

# Review and Refresh Your Pay Structures for Year-End Success

# Today's Presenters

---



**Alex Shaw**  
Compensation Analyst



**Daehi Hwang**  
Compensation Analyst

# Today's Agenda

- Considerations of compensation review
- Techniques for review
- Q&A



# Considerations of Compensation Review

# Poll: How often does your company refresh your pay structures?

- A. Once a year
- B. More than once a year
- C. Less than once a year
- D. As needed
- E. Unsure

# Compensation Plan **Benefits**

## Business Alignment

- **Business goals** guide compensation **strategy decisions**

## Internal/External Equity

- Clarifies **market and internal value** for each job
- Provides a way to manage employee pay **effectively**
- Ensures **pay equity**

## Communication

- Creates a **tool for managers** to talk with employees about development
- Provides room to **reward employees** based on performance, experience, etc.

## Budget

- Quantifies **compensation costs** and enables **budget decisions**

## Internal Equity

**Internal equity** exists when employees at an organization perceive that they are being rewarded fairly, according to the relative value of their jobs.



## External Equity

**External equity** exists when an organization's pay rates are equal to the average rates in the organization's market or sector.

**Equity** in  
Compensation

# Benchmarking

- *The **relevance** of market data is dependent on **proper benchmarking***
- W@W suggests that a **70% match** or more of the survey job description to your internal job is considered a **good match**
- Is the job a **benchmark** job or a **hybrid/niche** job?
- Choosing the **right level**
- **Adjustments** and **aging** data
- **Slotted** jobs
- **New** or **updated** survey titles
- *Benchmarking is the **foundation** upon which accurate and competitive ranges are built*



# Navigating Pay Compression

*“**Pay compression** is when the pay of one or more employees is very close to the pay of more-experienced employees in the same job, or even those in higher-level jobs, including managerial positions”*

This can happen when:

DEMAND  
EXCEEDS  
SUPPLY

STALE OR OUT-  
OF-DATE DATA  
IS USED

RANGES ARE  
TOO BROAD

MINIMUM WAGE  
INCREASES

RAPID  
INFLATION

## Risk of Unchecked Compression

It's why Payscale recommends **regular reviews of structure** and **internal pay** as pay compression can have a negative impact on employee morale and increase unproductive turnover.

# **Turnover is inevitable.**

*However, not **all turnover** is **bad turnover**!*

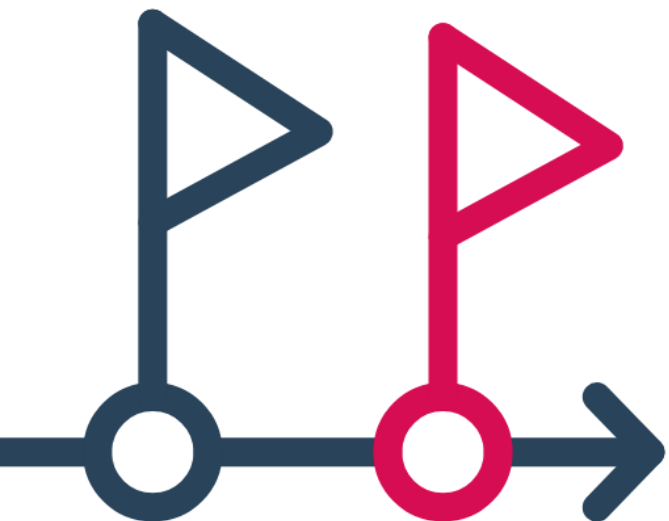


## **Bad Turnover**

Undesirable loss of top talent

## **Good Turnover**

Loss of underperformers or "mis-fits" to company culture



A healthy review of **turnover** can be one of the best indicators of **pay competitiveness**:

- Where is the talent going and why?
- What do counter offers look like?
- Are we performing exit interviews?


# Poll: Are you concerned about turnover rates in your organization?


- A. Very concerned
- B. Slightly concerned
- C. Neutral/unsure
- D. Unconcerned
- E. Very unconcerned

# Be Proactive, Not Reactive

It pays to **pay proactively**.

Even if the **cost to correct pay is significant**, it is typically **less expensive to address** pay inequities **upfront** than continue to lose your best talent to the competition.

+  *How has your organization been proactive about compensation and what issues have you avoided as a result?*

+  *What were some of the biggest challenges you have faced when being reactive to compensation?*

Organizations that are **proactive** about managing and reviewing compensation have achieved proper **benchmarking faster**, **minimized pay compression** issues and experienced **more good turnover**.



# Compensation Maturity Model

Which of the following best describes your organization's current compensation management maturity level?



# Poll: Where is your organization on the compensation maturity model?

- A. As Needed
- B. Emerging
- C. Developing
- D. Optimizing
- E. Unsure

# Policies



## Basis for Allocating Increases

- Merit Increases
- Market Adjustments
- Promotions
- Increase in Responsibilities



## Handling Employee Outliers (Green-Circled and Red-Circled)

### Green-Circled

- Increase pay to range minimum as soon as they are identified
- Hold back money to bring these employees to the range minimum during market adjustments

### Red-Circled

- Freeze base pay increases until the structure catches up with pay
- Allow in cases of exceptional performance

# Processes



## Example Structure Review Process

**Step 1:** Aligning to fiscal year cycle and budget (HR/Finance)

**Step 2:** Identify at-risk jobs for retention or hiring (Managers)

**Step 3:** Review benchmarks (HR)

**Step 4:** Internal alignment for structure and approval (HR/Executives)

**Step 5:** Execute and communicate changes to jobs/grades/ranges (HR/Managers)



# Techniques for Review

# Annual Review Project Steps

## UPDATE

- ☐ Employee and Job Refresh
- ☐ Slot New Jobs



## REVIEW

- ☐ Review Talent Market Strategy
- ☐ Analyze Base Pay Structure

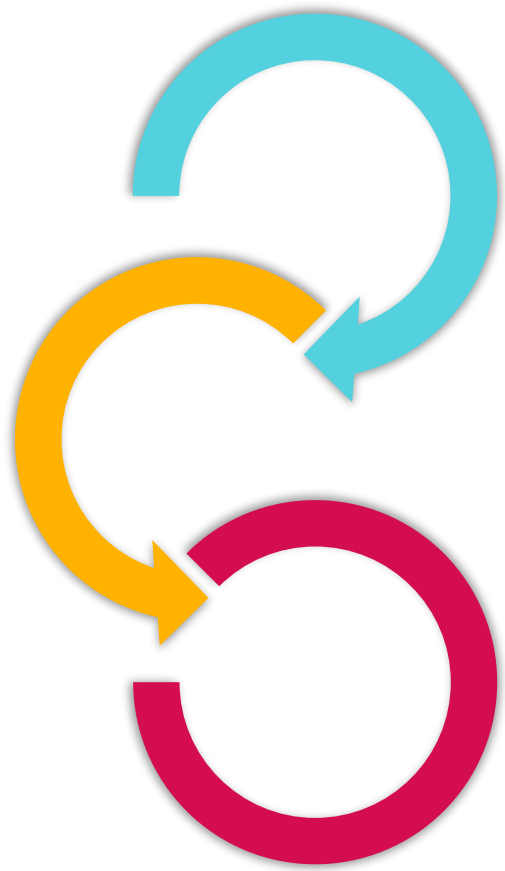


## COMMUNICATE

- ☐ Prepare EE Total Comp Reports
- ☐ Train Managers



# Components of a Base Pay Structure



**Compensation Strategy** = Competitive Talent Landscape + Market Reference Point

**Market Data** = Benchmark/Market Pricing + Compensation Strategy

**Base Pay Structure** = Market Data + Internal Alignment Adjustments

# Common Comp Measurements

## Recruitment

- Average Time to Hire

## Retention

- Good Turnover vs. Bad Turnover

## Budget

- Comp Spend as a Percent of Revenue

## Engagement

- Engagement Survey
- Exit Interviews

# Techniques for Review

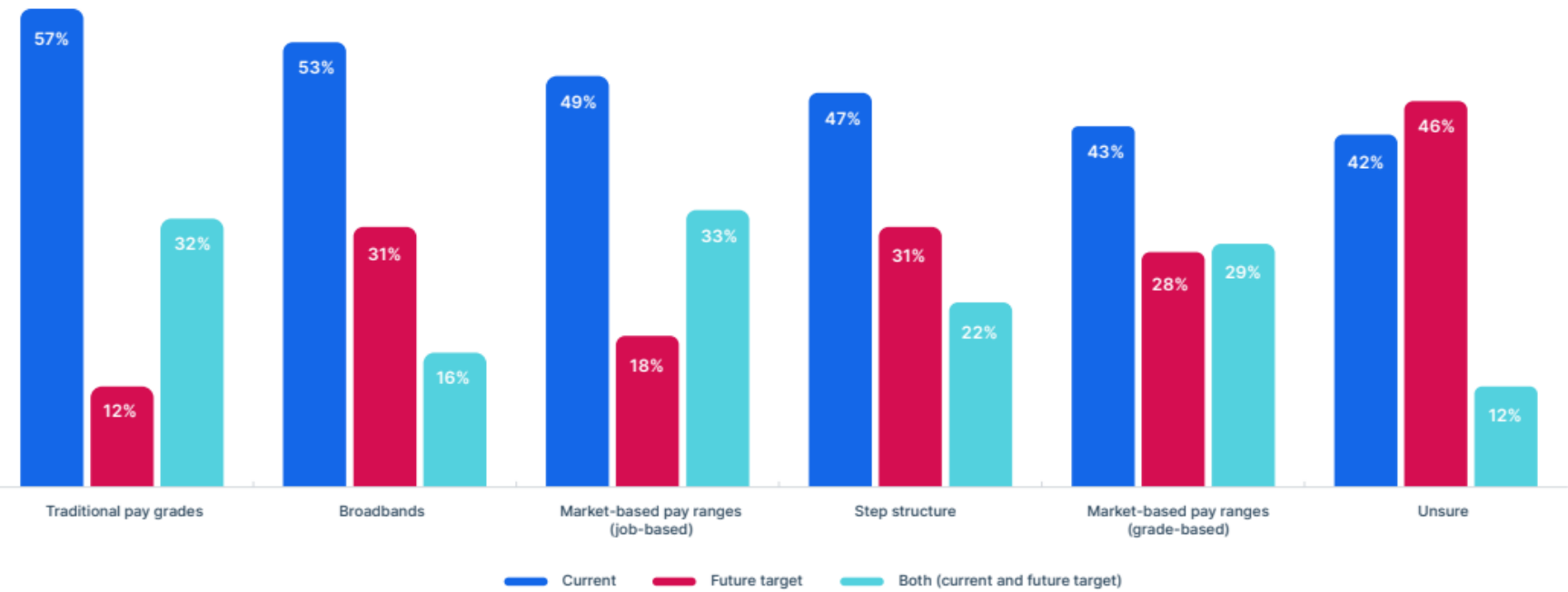
There are many ways to build formal pay structures. Which approach is best will depend on the industry and location of your organization as well as how you compete for talent.

**Market-based pay ranges (job-based)**  
A range created using market data that only applies to one job. Each job has its own range.

**Market-based pay ranges (grade-based)**  
A group(s) of comparable jobs (e.g., same level and job family) with one pay range that has been created predominately using market data

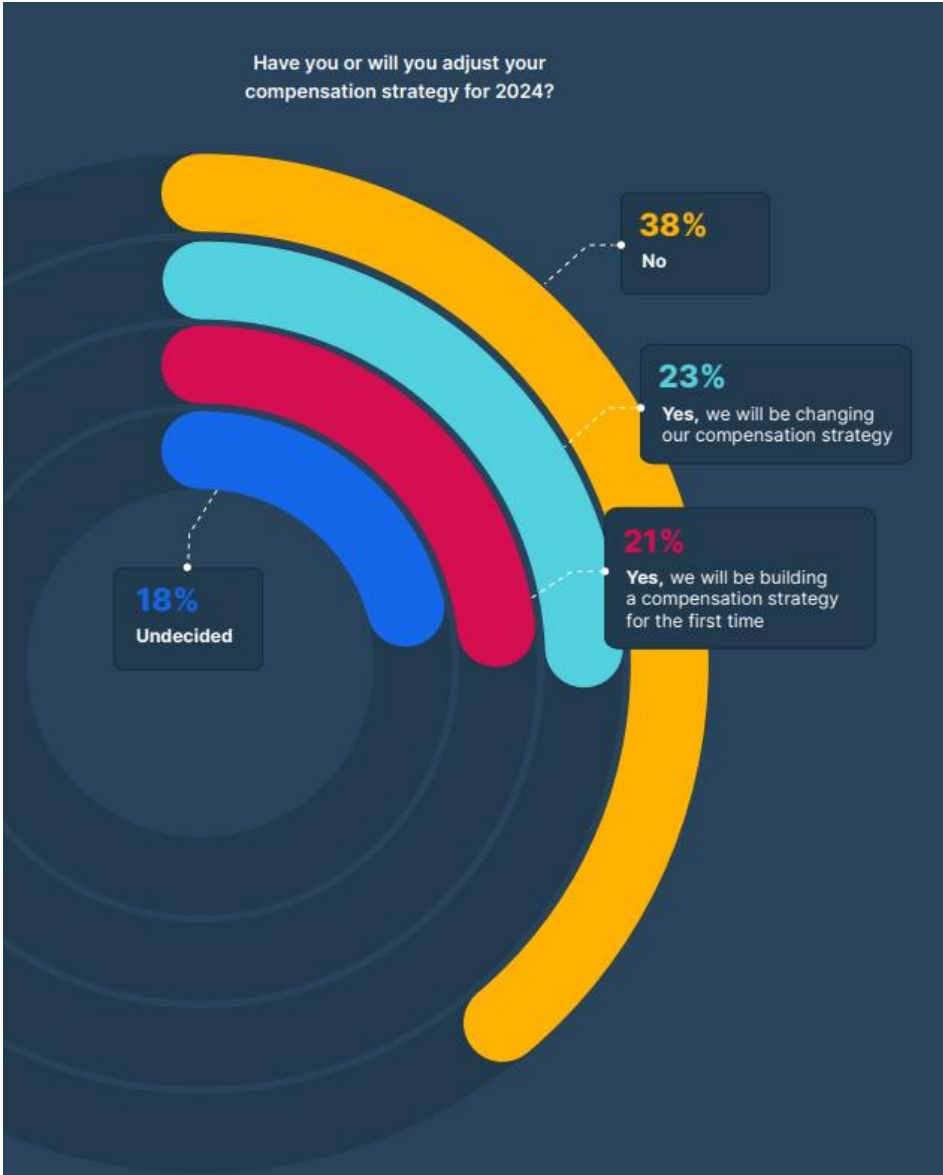
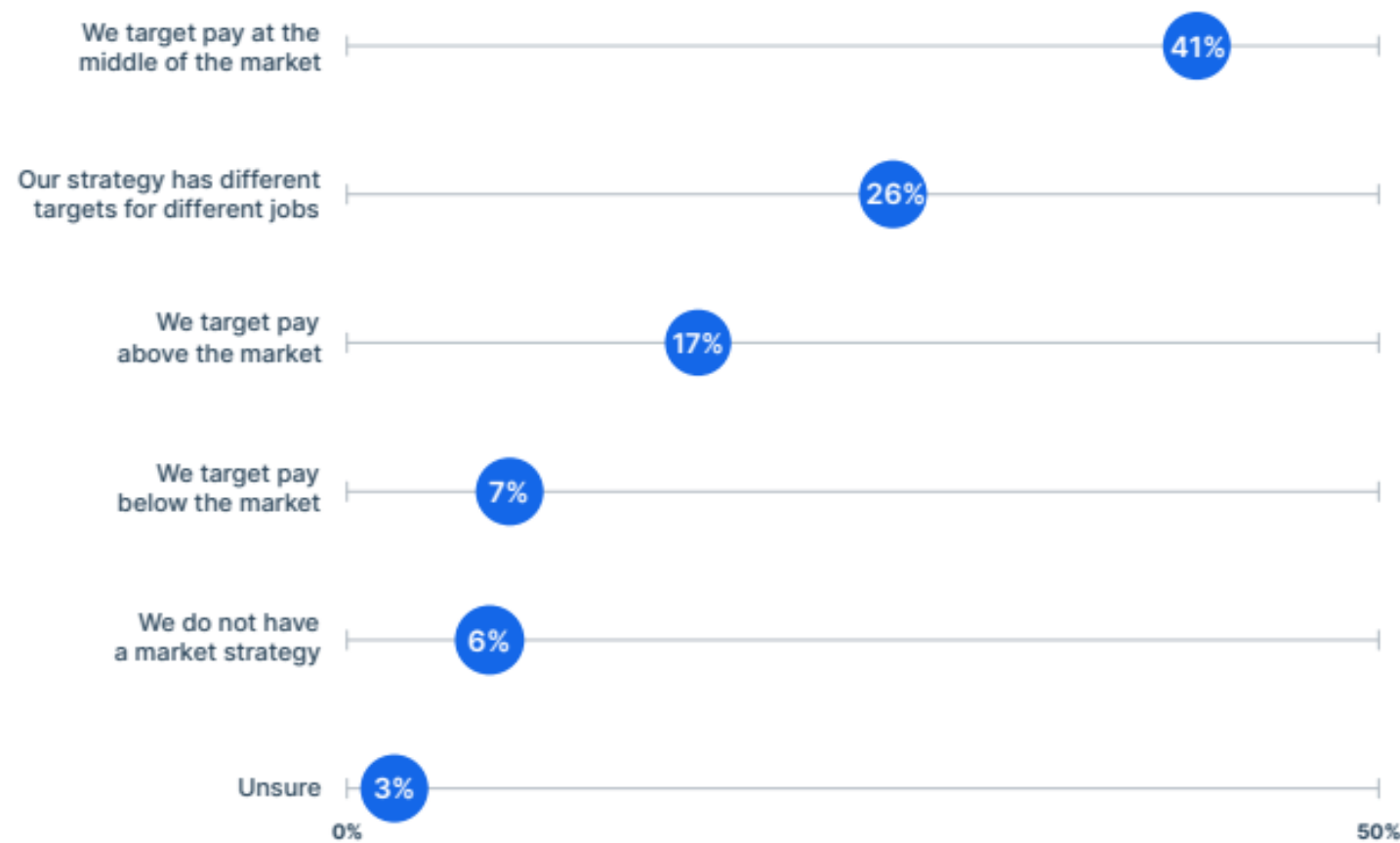
**Traditional pay grades**  
A group(s) of comparable jobs (e.g., same level and job family) with one pay range that may or may not have been created using market data.

How does your organization structure pay?



# Techniques for Review

Which of the following best describes your organization's market strategy?



# Poll: What structure type are you currently using?

- A. Grade-based
- B. Job-based
- C. Broadbands
- D. Step Structure
- E. None

# Strategy Changes

## PREVIOUS MARKET

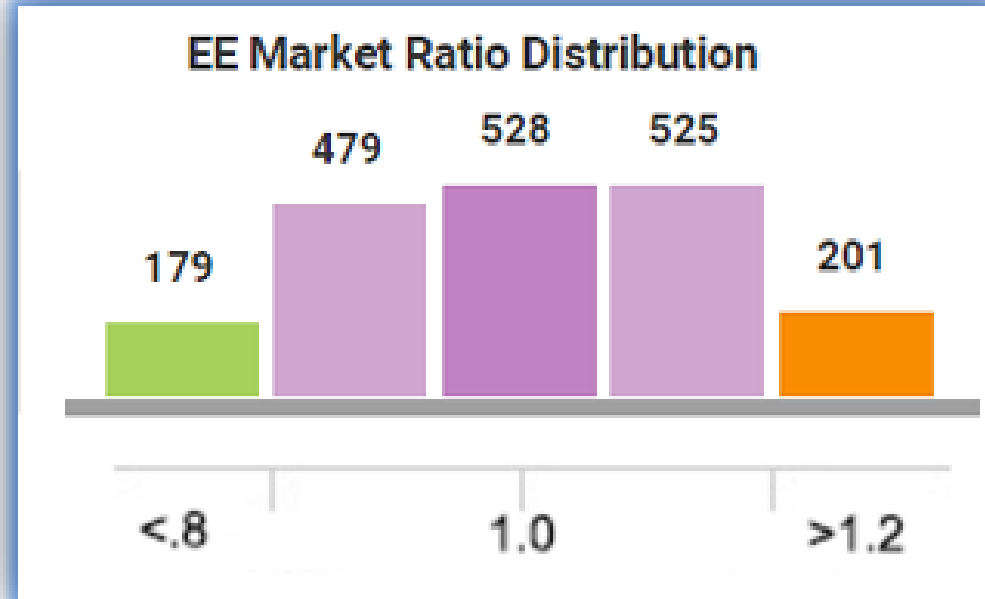
- ❑ **Industry:** Financial Services
- ❑ **Avg Org Size:** 500 Employees
- ❑ **Location(s):** Local Markets
- ❑ **Target Percentile:** 50th

## UPDATED MARKET

- ❑ **Industry:** Financial Services
- ❑ **Avg Org Size:** 2,000 Employees
- ❑ **Location(s):** Local Markets
- ❑ **Target Percentile:** 75th



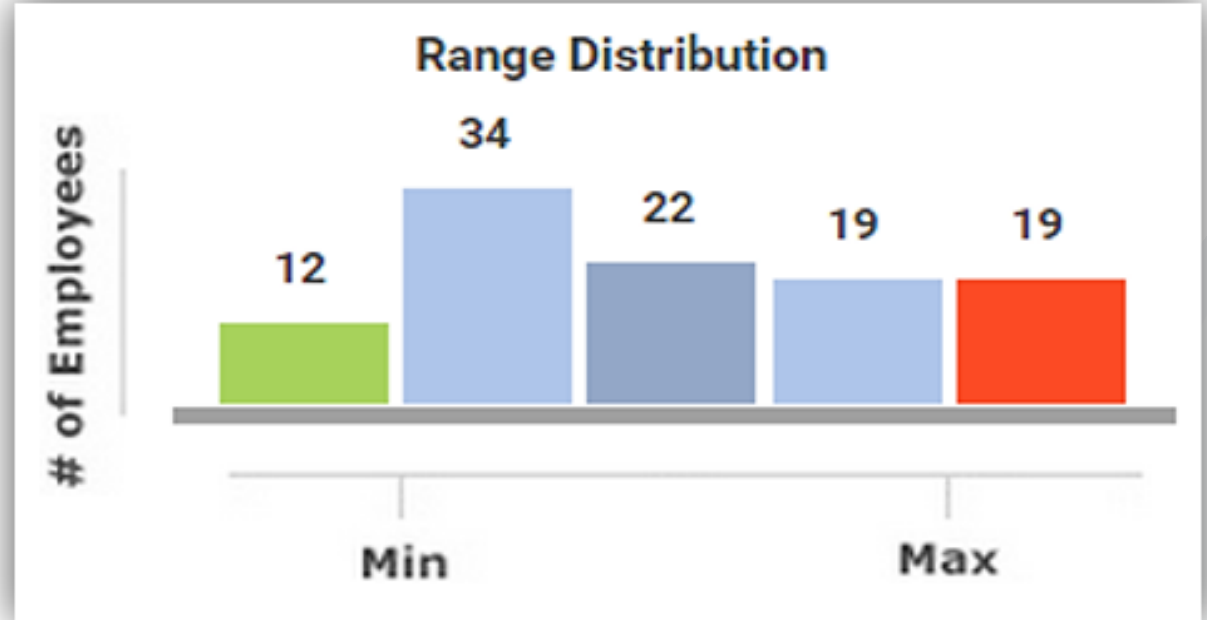
# Employee Pay to Market



## ***Remember:***

- No company pays exactly like the market
- You may value certain jobs more or less than the market
- This should be considered and documented when building your structure

# Employee Pay to Ranges

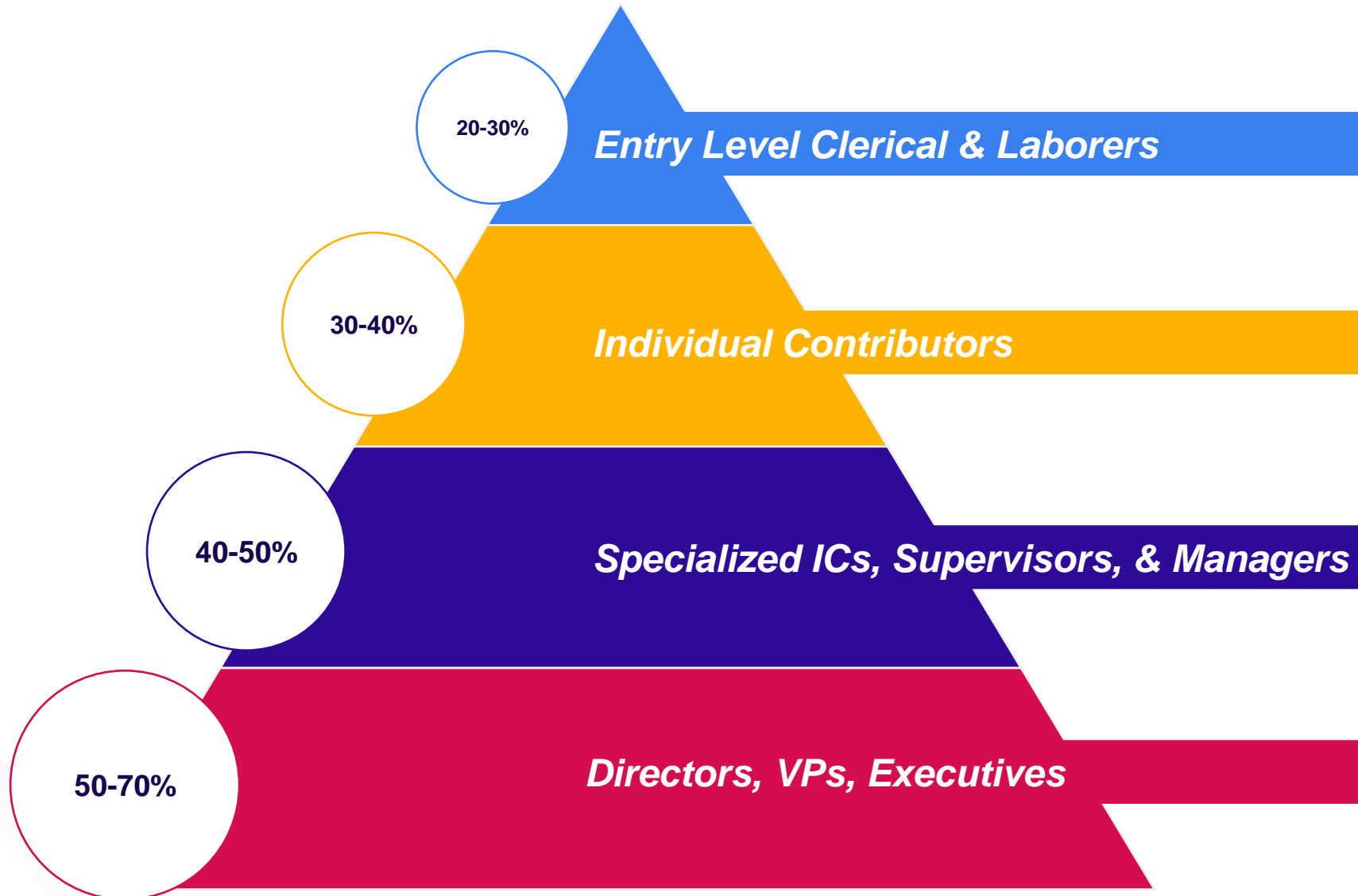


## *Example*

Cost to bring outliers to range minimum: \$69,805 or 0.67%

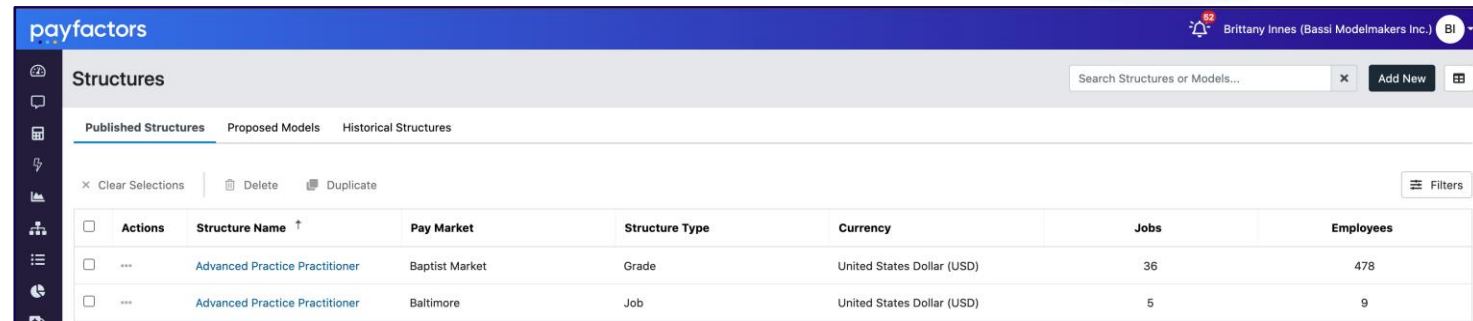
Amount paid to outliers above range maximum: \$138.988 or 1.34%

# Expanding Range Widths



# Job Based Ranges

*Ranges are built around the market value for the job, at the targeted percentile*



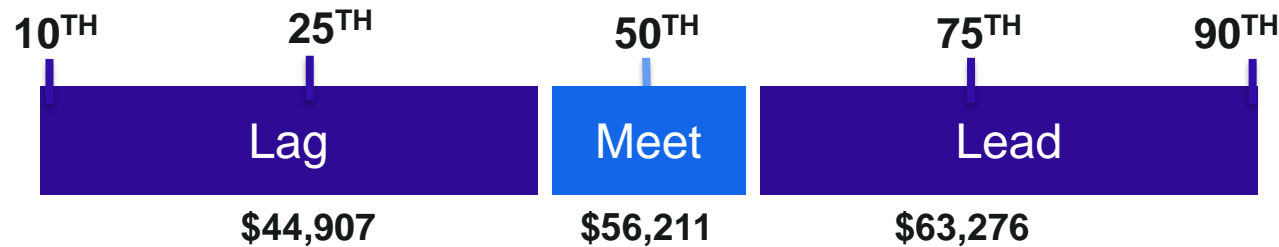
The screenshot shows the 'payfactors' web application interface. The main heading is 'Structures'. Below it are tabs for 'Published Structures', 'Proposed Models', and 'Historical Structures'. A search bar and an 'Add New' button are in the top right. Below the tabs are action buttons: 'Clear Selections', 'Delete', and 'Duplicate'. A 'Filters' button is on the right. The table below has columns: 'Actions', 'Structure Name', 'Pay Market', 'Structure Type', 'Currency', 'Jobs', and 'Employees'.

Actions	Structure Name	Pay Market	Structure Type	Currency	Jobs	Employees
<input type="checkbox"/>	Advanced Practice Practitioner	Baptist Market	Grade	United States Dollar (USD)	36	478
<input type="checkbox"/>	Advanced Practice Practitioner	Baltimore	Job	United States Dollar (USD)	5	9

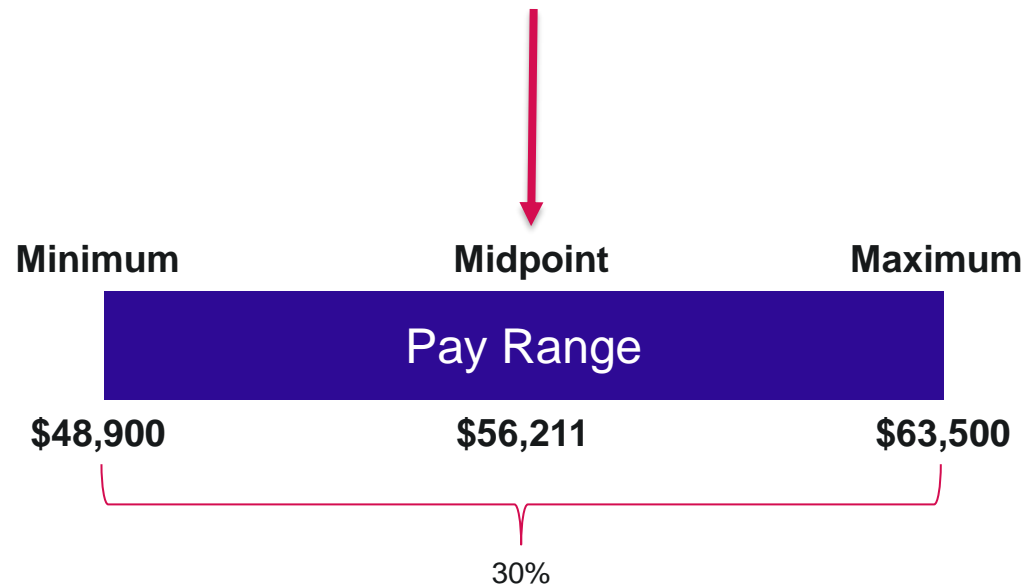
## Considerations

- Focus is on **external market value**
- Individual pay **range** for every **benchmarked job**
- **Simple to set up** and update, often appropriate for smaller organizations
- Good fit for organizations focused on **specificity**
- Great for “**hot jobs**”
- **Can be difficult** to administer for organizations with **many jobs**
- **Range value may change** year to year depending on the market

# Market Reference Point >>> Pay Range



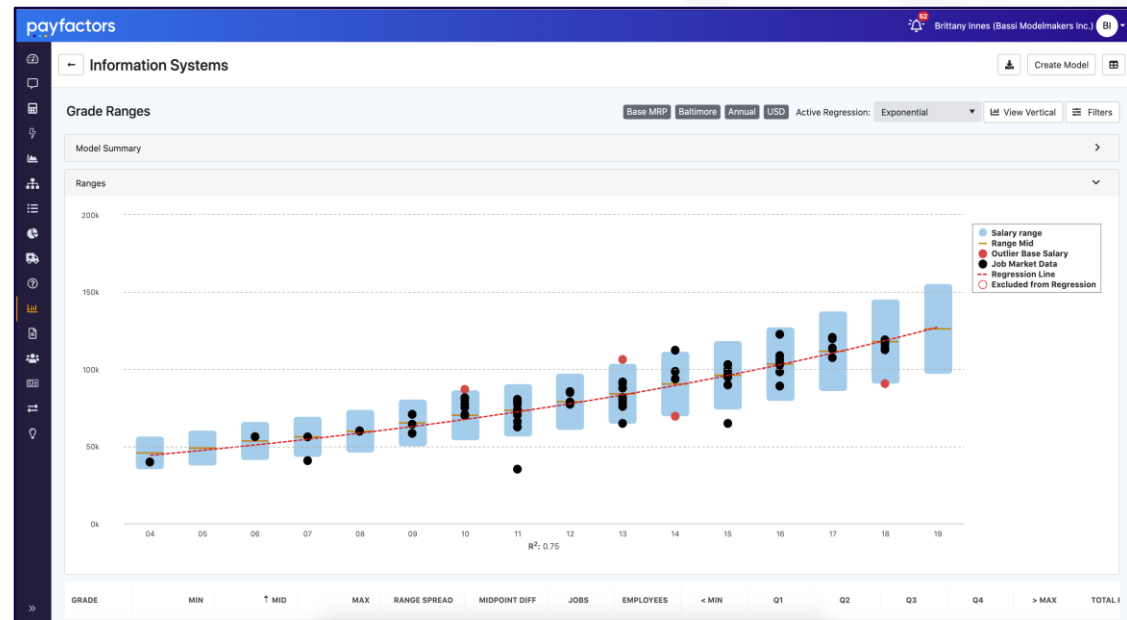
**Spectrum of Market Data**  
based on your **Market Strategy**



**Pay Range** built around your  
**Target Percentile**

# Grade Based Ranges

*Jobs with similar market value, organizational value, and level of responsibility are grouped together in a grade range*



## Considerations

- Each **grade** has a **base pay range**
- External equity + internal alignment
- Can easily **level** positions
- Helps when you need to “**slot**” non-benchmark jobs
- Ability to **keep current** to market year-to-year
- Simpler to **maintain + administer** for **many jobs**
- Can group location “**schedules**”
- Often a good fit for **larger organizations**

# Assigning Grades

## Step 1: Match Market Value With Nearest Midpoint

SAMPLE

↑ Internal Title	Target Market Percentile	Annu. Base at Target
Accounts Payable Assistant	50th	\$31,122

Grade	Min	Mid	Max
1	\$26,500	\$31,000	\$35,500
2	\$31,000	\$36,600	\$42,200
3	\$36,300	\$43,200	\$50,100
4	\$42,400	\$50,900	\$59,400

## Step 2: Adjust for Internal Alignment

SAMPLE

↑ Internal Title	Target Market Percentile	Annu. Base at Target
Shipping Manager	50th	\$47,749

Grade	Min	Mid	Max
1	\$26,500	\$31,000	\$35,500
2	\$31,000	\$36,600	\$42,200
3	\$36,300	\$43,200	\$50,100
4	\$42,400	\$50,900	\$59,400

# Schedule Adjustments

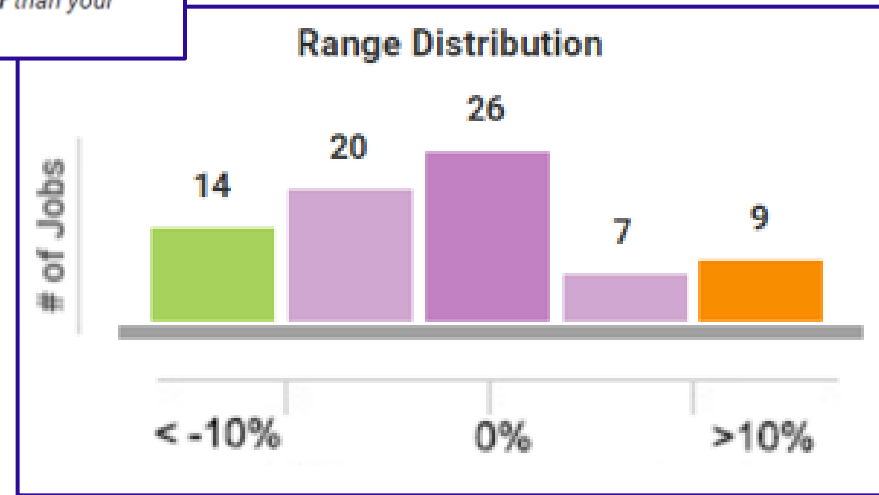
Location	2023 Market Differential	2024 Market Differential	2023 Grade Schedule	NEW 2024 Grade Schedule
Minneapolis, MN	0.00%	0.00%	BASE – Schedule B (0%)	BASE – Schedule B (0%)
Denver, CO	2.06%	5.99%	Schedule B (0%)	Schedule A (+5%)
St. Louis, MO	-11.28%	-7.23%	Schedule D (-10%)	Schedule C (-5%)
Atlanta, GA	-9.40%	-6.91%	Schedule D (-10%)	Schedule C (-5%)



# Range Adjustments

## Summary

On average, your pay structure is **2.3% lower** than your market target.



## Example

Recommendation if majority of jobs still aligned to market:


No change to ranges – adjust grades instead.

# Grade Assignment Adjustments

Job Title	2023 Market Value	2024 Market Value	Market Movement	2023 Grade	NEW 2024 Grade
Software Developer	\$65,789	\$78,211	19%	9	11
VP of Sales	\$98,345	\$112,069	14%	12	13
Purchasing Manager	\$45,109	\$52,678	17%	6	8
Marketing Assistant	\$32,015	\$40,008	25%	4	6

# Typical Approaches

- **Shift Structure**
  - By any % you'd like
  - Utilizing Midpoint vs Market Report
  - Utilize Salary Budget Survey data
- **Leave as is & make grade assignment adjustments for hot jobs**
- **Build new structure**



Updating your pay  
structures is an  
important business  
practice.

## Keep in mind...

Your compensation structure should be designed to support your **business goals**.

Your organization is **unique**. So is your approach to compensation.

Managing employee compensation is a continuous **process**.

Interested in learning more about how PayScale's compensation software can help you build and refresh your pay structures?

**Request a demo in the polling tab of your dashboard!**

# Q&A

Feel free to ask any questions in the chat!

