Compensation plan

Once you’ve defined your compensation philosophy, you should analyze the job positions you are looking for, to draw conclusions that will help you define salary ranges:

* What level of education and knowledge are you looking for in this job position?
* What level of experience and skills are required to perform the tasks and duties associated with the said job position?

In order to determine how important a job position really is for your company, as well as what level of education, knowledge, experience, and skills you are looking for you can:

* Observe current employees
* Conduct surveys
* Interview employees
* Use a combination of the above-mentioned methods

Once you have this data, use it to write down the specific job descriptions for the job positions you are looking for.

Group the jobs into job families

Now that you have clear and specific job descriptions, you’ll need to determine whether and how you want to group the jobs into job families.

When grouping jobs into job families, you’ll need to decide on the parameters you want to use. For example, you can group the jobs by:

* **Department and type** — i.e. jobs are grouped based on whether they belong to the executive, administrative, technical, or management job family.
* **Location** — i.e. jobs are grouped based on the geographic location of the customers. Jobs that are in charge of handling customers of the same geographical location are grouped together.

Evaluate positions based on their worth and importance for your company

Rather than focusing on the qualities of professionals who are expected to fill these positions, this crucial step in determining salary ranges focuses on the importance and worth of a job position for the successful operations of the company.

To determine the worth and importance of a job position for your company, you can rely on **The Point Method**:

This method helps you evaluate positions by assigning points to qualities required to carry out the expected job duties and responsibilities.

The qualities in total can build up to 100 points per position. Each separate quality has its own maximum:

* **Skills** — e.g. you assign up to 50 points for this parameter
* **Education** — e.g. you assign up to 30 points for this parameter
* **The difficulties of the working conditions** — e.g. you assign up to 10 points for this parameter
* **The final independent judgment** — e.g. you assign up to 10 points for this parameter

To illustrate this method, one job may gather 50 such points in the listed qualities:

* **Skills** — e.g. 20 points
* **Education** — e.g. 20 points
* **The difficulties of the working conditions** — e.g. 2 points
* **The final independent judgment** — e.g. 8 points

Once you’ve evaluated (i.e. given points to) all the defined positions in your company, make sure you rank and order the jobs in comparison to one another and their final scores.

Group jobs by job grades

So, you’ve already grouped jobs by job families and ordered them based on importance. Now it’s time to categorize them further and place them in the correct job grades.

* **Entry-level positions**
  + **GS1** (no high-school diploma) — $19,543-$24,448
  + **GS2** (a high school diploma or an equivalent) — $21,974-$27,653
  + **GS3** (a high school diploma or an equivalent) — $23,976-$31,167
  + **GS4** (an associate’s degree) — $26,915-$34,988
  + **GS5** (an associate’s degree) — $30,113-$39,149
  + **GS6** (an associate’s or bachelor’s degree) — $33,567-$43,638
  + **GS7**(a bachelor’s degree) — $37,301-$48,488
* **White-collar, mid-level positions**
  + **GS8** (a bachelor’s degree) — $41,310-$53,703
  + **GS9** (a bachelor’s or master’s degree) — $45,627-$59,316
  + **GS10** (a master’s degree) — $50,246-$65,321
  + **GS11** (a master’s degree) — $55,204-$71,764
  + **GS12** (a master’s degree or Ph.D.) — $66,167-$86,021
* **Top-level positions (supervisors, high-level technical specialists)**
  + **GS13** (a master’s degree or Ph.D.) — $78,681-$102,288
  + **GS14** (Ph.D.) — $92,977-$120,868
  + **GS15** (Ph.D.) — $109,366-$142,180

It should be noted that one company will hardly need such a wide range of professionals — smaller companies usually implement as few as 3 or 4 pay scales. In any case, always make sure you pay attention to the market trends when defining your pay grades.

Bonus: Other ways to define pay grades

Apart from market-based compensation structures, there are other alternatives to defining pay grades:

*Defining pay grades based on job range*

Job range compensation structures work on a 1-on-1 basis — each individual job is placed in and corresponds to one salary grade, based on the pay range the job holds at the job market.

**This type of compensation structure is best:**

* If you have enough employees who hold a particular job position to justify it getting a separate salary range
* If you can match and price the jobs in your company accurately
* If your company has many job positions that are high in demand, triggering a frequent change in market prices
* If your company places great emphasis on market competitiveness

*Defining salary bands instead*

Broadband compensation structures divide pay grades into wider salary bands.

The salary range in terms of the minimum and maximum amount in each band are larger than they are in pay grades (i.e. each salary band may consist of several pay grades), so the emphasis with this type of compensation structure is on career development rather than job promotion — considering that it takes more time to move up from one salary band to the next.

**This type of compensation structure is best:**

* If you need a more flexible approach when determining pay
* If you want to reward people for acquiring new skills

Calculate the actual salary ranges

Now, the job grades we listed in step #4 are merely the minimum and maximum *starting points*, not the actual salary ranges. It’s up to the discretion of the company to decide on the midpoint and actual percentile to use to calculate the minimum and maximum salary ranges. You can even use various percentiles for various job grades.

However, most companies will use +/- 15% or 20%, starting from the midpoint.

Say that your salary market surveys and salary data show a certain administrative position pays $30,000 on average (which means this salary falls in the GS4 pay grade). And, say you want to implement a +/-15% percentile in your calculations. Here’s how your salary range may look:

* **Medium position:** $30,000
* **Minimum salary range:** $30,000 x 0.85 = $25,000
* **Maximum range:** $30,000 x 1.15 = $34,500

To conclude, the midpoint for the salary of this particular position is $30,000, with a salary range of $25,000-$34,500.

Decide how you want employees to progress within their salary range

Now that you’ve defined your pay grades and salary ranges, you’ll need to decide how employees will be able to *progress* across the said salary ranges, i.e. move from $25,000 towards $34,500.

For example, you can base this progression on the number and difficulty of skills, duties, and responsibilities — as employees learn new skills and take on new responsibilities, they get career promotions and move up to higher pay grades.

Or, you can base this progression on a preplanned schedule. These progressions are associated with the time an employee stays in a company (i.e. his or her *tenure*) rather than employee performance. The employee receives fixed pay raises as his or her tenure progresses.

In line with that, an employee with 5 years of experience in a particular industry will earn more than an employee with 3 years of experience in the same industry.

Defining employee hourly wages

Let’s now see how you can define employee hourly wages if this is the type of compensation you opted for instead of giving your employees salaries.

**When it comes to determining hourly rates, they will differ based on the industry you are working in, the position you are looking for, as well as the skills and experience you require from the professional who will fill up the said position.**

The real constant that you should focus on is making sure you are offering “competitive hourly rates” — once again, this means that you are offering equal or better hourly pay compared to what other companies in the market are offering to their employees.

* **Entry-level positions**
  + **GS1** (no high-school diploma) — $9.36 – $11.71
  + **GS2** (a high school diploma or an equivalent) — $10.53 – $13.25
  + **GS3** (a high school diploma or an equivalent) — $11.49 – $14.93
  + **GS4** (an associate’s degree) — $12.90 – $16.76
  + **GS5** (an associate’s degree) — $14.43 – $18.76
  + **GS6** (an associate’s or bachelor’s degree) — $16.08 – $20.91
  + **GS7**(a bachelor’s degree) — $17.87 – $23.23
* **White-collar, mid-level positions**
  + **GS8** (a bachelor’s degree) — $19.79 – $25.73
  + **GS9** (a bachelor’s or master’s degree) — $21.86 – $28.42
  + **GS10** (a master’s degree) — $24.08 – $31.30
  + **GS11** (a master’s degree) — $26.45 – $34.39
  + **GS12** (a master’s degree or Ph.D.) — $31.70 – $41.22
* **Top-level positions (supervisors, high-level technical specialists)**
  + **GS13** (a master’s degree or Ph.D.) — $37.70 – $49.01
  + **GS14** (Ph.D.) — $44.55 – $57.91
  + **GS15** (Ph.D.) — $52.40 – $68.13

Bonus tips: Calculating commissions

If you’re choosing to include commissions in your compensation plan to any extent (either as the only form of compensation or a supplementary form of compensation), there are several factors you should consider when defining commissions for your employees:

* **The commission rate** — this is the percentage (e.g. 5%) or fixed compensation ($25) employees will get for each sale they make.
* **The commission basis** — a commission can be based on:
  + the total number of sales
  + the gross margin of the product being sold
  + the net profit of the product being sold (when you want to inspire your sales team to focus on selling the more profitable products in your offer)
  + the cash received from sales (when you want to inspire the sales team to collect all overdue receivables)
  + the inventory (when you’re looking to eliminate a product from stock)
* **The overrides** — One percentage (e.g 5%) of fixed compensation (e.g. $25) may apply before the employees reach a certain goal, after which they can count on a higher percentage (e.g. 8%) or fixed compensation (e.g. $30).
* **The splits** — in the case when two or more employees are responsible for the sale, they split the commission.
* **The payment delay** — commissions are usually calculated subsequently, at the end of the month.

Bonus tips: Calculating bonuses

Sometimes, you’ll want to include bonuses in your employee compensation packages, to serve as additional incentives for high-quality performance. Here are only some of the bonuses you can consider offering:

* **Sign-on bonuses** — bonuses offered to job candidate executives as incentives to inspire them to accept positions.
* **Salary-based bonuses** — based on the amount of hourly wages or annual salaries the employees are making (the higher the wages or salaries, the higher the bonuses).
* **Bonuses based on department goals** — once a team or department meets the predefined goal, all members of the team receive bonuses.
* **Referral bonuses** — the higher the number of customers referred, the higher bonuses for the employees who referred them.
* **Holiday bonuses** — non-performance-based bonuses typically paid around a beloved national holiday, such as Christmas.
* **Quarterly or annual bonuses** — if the company reaches a certain net profit goal, the employees receive a flat rate bonus or percentage.
* **Retention bonuses** — bonuses paid to top performers in order to keep them.

Select the benefits you’ll offer

Apart from direct compensation, in order to attract top talent, you’ll also need to offer competitive benefits packages:

**Benefits companies are required to provide by law:**

* **COBRA health insurance** — extended medical benefits to former employees in companies that have more than 20 employees for at least 18 months.
* **Disability and workers’ compensation** — serves to make sure the sick and injured employees get paid at least part of their usual pay while unable to attend work.
* **Family and medical leave** — includes maternal, paternal, and adoption leave (not required to be paid leave, by law).
* **Minimum wage** — In accordance with the FLSA, non-exempt employees must receive a minimum hourly wage of $7.25 per hour. Some US states have state laws that mandate a higher hourly wage — these state laws override federal law, and employers must abide by them when defining compensation for their employees.
* **Overtime for non-exempt employees** — This overtime rate amounts to 1.5 times more than their base hourly rate for each overtime hour. California has additional overtime rules that apply to hourly employees, as mandated by The California Overtime Law. According to it, all non-exempt hourly employees need to be paid 1.5 times their base hourly rate for every hour they spend working past 40 hours per week AND past 8 hours per day. They also get paid 1.5 overtime for the first 8 hours they spend working on the 7th consecutive day of work. Moreover, the same law mandates that non-exempt hourly employees in California be paid 2 times more than their base hourly rate for all hours worked past 12 hours per day during the first 6 workdays and past 8 hours per day on the 7th consecutive day of work.
* **Severance pay** — employees laid-off because of a layoff (and not because they were fired or resigned) may be entitled to severance pay during a certain period of time.

**Benefits provided by most companies, despite not being mandated by law:**

* **Health insurance** — employees get paid at least a portion of their health costs, for specific treatments and procedures.
* **A Dental Care plan** — employees get paid at least a portion of their dental costs, for specific dental treatments and procedures.
* **PTO** — employees get paid time off, which is often used as an umbrella term for vacations and sick leave.
* **Paid holidays** — in order to stay competitive, employers usually provide employees with paid holidays and offer overtime pay for people willing to work during the holidays.
* **Pay Rises** — usually based on inflation or merit.
* **Flexible schedules** — company hours may not be fixed, but more accommodating to employees looking to strike a better work/life balance.
* **Work breaks** — times off during work time provided for lunch breaks and short breaks.
* **Hazard pay** — provided to employees whose job duties require them to work in unsafe conditions (such as security and military professions).
* **College debt assistance** — sometimes provided to employees just starting their professional careers.

