>
<tr>
<th>Grade</th>
<th>Midpoint</th>
<th>Midpoint Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$20,000</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>$22,000</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>$24,200</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>$27,104</td>
<td>12%</td>
</tr>
<tr>
<td>5</td>
<td>$30,356</td>
<td>12%</td>
</tr>
<tr>
<td>6</td>
<td>$33,999</td>
<td>12%</td>
</tr>
<tr>
<td>7</td>
<td>$39,099</td>
<td>15%</td>
</tr>
<tr>
<td>8</td>
<td>$44,964</td>
<td>15%</td>
</tr>
<tr>
<td>9</td>
<td>$51,709</td>
<td>15%</td>
</tr>
<tr>
<td>10</td>
<td>$59,465</td>
<td>15%</td>
</tr>
<tr>
<td>11</td>
<td>$71,358</td>
<td>20%</td>
</tr>
<tr>
<td>12</td>
<td>$85,629</td>
<td>20%</td>
</tr>
<tr>
<td>13</td>
<td>$102,755</td>
<td>20%</td>
</tr>
<tr>
<td>14</td>
<td>$128,444</td>
<td>25%</td>
</tr>
</tbody>
</table>

Janitor  
(MRP = $20,000)  
Controller  
(MRP = $125,000)
Building the structure
Steps (continued)

- Calculate Range *Minimums* and *Maximums* for lowest grade using appropriate *Range Spread*
  - Grade 1 Range Spread = 20%
  - To calculate the Range *Minimum*:
    
    \[
    \text{Range Minimum} = \frac{\text{Range Midpoint}}{1 + \left(\frac{\text{Spread}}{2}\right)}
    \]
    
    \[
    = \frac{20,000}{1 + \left(\frac{0.2}{2}\right)}
    \]
    
    \[
    = \frac{20,000}{1 + 0.1}
    \]

    = 18,182

    Range *Minimum*
Building the structure
Steps (continued)

- Calculate Range *Minimums* and *Maximums* for lowest grade using appropriate *Range Spread*
  - Grade 1 Range Spread = 20%
  - To calculate the Range *Maximum*:
    
    \[
    \text{Range Minimum} \times (1 + \text{Range Spread} \%) \\
    18,182 \times (1 + 0.2) \\
    18,182 \times 1.2 = 21,818 \\
    \text{Range Maximum}
    \]

*Repeat process, appropriately increasing range spread until Range Mins and Maxs are calculated for all grades*
Building the structure

<table>
<thead>
<tr>
<th>Grade</th>
<th>Minimum</th>
<th>Midpoint</th>
<th>Maximum</th>
<th>Range Spread</th>
<th>Midpoint Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$18,182</td>
<td>$20,000</td>
<td>$21,818</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>$20,000</td>
<td>$22,000</td>
<td>$24,000</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>$22,000</td>
<td>$24,200</td>
<td>$26,400</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>$23,569</td>
<td>$27,104</td>
<td>$30,639</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>5</td>
<td>$26,397</td>
<td>$30,356</td>
<td>$34,316</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>6</td>
<td>$29,565</td>
<td>$33,999</td>
<td>$38,434</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>7</td>
<td>$32,583</td>
<td>$39,099</td>
<td>$45,616</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>8</td>
<td>$37,470</td>
<td>$44,964</td>
<td>$52,458</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>9</td>
<td>$43,091</td>
<td>$51,709</td>
<td>$60,327</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>10</td>
<td>$49,554</td>
<td>$59,465</td>
<td>$69,376</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>11</td>
<td>$58,251</td>
<td>$71,358</td>
<td>$84,464</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>12</td>
<td>$69,902</td>
<td>$85,629</td>
<td>$101,357</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>13</td>
<td>$83,882</td>
<td>$102,755</td>
<td>$121,629</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>14</td>
<td>$102,755</td>
<td>$128,444</td>
<td>$154,133</td>
<td>50%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Poll Question

With the recent announcement by the Department of Labor to increase the salary level threshold for exemption from the FLSA, what are you doing for positions that are currently exempt with a range minimum below $47,476?

– Increase range minimum to at least $47,476
– Maintain structures as is and manage salaries
– Not sure
Modeling and refining the structure

Steps

Assign benchmark jobs to the grade with the closest Midpoint

Compare Market Reference Points to Range Midpoints
- Big discrepancies between Midpoints and Market Reference Points may indicate that more grades are needed

Review Job Families for appropriateness and validity
- Jobs in the same level should be roughly in the same grade
- Jobs at different levels should be in different grades

Validate grade assignments of reporting relationships

Slot jobs that could not be market-priced into appropriate grades based on the grades of similar jobs
Modeling and refining the structure

Steps (continued)

- Distribution should mirror organization structure
  - Review the distribution of *jobs by grade*
  - Review the distribution of *employees by grade*

- Review *overlap between grades*
  - There should be enough overlap to give the organization flexibility in promoting, while ensuring grade changes are seen as legitimate promotions
Modeling and refining the structure

Final review

- Salary structure design is an *iterative* process
- Structure should be *modeled* and *tested* after each design change

  - Do midpoint differentials and range spreads increase by grade?
  - Are market reference points close to range midpoints?
  - Are there enough grades to accommodate career pathing, yet not too many as to devalue promotions?
  - Does the structure mirror the org’s reporting relationships?
  - Is there an appropriate amount of overlap between grades?
  - Are there few empty grades or overpopulated grades?
Costing and maintaining the structure

Costing the structure

- Calculation of the cost to bring base salaries for satisfactorily performing employees up to the minimums of their new grades.

- More competitive organizations may also want to review costs of bringing base salaries to grade midpoints or quartiles.

- Understanding the gap of where the organization is versus where it wants to be will guide management’s approach to adjusting pay.
Costing and maintaining the structure

**Example – Costing the structure**

<table>
<thead>
<tr>
<th>Employee</th>
<th>Current Salary</th>
<th>Performance Rating</th>
<th>Grade</th>
<th>Grade Minimum</th>
<th>Grade Midpoint</th>
<th>Cost to Bring to Minimum</th>
<th>Cost to Bring to Midpoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angela</td>
<td>$17,500</td>
<td>Satisfactory</td>
<td>2</td>
<td>$18,182</td>
<td>$20,000</td>
<td>$682</td>
<td>$2,500</td>
</tr>
<tr>
<td>Brad</td>
<td>$22,000</td>
<td>Unsatisfactory</td>
<td>4</td>
<td>$23,569</td>
<td>$27,104</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Carmen</td>
<td>$34,000</td>
<td>Satisfactory</td>
<td>6</td>
<td>$29,565</td>
<td>$33,999</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Daniel</td>
<td>$38,000</td>
<td>Very Good</td>
<td>8</td>
<td>$37,470</td>
<td>$44,964</td>
<td>--</td>
<td>$6,964</td>
</tr>
<tr>
<td>Ethan</td>
<td>$45,000</td>
<td>Satisfactory</td>
<td>10</td>
<td>$49,554</td>
<td>$59,465</td>
<td>$4,554</td>
<td>$14,465</td>
</tr>
<tr>
<td>Frank</td>
<td>$66,500</td>
<td>Satisfactory</td>
<td>12</td>
<td>$69,902</td>
<td>$85,629</td>
<td>$3,402</td>
<td>$19,129</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$8,638</strong></td>
<td><strong>$43,058</strong></td>
</tr>
</tbody>
</table>
Costing and maintaining the structure

Maintaining the structure

- Salary Structures need to be updated periodically to keep pace with the market
- Participate in annual Benchmark and Merit Budget Surveys and use results to adjust salary structures accordingly
- Individual jobs should be re-priced and/or re-graded as necessary; at least once every 2 – 3 yrs.
- Consider various technology solutions to design, model, and cost the structure
Questions?
THANKS!

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