Compensation Formulas and Metrics Reference Guide

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1. Basic Compensation Metrics

1.1 Compa-Ratio

Formula: Compa-Ratio = Actual Salary / Salary Range Midpoint × 100 **Purpose:** Measures how an employee's salary compares to the midpoint of their salary range **When to Use:**

- Evaluating individual pay positioning

- Assessing internal equity

- Planning salary adjustments **Target Range:** Typically 80-120%

1.2 Range Penetration

Formula: Range Penetration = (Actual Salary - Range Minimum) / (Range Maximum - Range Minimum) × 100 **Purpose:** Shows position within salary range as a percentage **When to Use:**

- Determining merit increase eligibility

- Career progression planning

- Identifying compression issues **Target Range:** Based on experience and performance, typically 25-75%

1.3 Range Spread

Formula: Range Spread = (Range Maximum - Range Minimum) / Range Minimum × 100 **Purpose:** Indicates the width of a salary range **When to Use:**

- Designing salary structures

- Evaluating range competitiveness

- Assessing career growth opportunity **Typical Range:** 40-60% for individual contributor roles, 50-80% for management

2. Market Positioning Metrics

2.1 Market Index

Formula: Market Index = Current Salary / Market Reference Point × 100 **Purpose:** Compares salary to external market data **When to Use:**

- Competitive analysis

- Recruitment planning

- Retention risk assessment **Target Range:** Usually 90-110% of market

2.2 Market Position

Formula: Market Position = Company Midpoint / Market Median × 100 **Purpose:** Evaluates pay grade competitiveness **When to Use:**

- Salary structure design

- Budget planning

- Total compensation strategy **Target Range:** Based on compensation strategy (e.g., lead, match, or lag market)

3. Internal Equity Metrics

3.1 Internal Equity Index

Formula: Internal Equity Index = Average Salary in Group A / Average Salary in Group B **Purpose:** Compares pay across different employee groups **When to Use:**

- Pay equity analysis

- Diversity monitoring

- Compliance reporting **Target Range:** 1.0 (or appropriate ratio based on legitimate factors)

3.2 Coefficient of Variation

Formula: CV = Standard Deviation of Salaries / Mean Salary × 100 **Purpose:** Measures salary dispersion within a group **When to Use:**

- Internal equity assessment

- Identifying outliers

- Structure effectiveness evaluation **Target Range:** Typically < 15%

4. Cost and Budget Metrics

4.1 Salary Budget Increase

Formula: Budget Increase % = (New Budget - Current Budget) / Current Budget × 100 **Purpose:** Plans for compensation changes **When to Use:**

- Annual planning

- Forecasting

- Budget allocation **Typical Range:** 2-5% annually

4.2 Compensation Cost per FTE

Formula: Comp Cost per FTE = Total Compensation Cost / Total Full-Time Equivalents **Purpose:** Measures average employee cost **When to Use:**

- Workforce planning

- Cost analysis

- Budget benchmarking **Analysis:** Compare to industry standards and historical trends

5. Performance and Incentive Metrics

5.1 Bonus Payout Ratio

Formula: Bonus Payout = (Individual Performance Score × Company Performance Multiplier) × Target Bonus **Purpose:** Calculates individual bonus payments **When to Use:**

- Annual bonus determination

- Performance rewards

- Incentive planning **Components:** Individual score (0-150%), company multiplier (0-150%)

5.2 Merit Increase Matrix

Formula: Merit Increase = Performance Rating Factor × Position in Range Factor × Budget Factor **Purpose:** Determines annual salary increases **When to Use:**

- Annual compensation review

- Performance rewards

- Budget allocation **Factors:** Usually results in 0-6% increase

6. Retention and Turnover Cost Metrics

6.1 Cost of Turnover

Formula: Turnover Cost = Separation Costs + Vacancy Costs + Replacement Costs + Training Costs **Purpose:** Quantifies financial impact of employee turnover **When to Use:**

- Retention planning

- Budget justification

- Program evaluation **Typical Range:** 50-200% of annual salary

6.2 Retention Rate

Formula: Retention Rate = (1 - (Separations / Average Headcount)) × 100 **Purpose:** Measures employee retention **When to Use:**

- Program effectiveness

- Compensation strategy evaluation

- Risk assessment **Target Range:** Industry dependent, typically 85-95%

7. Pay Equity Analysis Metrics

7.1 Pay Equity Gap

Formula: Pay Gap = (Average Pay Group A - Average Pay Group B) / Average Pay Group A × 100
Purpose: Identifies potential pay disparities **When to Use:**

- Compliance analysis

- DEI initiatives

- Risk assessment **Target Range:** <5% after accounting for legitimate factors

7.2 Regression Analysis R-squared

Formula: Statistical calculation of pay determinants **Purpose:** Explains pay variation based on legitimate factors **When to Use:**

- Detailed equity analysis

- Legal compliance

- Program evaluation **Target Range:** >0.7 for robust models

8. Advanced Compensation Metrics

8.1 Total Rewards Index

Formula: TRI = (Base + Benefits + Incentives) / Market Total Rewards × 100 **Purpose:** Evaluates total compensation package **When to Use:**

- Package design

- Recruitment

- Retention planning **Target Range:** Based on compensation strategy

8.2 Compensation Effectiveness

Formula: Comp Effectiveness = Revenue per Employee / Compensation Cost per Employee
Purpose: Measures return on compensation investment **When to Use:**

- Program evaluation

- Strategy planning

- Budget justification **Analysis:** Compare to industry benchmarks and trends

9. Geographic Differential Metrics

9.1 Geographic Pay Differential

Formula: Geographic Differential = Location Factor × Base Salary Structure **Purpose:** Adjusts pay for location costs **When to Use:**

- Remote work policy

- Office location planning

- Offer letters **Range:** Typically 70-130% of base structure

9.2 Cost of Labor Adjustment

Formula: CoL Adjustment = (New Location Index / Current Location Index - 1) × Current Salary
Purpose: Calculates location-based salary changes **When to Use:**

- Relocations

- Remote work

- New office planning **Consideration:** Market data availability and reliability