

How to Build Pay Grades and Salary Ranges



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AGENDA

- **Why pay structure.**
- **Requirements for building structure.**
- **Building Structure.**
 - Step 1: Identify multiple schedules.
 - Step 2: Determine pay grades.
 - Step 3: Develop ranges.
 - Step 4: Assign grades to positions & adjust for internal equity.
- **Using pay ranges.**
 - Compa-Ratio.
- **Maintaining structure.**

Why Pay Structure?

- Clarifies the market and internal value for each job, and provides a way to manage employee pay effectively.
- Quantifies compensation costs & enables budget decisions.
- Validates compensation strategy & aligns to business goals.
- Provides a tool to talk with employees about development.
- Ensures pay equity.
- Determines pay for non-benchmark jobs.
- Allows ease of administration.

Requirements

- **Compensation philosophy.**
- **Organization-wide job evaluations.**
- **External market analysis.**

Pay Structure Elements

Pay Structure Includes:

Pay Schedules

- Sets of Pay Grades, multiple markets grouped (geography, industry, etc).

Pay Grades

- a label for a group of jobs with similar relative internal worth.
- associated with a pay range.

Pay Ranges

- the upper and lower bounds of compensation.

Step 1: Identify Multiple Schedules

- **Provides a way of grouping together multiple labor markets, using the same set of pay grades.**
- **Streamlines pay structure.**
- **Consideration: how complex is your organization?**
 - Industries and/or lines of business.
 - Retail & Social Services.
 - Sales.
 - Engineers vs Admin.
 - Locations.

**Schedule A (-15%) –
ID, MO, SC, and UT**

**Schedule B (-10%) –
FL, GA, MN, NC, PA, CO and TX**

**Schedule C (-5%) –
HI, IL, VA, and WA**

Grade	Min	Mid	Max	Grade	Min	Mid	Max	Grade	Min	Mid	Max
1	\$20,000	\$23,000	\$26,000	1	\$21,000	\$24,000	\$27,000	1	\$22,000	\$26,000	\$29,000
2	\$23,000	\$26,000	\$30,000	2	\$24,000	\$28,000	\$32,000	2	\$25,000	\$29,000	\$34,000
3	\$26,000	\$30,000	\$34,000						\$34,000	\$39,000	\$45,000
4	\$30,000	\$35,000	\$40,000						\$39,000	\$45,000	\$52,000
5	\$34,000	\$40,000	\$46,000						\$45,000	\$52,000	\$60,000
6	\$38,000	\$46,000	\$53,000						\$52,000	\$60,000	\$70,000
7	\$44,000	\$53,000	\$61,000						\$59,000	\$70,000	\$81,000
8	\$50,000	\$61,000	\$70,000						\$68,000	\$81,000	\$93,000
9	\$57,000	\$70,000	\$81,000						\$78,000	\$93,000	\$108,000
10	\$65,000	\$81,000	\$93,000						\$90,000	\$108,000	\$125,000
11	\$74,000	\$93,000	\$107,000						\$104,000	\$125,000	\$144,000
12	\$85,000	\$107,000	\$123,000						\$119,000	\$144,000	\$166,000
13	\$97,000	\$123,000	\$141,000						\$137,000	\$166,000	\$192,000
14	\$110,000	\$141,000	\$162,000						\$158,000	\$192,000	\$222,000
15	\$126,000	\$162,000	\$199,000	15	\$133,000	\$172,000	\$211,000	15	\$141,000	\$181,000	\$222,000
16	\$144,000	\$187,000	\$230,000	16	\$152,000	\$198,000	\$243,000	16	\$161,000	\$209,000	\$257,000
17	\$164,000	\$215,000	\$266,000	17	\$174,000	\$227,000	\$281,000	17	\$183,000	\$240,000	\$297,000
18	\$187,000	\$247,000	\$307,000	18	\$198,000	\$261,000	\$325,000	18	\$209,000	\$276,000	\$343,000

6 Different Pay Schedules:

- **Home Schedule**– 3 labor markets, within 2.5% of HQ
- **Schedule A, Minus 15% Schedule** – 4 labor markets
- **Schedule B, Minus 10% Schedule** – 7 labor markets
- **Schedule C, Minus 5% Schedule** – 4 labor markets
- **Schedule D, Plus 5% Schedule** – open
- **Schedule E, Plus 10% Schedule** – 1 labor market

Step 2: Determine Pay Grades

- **There are no fixed rules for every organization.**
- **Decide how many grades you will have. Number of pay grades varies in response to:**
 - The size of the organization.
 - The vertical distance between the highest and lowest level job.
 - How finely the organization defines jobs and differentiates between them (i.e. levels).
 - The pay increase and promotion policy of the organization.
- **Determine the definition of each grade.**

Step 3: Develop Ranges

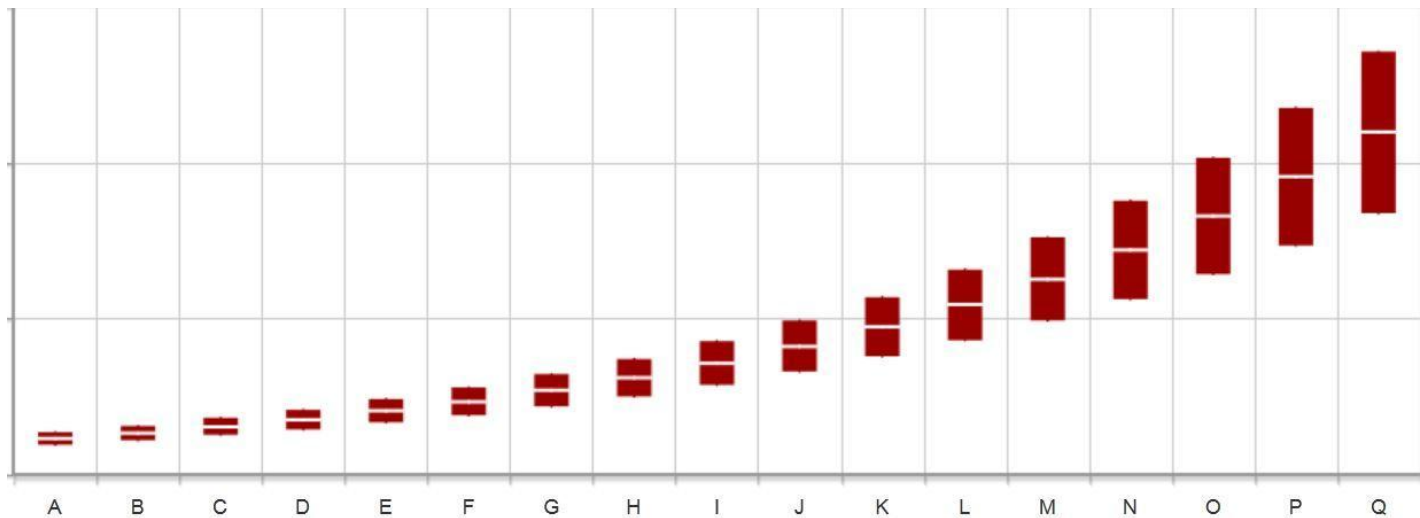
Calculations & Helpful formulas:

- **Midpoint Differential.**
 - Distance between midpoints
 - $=(\text{MidB}-\text{MidA})/\text{MidA}$
- **Range Spread.**
 - Distance between bottom and top of range
 - $=(\text{Max}-\text{Min})/\text{Min}$
 - Typical range spreads are 30% to 60%
- **Min** relative to Mid.
 - $=\text{Mid}/(1+(\text{Range Spread}/2))$
- **Max** relative to Min.
 - $=\text{Min}*(1+\text{Range Spread})$

Range	Range Width	Min	Mid	Max
A	40%	\$8.50	\$10.25	\$12.00
B	41%	\$9.75	\$11.75	\$13.75
C	42%	\$11.25	\$13.50	\$16.00
D	43%	\$12.75	\$15.50	\$18.25
E	44%	\$14.75	\$18.00	\$21.25
F	45%	\$16.75	\$20.50	\$24.50
G	46%	\$19.25	\$23.75	\$28.25
H	47%	\$22.00	\$27.25	\$32.50
I	48%	\$25.25	\$31.25	\$37.50
J	49%	\$29.00	\$36.00	\$43.25
K	50%	\$33.25	\$41.50	\$49.75
L	52%	\$37.75	\$47.75	\$57.50
M	54%	\$43.25	\$54.75	\$66.50
N	56%	\$49.25	\$63.00	\$76.75
O	58%	\$56.25	\$72.50	\$88.75
P	60%	\$64.25	\$83.50	\$102.75
Q	62%	\$73.25	\$96.00	\$118.50

Considerations:

- **Difference at the base vs top of structure.**
 - Bigger range spread at the top, narrower at the base.
 - Time to proficiency.
 - Differentiation of skill sets.
 - Manager input.
- **Overlap between pay ranges.**
 - Long tenure/high performing employees can earn higher wages.
 - Provides more cost effective career progression within the org.



Step 4: Assign Grades to Positions; Adjust for Internal Equity

- Align positions to structure by matching market value with closest range midpoint.
- Adjust for internal equity.
 - Positions with similar level of responsibility and value to the organization.
 - Where market is between two grades, use internal equity to tip.

<u>Internal Title</u>	<u>Grade</u>	<u>Internal Title</u>	<u>Grade</u>	<u>Internal Title</u>	<u>Grade</u>
Billing & Collections Specialist I	11	Accounts Payable Specialist II	13	Branch Inside Sales III	14
Member Services Specialist I	11	Billing & Collections III or TL	13	Corporate Accountant I	14
Service Delivery Agent I	11	Branch Inside Sales II	13	NOC Technician I	14
		Desktop Support Technician	13	TAC Engineer II	14
Accounts Payable Specialist I	12	Marketing Coordinator	13		
Billing & Collections Specialist II	12	Office Manager	13	Corporate Accountant II	15
Branch Inside Sales I	12	Project Coordinator	13	NOC Technician II	15
Member Services Specialist II	12	Quality Assurance Analyst II or TL	13	Project Manager I	15
Quality Assurance Analyst I	12	Service Delivery Agent III or TL	13	Software Development QA I	15
Service Delivery Agent II	12	TAC Engineer I	13	TAC Engineer III or TL	15

How do you use the pay range?

Employee Placement in Range.

- Min = New Hire.
- Midpoint = Proficient & meeting performance expectations.
- Above midpoint = Takes into account tenure, performance, education – whatever org values most.

Guidelines or Policies.

- Develop guidelines or policies about:
 - Where new employees enter ranges.
 - How current employees move within ranges.
 - What happens when an employee is promoted?
 - How much discretion do managers have?
- Get specific, where it makes sense.

Metrics for Managing EE Pay with Ranges

Metrics for managing EE Pay with Ranges

Compa-ratio and **Range Penetration** are indicators of how employees are performing relative to the ranges.

Calculations:

- Range Penetration $= (\text{EE Pay} - \text{Min}) / (\text{Max} - \text{Min})$
- Compa-Ratio $\square = \text{EE Pay} / \text{Midpoint}$

In Practice:

- Use them to get specific in your policies or guidelines.
- Range Penetration:
 - 0% is Min, 50% is Mid, 100% is Max.
- Compa-Ratio:
 - 1 is Midpoint.
 - Compa-ratio range varies by comp strategy and more, starting guideline is .9-1.1

Maintaining Compensation Structure

- **New positions.**
- **Evaluate ranges to market.**
 - Annually based on market research.
 - Shift ranges as necessary (2-3 yrs).
- **Evaluate grade assignments.**
 - Revised job duties.
 - Hot jobs.

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