

# Salary Structure Overview

Karey Wong

# Salary Structure Overview

## Purpose

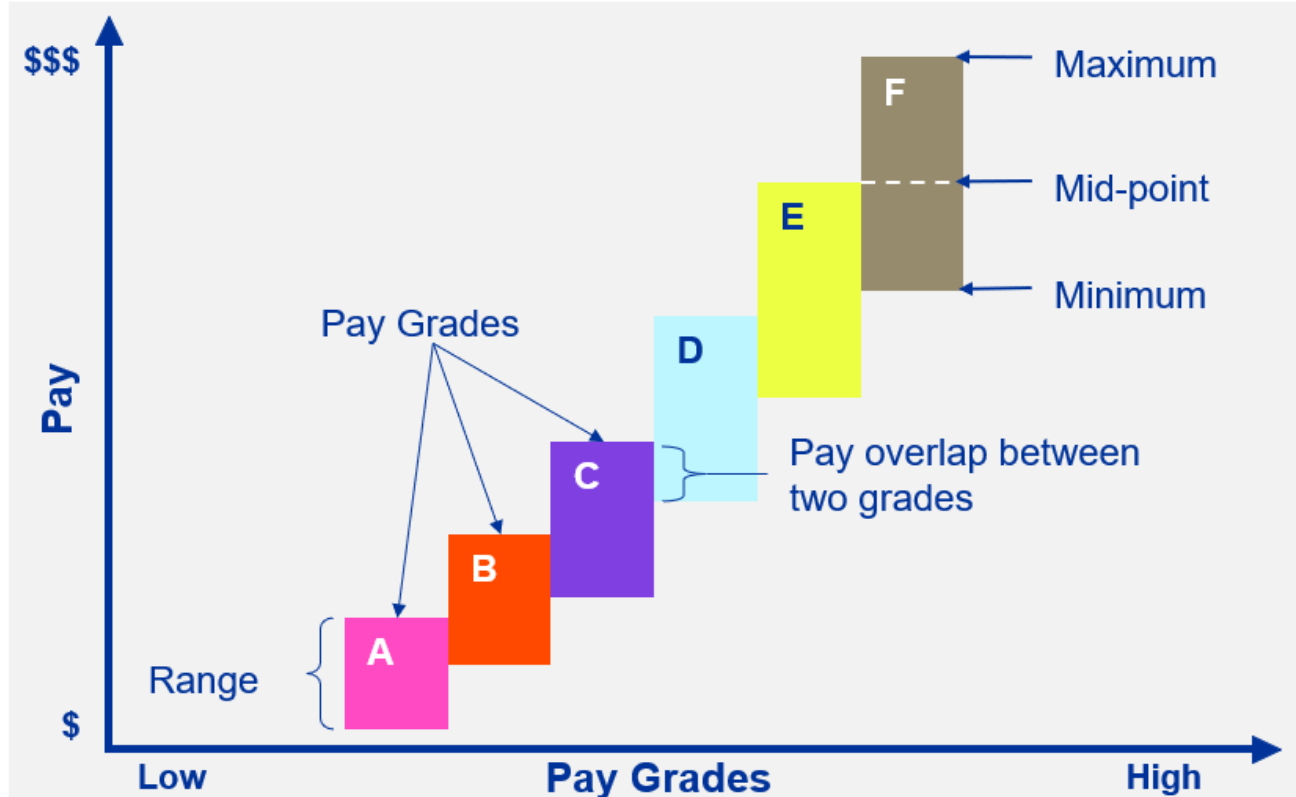
The purpose of a salary structure is to **provide guidelines regarding the positioning of employees within a designated salary band.**

A salary structure comprises of pay grades with salary ranges attached to each.

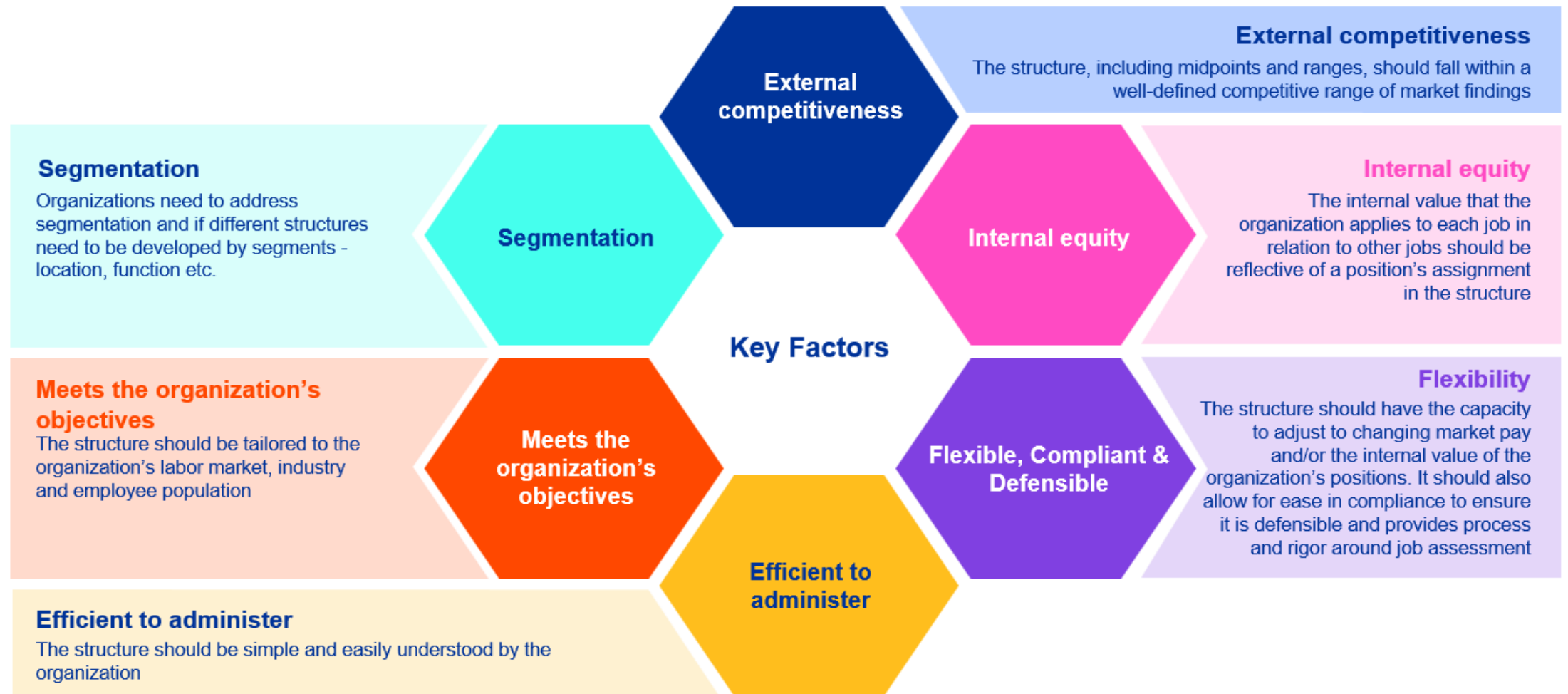
For each pay grade, an organization can develop a salary range. Note, pay grades may not necessarily correspond with job levels discussed in the context of the job architecture framework.

The development of the base pay salary structure depends on the compensation philosophy.

## Illustrative Example of a Salary Structure

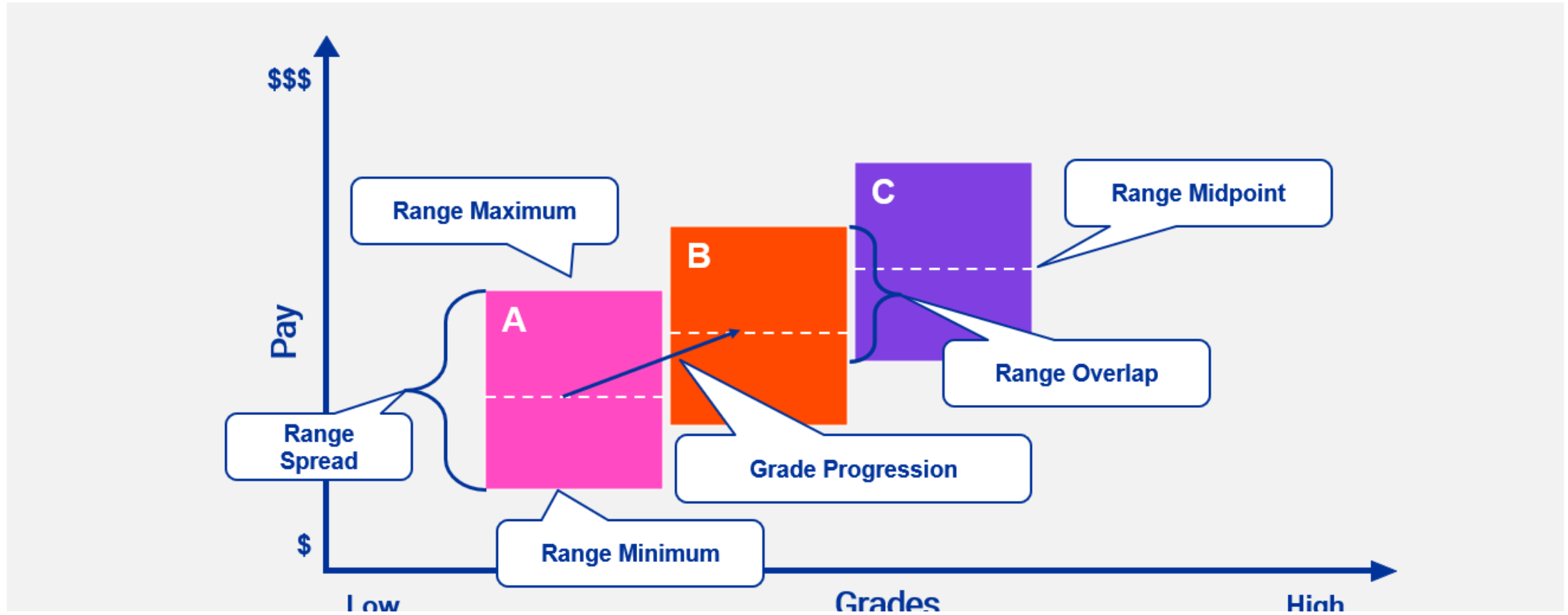


# Salary Structure Design Considerations



# Components of Salary Structure and Ranges

There are pay ranges associated with each grade or level in a structure. The graphic below illustrates key characteristics of individual ranges and the interrelationships of ranges within a structure.



# Salary Structure Definitions

Term	Definition
<b>Salary Structure</b>	The hierarchy of jobs and salary grades established within an organization
<b>Salary Grade</b>	One of the levels into which jobs of the same or similar value are grouped for compensation purposes
<b>Salary Range</b>	A formal range that establishes the minimum, midpoint, and maximum (defined below) salary for jobs in a salary grade
<b>Minimum</b>	The lowest value in an established salary range, representing the lowest salary that an employee in a position could be paid
<b>Midpoint</b>	The middle value in an established salary range, representing salary midway between the established minimum and maximum
<b>Grade Differential</b>	The percent difference between the salary range midpoints for adjacent salary grades
<b>Range Spread</b>	The distance between the minimum and maximum pay rate in a salary range
<b>Pay Compression</b>	Occurs when salary differentials between employees are not equitable

# Types of Market-based Salary Structures

## Individual Market Pricing

- Relies entirely on market pay data
- Under this approach, each unique position will have its own market range for pay

## Single Market-based Salary Structure

- Relies heavily on market pay data to determine grade rather than job responsibilities or competencies
- Under this approach, Director of Quality Assurance may be one grade while the Director of Human Resources may be another grade based on differences in market pay
- Typically used by small to mid-sized companies or those without significant pay differences across functions



## Functionally Differentiated Salary Structure

- Salary ranges are created by job families as required to reflect difference in market pay
- Under this approach, Director of Software Engineering and Director of Human Resources are in the same grade but may have different pay ranges if market pay is different
- Typically used by mid-sized to larger companies or those with significant pay differences across functions (e.g. companies with diverse sets of jobs)



Decision Point: What type of Market-based Salary Structure do you want to use going forward? **Family Group differentiated (excluding Tech)**

# Functional Differentiated Salary Structures

Common grade framework across all functions (defined by criteria)

Grade	Career Level
9	M4
8	M3 / P5
7	M2 / P4
6	M1 / P3
5	P2
4	P1 / S4
3	S3
2	S2
1	S1

Multiple sets of salary ranges aligned to market data for groups of functions with similar market data

"A" Functions			
Min	Mid	Max	
\$120,800	\$163,100	\$205,400	
\$105,000	\$141,800	\$178,500	
\$91,300	\$123,300	\$155,200	
\$82,500	\$107,200	\$132,000	
\$71,700	\$93,200	\$114,700	
\$62,300	\$81,000	\$99,700	
\$54,200	\$70,400	\$86,700	
\$49,000	\$61,200	\$73,500	
\$42,600	\$53,200	\$63,900	

E.g. Facilities, Office Services

"B" Functions			
Min	Mid	Max	
\$139,300	\$188,100	\$236,800	
\$121,200	\$163,600	\$206,000	
\$105,400	\$142,300	\$179,200	
\$95,200	\$123,700	\$152,300	
\$82,800	\$107,600	\$132,500	
\$72,000	\$93,600	\$115,200	
\$62,600	\$81,400	\$100,200	
\$56,600	\$70,800	\$84,900	
\$49,300	\$61,600	\$74,000	

E.g. Marketing, People Team, Finance

Traditional to Wide range widths

"C" Functions			
Min	Mid	Max	
\$160,100	\$216,100	\$272,200	
\$139,200	\$187,900	\$236,600	
\$121,000	\$163,400	\$205,700	
\$109,300	\$142,100	\$174,900	
\$95,100	\$123,600	\$152,200	
\$82,700	\$107,500	\$132,300	
\$71,900	\$93,500	\$115,000	
\$65,000	\$81,300	\$97,500	
\$56,600	\$70,700	\$84,900	

E.g. Global Technology

Range Width
70%
70%
70%
60%
60%
60%
60%
50%
50%

# Determine Range Design

Range design:	Narrow	Wide	Broad
<b>Description</b>	Many narrow pay ranges	Fewer, wider pay ranges to accommodate more types of jobs or certain compensation philosophies	A few very wide pay ranges used to manage both career growth and pay, not typically associated with market-based structures
<b>Works best when...</b>	Focus is on providing limited discretion to the business in setting pay levels	Focus is to provide flexibility to ensure competitive pay focused on the incumbent with jobs	Focus is reducing need for salary structure maintenance and allows for flexibility to respond to market
<b>Key issues include</b>	Ensuring that narrow ranges do not result in artificial title or grade inflation, may require multiple pay grades per level	Providing managers with guidelines which are flexible but provide control	Ensuring managers have the market data, tools, and discipline to manage pay
<b>Business case</b>	Type of environment/industry; managers need more guidance in pay decisions	Career based job evaluation is used; managers are more pay "savvy"	Organization flexibility is critical to success
<b>Role of the compensation team</b>	Administer guidelines	Manage pay and career development	Manage pay and career development

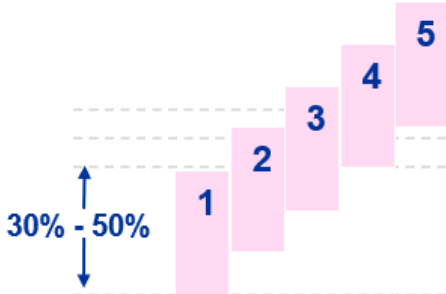
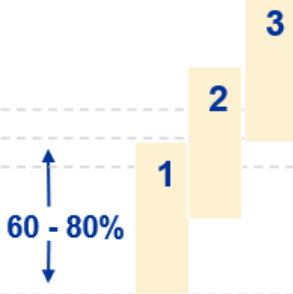
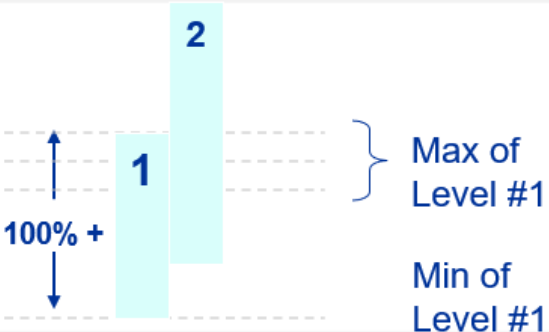


**Decision Point: What type of range design do you want to use going forward?**

*Note: Different types of ranges can be applied to the same structure depending on job level*



# Range Design

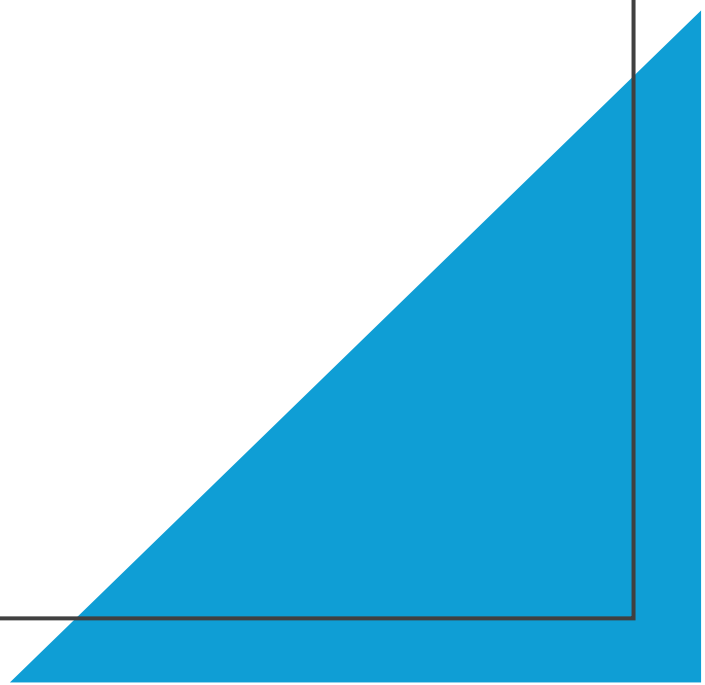
Range Design	Narrow Ranges	Wide Ranges	Broad Bands
Description	Many narrow pay ranges	Fewer pay ranges	A few wide pay ranges used to manage both career growth and pay
Typical Range Spread	 <p>30% - 50%</p>	 <p>60% - 80%</p>	 <p>100% +</p> <p>Max of Level #1</p> <p>Min of Level #1</p>
Approximate # of Grades / Levels	20 - 30	10 - 18	5 - 8
Midpoint Progression	<p>10% - 15%</p> <p>Used as control points</p>	<p>20% - 35%</p> <p>Referenced less frequently, more typical to reference "thirds" or "quartiles" within the range</p>	<p>No Midpoints</p> <p>May use data points or zones within bands as "market anchors"</p>



**Decision Point: What type of range design do you want to use going forward?**

# **Building a Salary Structure**

**Karey Wong**



# Steps to Building a Salary Structure

- 1 Organize jobs into grades / levels
- 2 Review the market rates for benchmark jobs at each level
- 3 Determine midpoints and midpoint progressions
- 4 Determine range spreads
- 5 Calculate range spread overlaps
- 6 Determine geographical variances
- 7 Conduct impact analysis and costing

## Organize Jobs & Review Benchmarks

### Organize jobs into grades / levels

Group positions into levels.

Benchmark job role, collect and organize market data.

### Benchmark jobs *not* people

Benchmark Job-based survey compares jobs, not people. Individual pay level/salary is used to determine internal consistency and should be reflected in the performance management process.

### Determine competitive positioning

Competitive market positioning is a balance between need to pay vs capacity to pay.

Determining if different groups within the company have a need for differing competitive positioning.

### Review the market rates for benchmark jobs at each level

When designing a market-based structure, it is important to understand both how **market rates vary within a given level** and how market rates progress from level to level

- Within each level, what is the range of market rates for benchmark jobs?
- Are the data relatively consistent, or are there outliers which appear non-representative of market rates for that level?
- Are there any jobs with particularly large populations or of such pivotal importance that their market rates merit extra attention? How do the market rates for such jobs compare to those of others?

# Organize Jobs & Review Benchmarks

**Review the market rates for benchmark jobs at each level**

Review the Market 50th Percentile by each level and note the general progression from level to level. Calculate the Market 50th Percentile regression to normalize data.

Warner Music  
Group  
Salary Structure 1

Formula driven  
Information to be input

Input		Market Data				Proposed Salary Structure						Proposed Salary Structure Comparison		
Input	Talent Framework Level	Input (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Input (%)	Input (%)	Calculated (%)	Calculated (%)
Pay Grade		50th Percentile	50th Percentile Progression	Regressed Market Data	Market Regression Progression	Min	Lower Third	Midpoint	Upper Third	Max	Midpoint Progression	Range Spread	Range Spread Overlap	Midpoint vs Market 50th percentile
17	E4													
16	E3	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
15	E2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
14	E1	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
13	M4	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
12	M3	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
11	M2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	0
10	M1	TBD		TBD		TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
9	P6	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
8	P5	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
7	P4	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
6	P3	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
5	P2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
4	P1	TBD		TBD		TBD								TBD

**Regression:**  
Will calculate automatically based on the market 50th percentile

**Market Data 50th Percentile Formula:**

**Regression:**

Will calculate automatically based on the market 50th percentile

**Market Data 50th Percentile Formula:**

# Determine Range Midpoints & Midpoint Progressions

## Midpoint

The midpoint of a salary range should approximate the market rates for the jobs in that level at the organization's targeted competitive position and reflect the pay target for a fully competent employee performing at a satisfactory level

## Midpoint Progression

Midpoint progression is the difference between the midpoints of adjoining grades. Midpoint progressions should generally be consistent from level to level or increase with increasing seniority. There are a few options for midpoint progression as follows:

- ~~Option 1: Flat with a consistent rate of ~20%~~
- ★ **Option 2: Increases from ~18%-30% as you increase levels**
- ~~Option 3: Increases in slimer margins as you increase levels ~18%, 22%, 26%~~

		Market Data				Proposed Salary Structure						Proposed Salary Structure Comparison		
Input	Input	Input (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Input (%)	Input (%)	Calculated (%)	Calculated (%)
Pay Grade	Talent Framework Level	50th Percentile	50th Percentile Progression	Regressed Market Data	Market Regression Progression	Min	Lower Third	Midpoint	Upper Third	Max	Midpoint Progression	Range Spread	Range Spread Overlap	Midpoint vs Market 50th percentile
17	E4					-	-	-	-	-	-	-		
16	E3	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
15	E2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
14	E1					TBD	TBD	TBD	TBD	TBD	TBD			
13	M4					TBD	TBD	TBD	TBD	TBD	TBD			
12	M3					TBD	TBD	TBD	TBD	TBD	TBD			
11	M2					TBD	TBD	TBD	TBD	TBD	TBD			
10	M1					TBD	TBD	TBD	TBD	TBD	TBD			
9	P6					TBD	TBD	TBD	TBD	TBD	TBD			
8	P5					TBD	TBD	TBD	TBD	TBD	TBD			
7	P4					TBD	TBD	TBD	TBD	TBD	TBD			
6	P3					TBD	TBD	TBD	TBD	TBD	TBD			
5	P2					TBD	TBD	TBD	TBD	TBD	TBD			
4	P1					TBD	TBD	TBD	TBD	TBD	TBD			
3	S3					TBD	TBD	TBD	TBD	TBD	TBD			
2	S2					TBD	TBD	TBD	TBD	TBD	TBD		TBD	TBD
1	S1					TBD	TBD	TBD	TBD	TBD	TBD			TBD

**Midpoint Formula:**  
= (Midpoint of level below x Midpoint progression) + Midpoint of level below

**Midpoint Input:**  
Manual input based Market Data

**Midpoint Progression**  
20% - 35%: greater progression higher pay grades / levels

**Midpoint Formula:**  
= (Midpoint of level below x Midpoint progression) + Midpoint of level below

**Midpoint Input:**  
Manual input based Market Data

**Midpoint Progression Input:**  
20% - 35%: greater progression at higher pay grades / levels

# Determine Range Spread & Range Spread Overlap

## Range Spread

The range spread is the difference between the minimum and maximum of a grade and should typically be between 40%-60% for a functional structure. A range spread allows for consistency, flexibility and competitiveness.

## Range Spread Overlap

Typically the range spread overlap should be ~30%-40%. If the range spread is too small, the structure will not be functional unless there are substantially more pay ranges. However, if the range spread overlap is too large, pay equity issues may occur.

		Market Data				Proposed Salary Structure						Proposed Salary Structure Comparison	
Input	Input Talent Framework Level	Input (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Calculated (\$)	Input (%)	Input (%)	Calculated (%)	Calculated (%)
Pay Grade		50th Percentile	50th Percentile Progression	Regressed Market Data	Market Regression Progression	Min	Lower Third	Midpoint	Upper Third	Max	Midpoint Progression	Range Spread	Range Spread Overlap
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14	E1	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
13	M4	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
12	M3	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
11	M2	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
10	M1	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
9	P6	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
8	P5	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
7	P4	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
6	P3	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
5	P2	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
4	P1	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
3	S3	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
2	S2	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD
1	S1	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD

Range Spread:  
Manual Input - TBD

### Range Spread Overlap:

$100 \times (\text{Max Lower Grade} - \text{Min of Higher Grade}) / (\text{Max of Lower Grade} - \text{Min of Lower Grade})$

Range Spread: 50-60%



## Typical Range Spreads in Wide or Narrow Grade Structure

The table below documents typical range spreads for different types of positions in narrow or wide grade structures

Types of Positions in Level	Typical Narrow Grade Range Spread	Typical Wide Grade Range Spread
<u>Lower level</u> service, production, maintenance	Less than 30%	Up to 50%
Clerical, technical, paraprofessional	30% - 50%	40% - 70%
Professional, administrative, middle management	30% - 60%	50% - 80%
Senior management, executive, technical subject matter experts	40% - 70%	70% - 100%

*Please note that range spreads can also vary by country, structure design, etc.*

Regardless of structure, range spreads typically increase with increasing seniority. Broadening ranges increase an organization's ability to differentiate pay based on performance as role seniority, complexity and contribution increases

- Fewer promotions as seniority increases as mastery at each level takes longer
- Balanced by stronger emphasis on cost control for junior grades



# Base salary ranges - Functional and Geographic Range Overview

Geographic Group	Functional Zone		
	Tier I	Tier II	Tier III
	Discount	Baseline	Premium
	A Discount (-10%)	Structure I-A	Structure II-A
	B National	Structure I-B	Structure II-B
	C Premium (+10%)	Structure I-C	Structure II-C
D Premium (+15%)	Structure I-D	Structure II-D	Structure III-D

2

Four geographically varied salary structures for each functional grouping to account for employees in high-cost locations.

Baseline National Structure

1

Salary ranges are differentiated based on **job family groups**, to ensure that special skilled roles or job functions are paid appropriately.

Examples:

- **Tier I:** Admin, Customer Support
- **Tier II:** Finance; Marketing; HR
- **Tier III:** Legal, Actuarial, Underwriting, IT Development

**Illustrative**

Note: AIP targets for each level are consistent regardless of job function and geographic location



## Salary Structure – Range Placement

- The position of an employee's salary in a range is typically correlated with skills, performance, and experience
- Many organizations define expectations about the skills, performance, and experience associated with pay at different positions within a single salary range
- These expectations provide context for goal-setting, performance management, and pay decisions
- For example, the table below shows how an organization might map position in range to performance and skill development


First Quartile	Second Quartile	Third Quartile	Fourth Quartile
<ul style="list-style-type: none"><li>• Developing skills to operate at required level</li><li>• Minimal experience</li></ul>	<ul style="list-style-type: none"><li>• Applies all key market-recognized skills and experience</li><li>• Performs all job requirements and develops new skills</li><li>• Fully functional within 4-6 months of hire</li></ul>	<ul style="list-style-type: none"><li>• Highly skilled</li><li>• Strong performance</li><li>• May demonstrate ability to operate at a higher level in some job <u>aspects</u></li></ul>	<ul style="list-style-type: none"><li>• Integrates significant experience and may be considered an expert</li><li>• Sustained strong performance</li><li>• May demonstrate ability to operate at a higher level in many job aspects</li></ul>

## Salary Structure – Range Placement



**Between Min and First  
Quartile  
15% - 25%**

- Learning or new to the job; expectation that employees would be paid within this range for the first few months / year of occupying the position



**At Mid-Point  
40% - 50%**

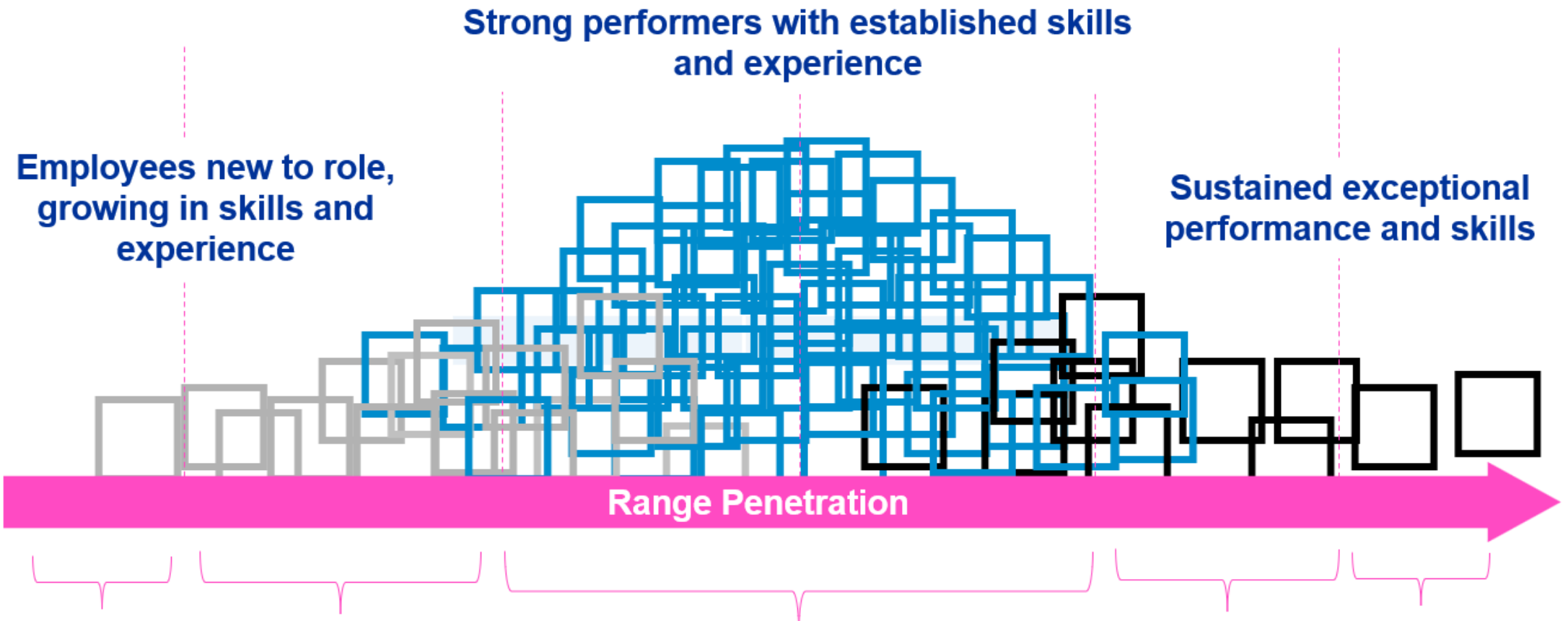
- Fully competent level; expectation that all professionals would reach this level after a certain number of years with proper training and experience



**Above Third Quartile  
10% - 15%**

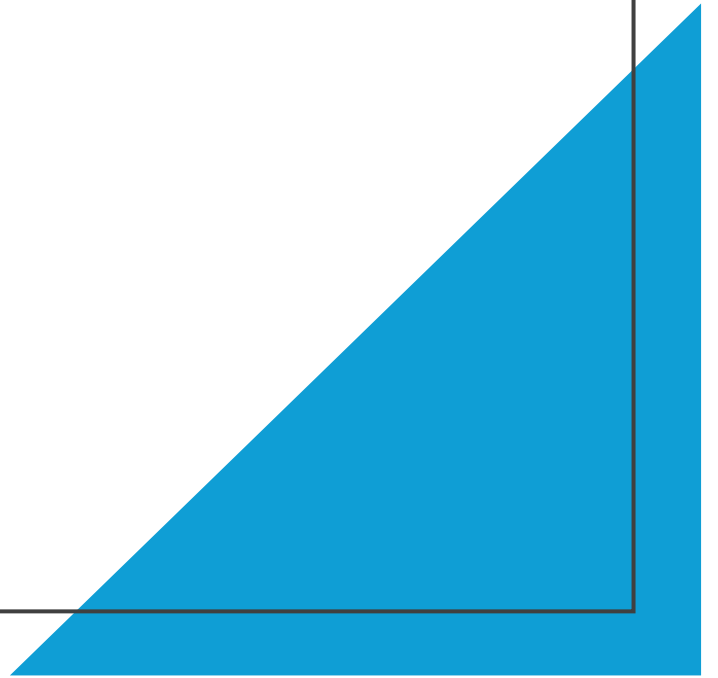
- Sustained high performance over time; expectation that employees paid within the range would set the example by teaching and mentoring their skills to others and are ready for promotion to the next level

# Salary Structure – Range Penetration



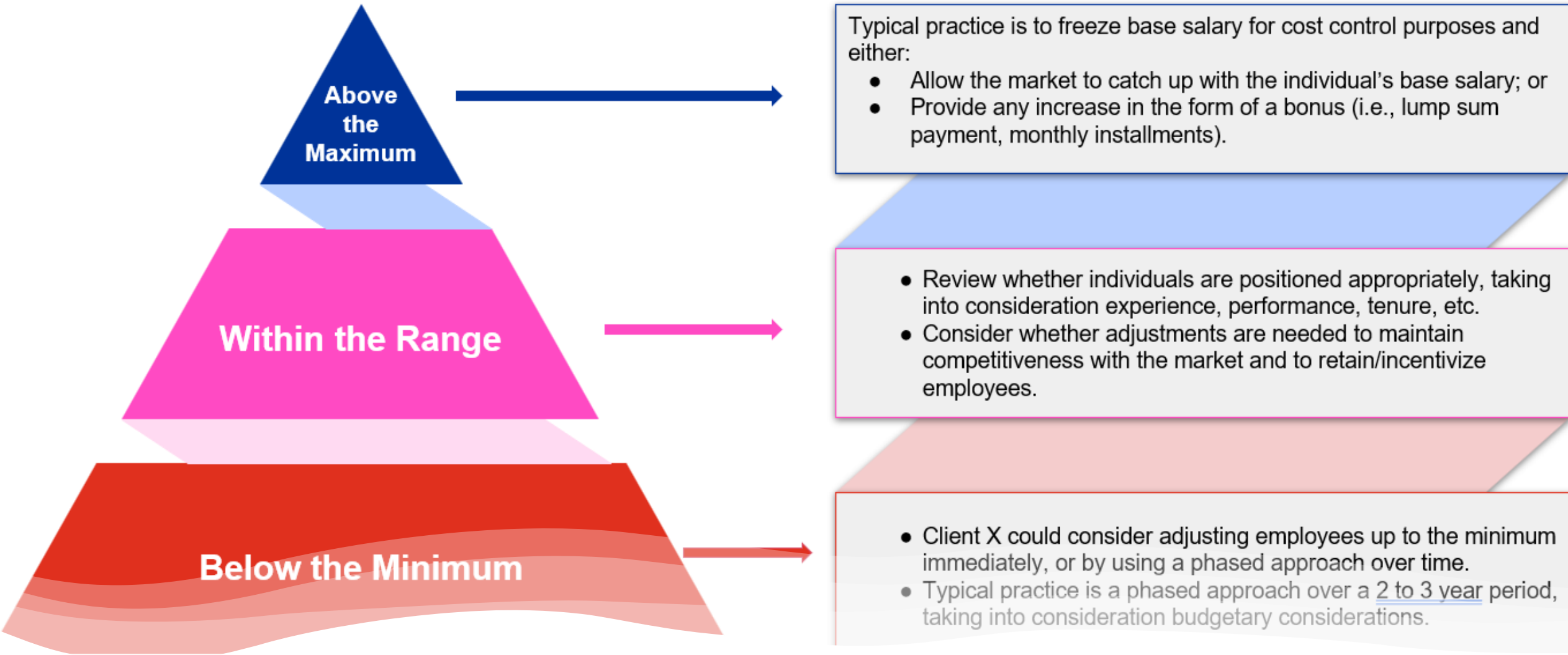
# **Change Management & Pay Governance**

**Karey Wong**



# Salary Structure – Change Management Considerations

Once the salary structure design is finalized, Client X will need to determine the change management strategy for impacted employees as well as the level of communication and transparency of the salary structure:



# How to Update Salary Structures

Salary ranges should be **reviewed**, and if necessary, **updated by a small percentage on an annual basis**

- This update is typically lower than the merit budget percentage; be careful not to overestimate market movement
- If the structure moves by a factor greater than the merit budget, employees will not progress through the ranges

Salary range update factors can be derived from **aggregate trend data or changes in market rates** (especially for jobs where there are attraction or retention issues)

- Aggregate data can be obtained from survey sources such as: Willis Towers Watson, World at Work, Mercer, Pulse/custom surveys

In determining what update factor to use, you need to **consider trends for different employee groups or industries and affordability**

**Tied to this decision is at what time during the year Client X will deliver pay increases:**

## Focal Date

Everyone included in the designated group receives their increase effective the same date

**More common approach**

## Anniversary Date

Each person is eligible for a base pay increase on a date unique that individual

Organizations using an anniversary date approach are moving away from this as it's administratively burdensome



**Karey to walk client through live exercise tbd...**