Salary Structure Overview

Karey Wong

Salary Structure Overview

Purpose

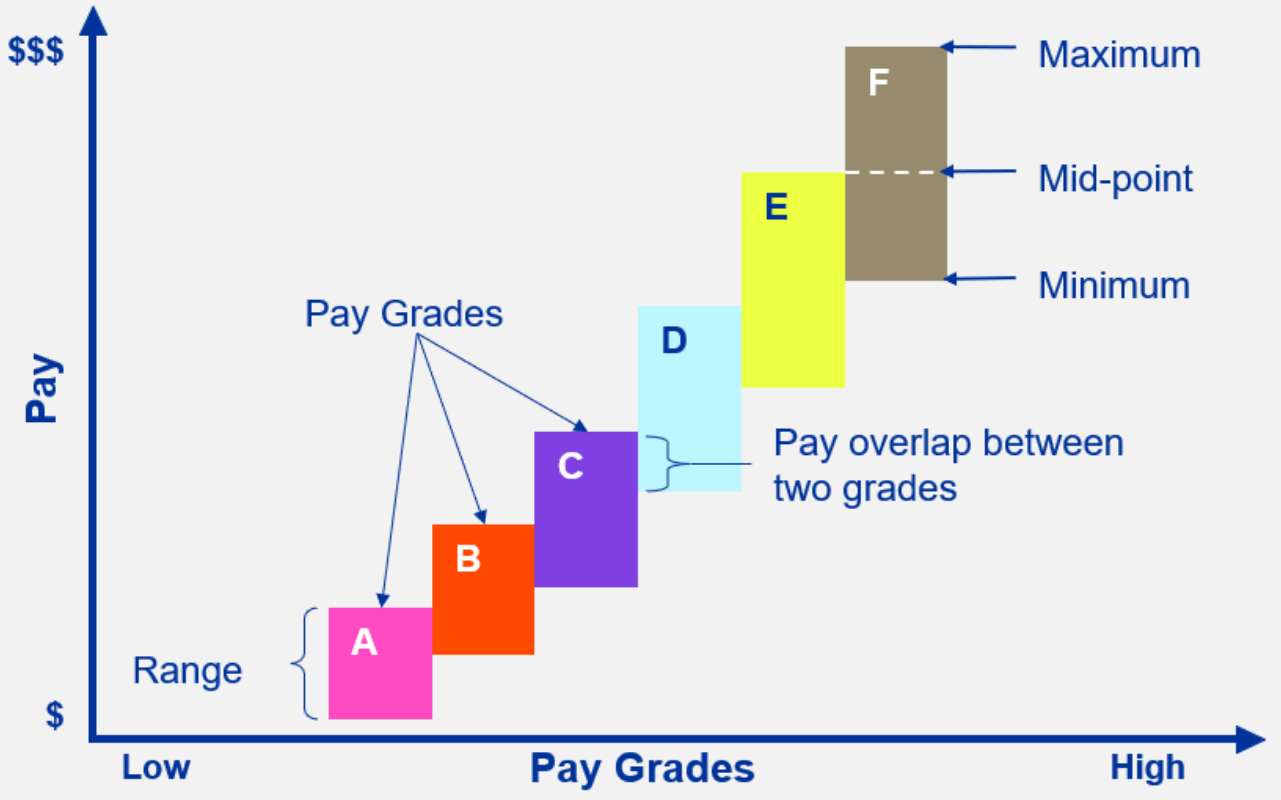
The purpose of a salary structure is to **provide guidelines regarding the positioning of employees within a designated salary band**.

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.

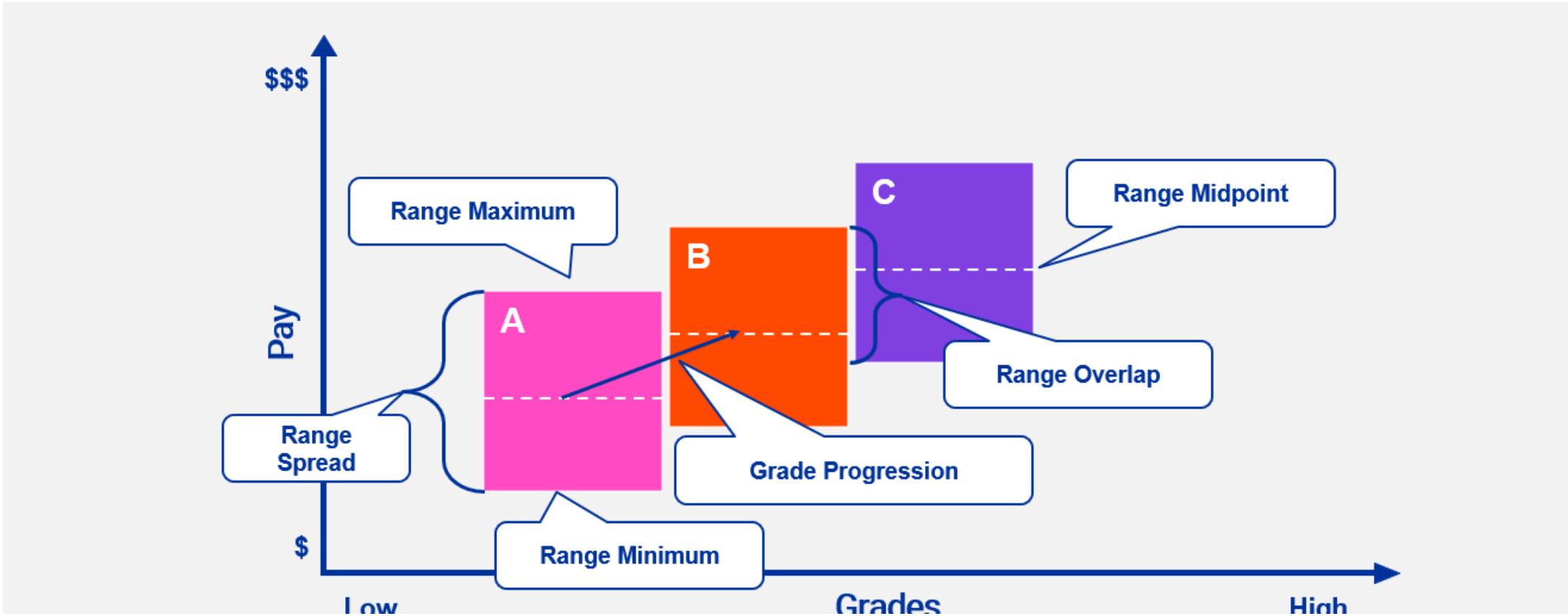
Illustrative Example of a Salary Structure



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
Salary Structure	The hierarchy of jobs and salary grades established within an organization
Salary Grade	One of the levels into which jobs of the same or similar value are grouped for compensation purposes
Salary Range	A formal range that establishes the minimum, midpoint, and maximum (defined below) salary for jobs in a salary grade
Minimum	The lowest value in an established salary range, representing the lowest salary that an employee in a position could be paid
Midpoint	The middle value in an established salary range, representing salary midway between the established minimum and maximum
Grade Differential	The percent difference between the salary range midpoints for adjacent salary grades
Range Spread	The distance between the minimum and maximum pay rate in a salary range
Pay Compression	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)***

FOR ILLUSTRATIVE PURPOSE

Functional Differentiated Salary Structures

Common grade framework across all functions (defined by criteria)

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

Traditional to Wide range widths

Grade	Career Level	"A" Functions			"B" Functions			"C" Functions			Range Width
		Min	Mid	Max	Min	Mid	Max	Min	Mid	Max	
9	M4	$120,800	$163,100	$205,400	$139,300	$188,100	$236,800	$160,100	$216,100	$272,200	70%
8	M3 / P5	$105,000	$141,800	$178,500	$121,200	$163,600	$206,000	$139,200	$187,900	$236,600	70%
7	M2 / P4	$91,300	$123,300	$155,200	$105,400	$142,300	$179,200	$121,000	$163,400	$205,700	70%
6	M1 / P3	$82,500	$107,200	$132,000	$95,200	$123,700	$152,300	$109,300	$142,100	$174,900	60%
5	P2	$71,700	$93,200	$114,700	$82,800	$107,600	$132,500	$95,100	$123,600	$152,200	60%
4	P1 /S4	$62,300	$81,000	$99,700	$72,000	$93,600	$115,200	$82,700	$107,500	$132,300	60%
3	S3	$54,200	$70,400	$86,700	$62,600	$81,400	$100,200	$71,900	$93,500	$115,000	60%
2	S2	$49,000	$61,200	$73,500	$56,600	$70,800	$84,900	$65,000	$81,300	$97,500	50%
1	S1	$42,600	$53,200	$63,900	$49,300	$61,600	$74,000	$56,600	$70,700	$84,900	50%

E.g. Facilities, Office Services

E.g. Marketing, People Team, Finance

E.g. Global Technology

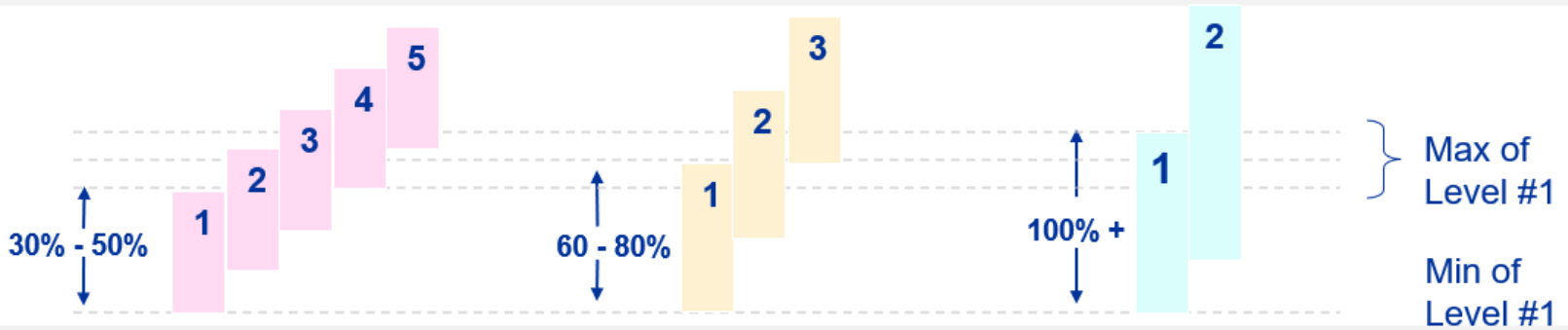
Determine Range Design

Range design:	Narrow	Wide	Broad
Description	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
Works best when…	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
Key issues include	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
Business case	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
Role of the compensation team	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			
Approximate # of Grades / Levels	20 – 30	10 – 18	5 – 8
Midpoint Progression	10% – 15% Used as control points	20% – 35% Referenced less frequently, more typical to reference “thirds” or “quartiles” within the range	No Midpoints May use data points or zones within bands as “market anchors”

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

Building a Salary Structure

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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?

Decision Point: 50th %ile

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.

Formula driven
Information to be input

Warner Music Group
Salary Structure 1

		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	TE							D
15	E2	TBD	TBD	TBD		TBD	TE							D
14	E1	TBD	TBD	TBD	TBD	TBD								D
13	M4	TBD	TBD	TBD	TBD	TBD	TE							D
12	M3	TBD	TBD	TBD	TBD	TBD	TE							D
11	M2	TBD	TBD	TBD	TBD	TBD	TE							D
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
5	P2	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:

Step: 1 2 3 4 5 6 7

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%~~

Input	Input	Market Data				Proposed Salary Structure							Proposed Salary Structure Comparison	
		Input ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Input (%)	Input (%)	Calculated (%)	Calculated (%)
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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			
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	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
3	S3	TBD	TBD	TBD		TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
2	S2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
1	S1	TBD		TBD		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 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	Input ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Calculated ($)	Input (%)	Input (%)	Calculated (%)	Calculated (%)
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14	E1	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD	TBD
13	M4	TBD	TBD	TBD	TBD				TBD	TBD	TBD	TBD	TBD	TBD
12	M3	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
11	M2	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
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
										TBD	TBD	TBD	TBD	TBD
										TBD	TBD	TBD	TBD	TBD
											TBD	TBD	TBD	TBD
												TBD		TBD
3	S3	TBD	TBD	TBD		TBD	TBD	TBD	TBD	TBD	TBD	TBD		TBD
2	S2	TBD	TBD	TBD	TBD	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 x (Max Lower Grade - Min of Higher Grade) / (Max of Lower Grade - Min of Lower Grade)

Decision Point: What range spread and spread overlap do you want to use

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
Lower level 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

Illustrative

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

Baseline National Structure

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

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

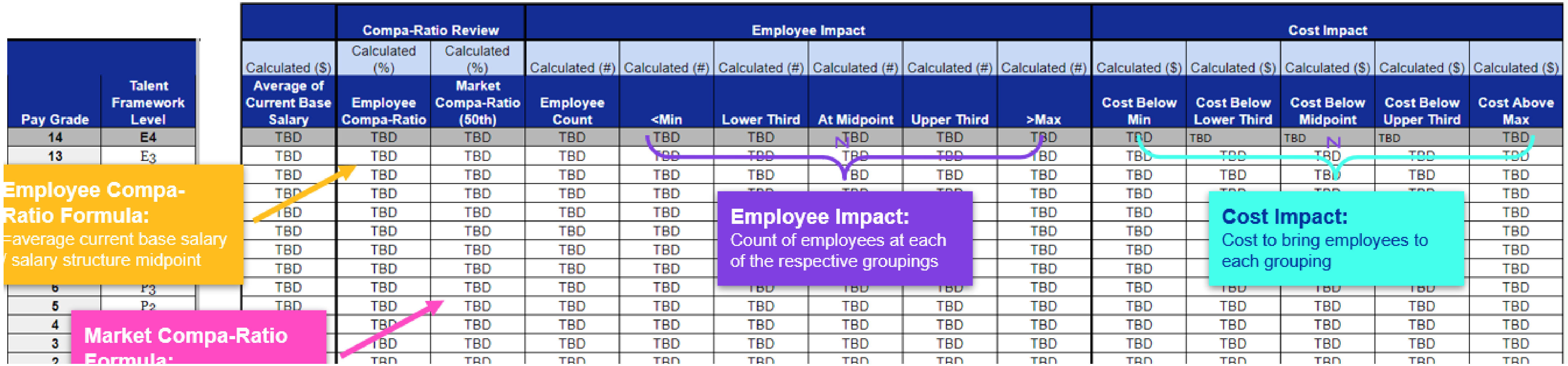
Examples:
- **Tier I:** Admin, Customer Support
- **Tier II:** Finance; Marketing; HR
- **Tier III:** Legal, Actuarial, Underwriting, IT Development

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

Step: 1 2 3 4 5 6 7

Conduct Impact Analysis & Costing

Impact Analysis	Conduct employee impact analysis to understand the concentration of employees in each portion of the salary structure.
Costing Analysis	Conduct cost impact analysis to understand the aggregate cost by level to bring employees to minimum, lower third, midpoint, upper third and max in the salary structure.



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
• Developing skills to operate at required level • Minimal experience	• Applies all key market-recognized skills and experience • Performs all job requirements and develops new skills • Fully functional within 4-6 months of hire	• Highly skilled • Strong performance • May demonstrate ability to operate at a higher level in some job aspects	• Integrates significant experience and may be considered an expert • Sustained strong performance • May demonstrate ability to operate at a higher level in many job aspects

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

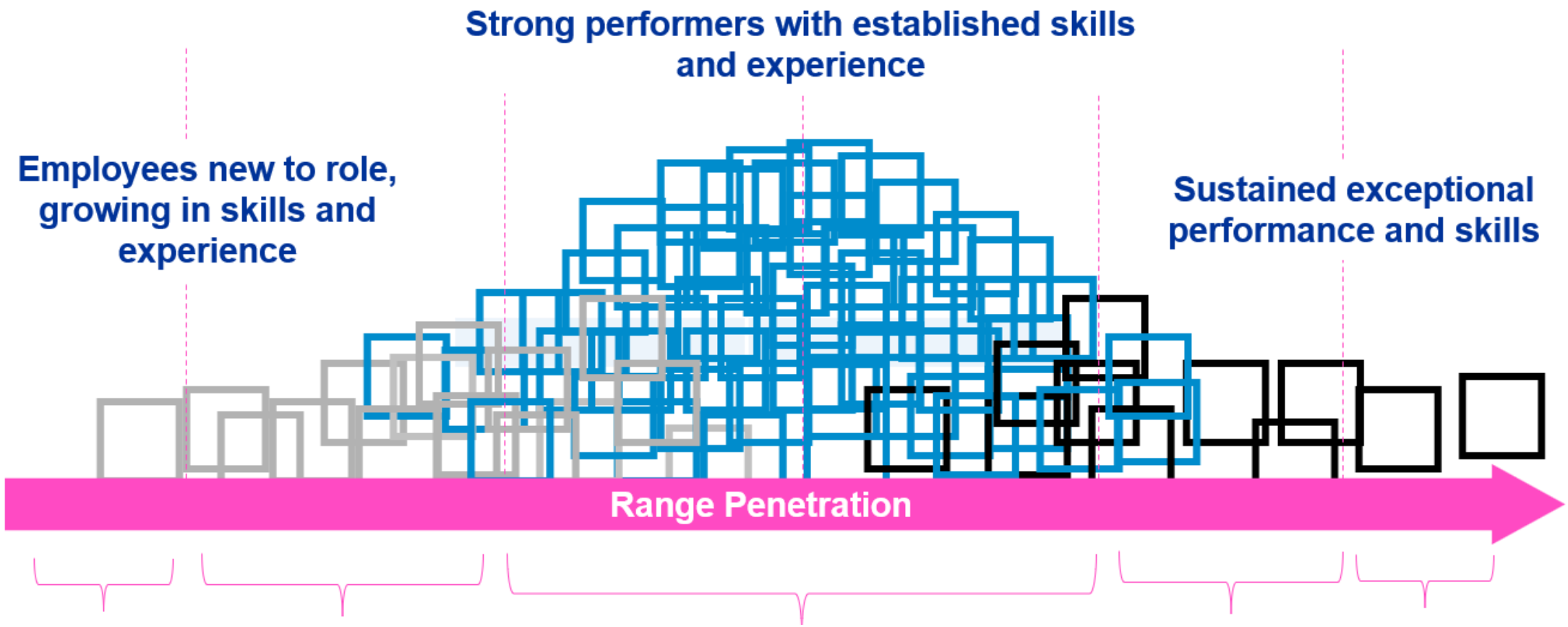
At Mid-Point
40% - 50%

- 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 th range would set the example by teaching and mentoring their skills to others and are ready for promotion to the next lev

Salary Structure – Range Penetration

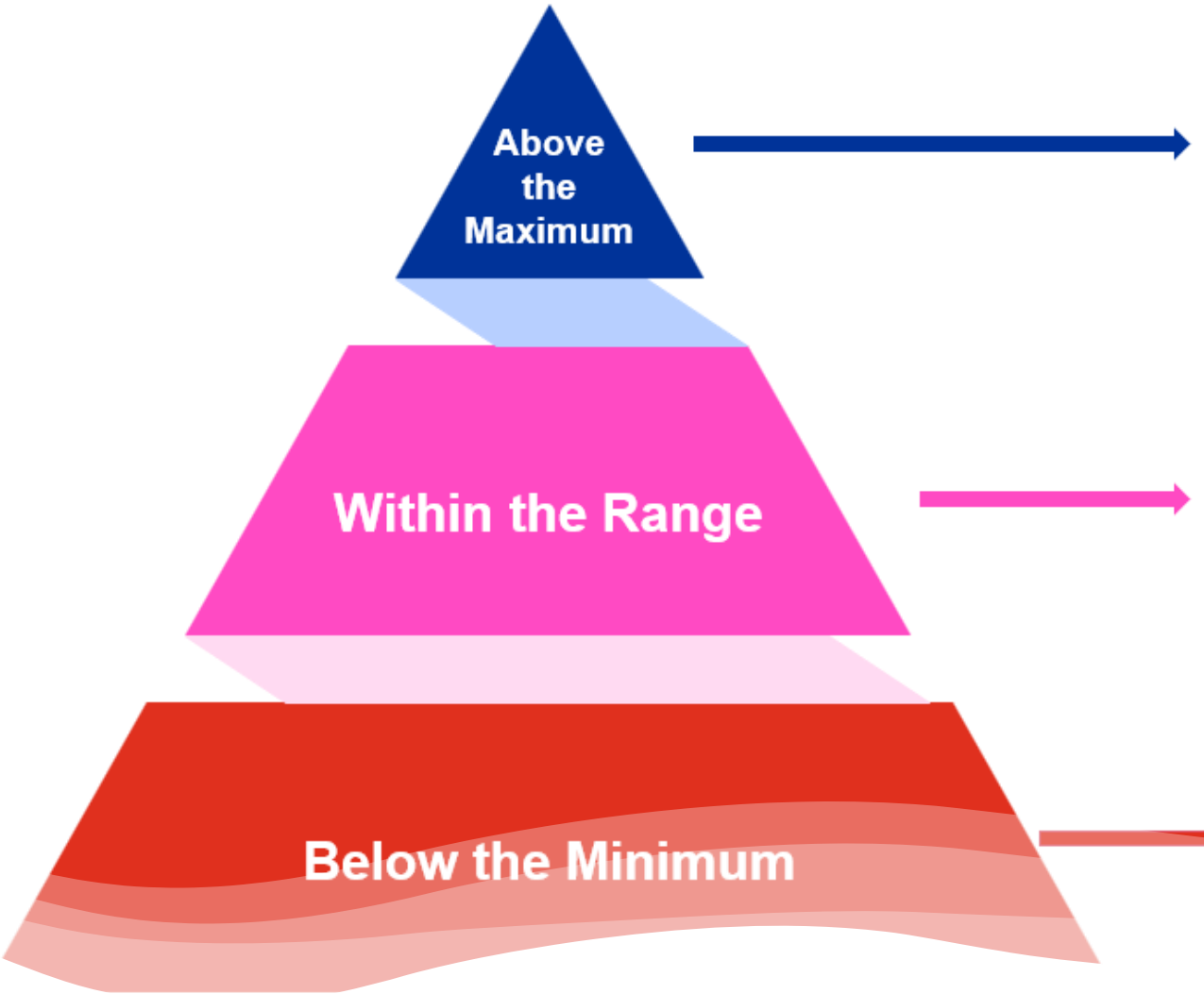


Change Management & Pay Goverance

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:



Typical practice is to freeze base salary for cost control purposes and either:

- Allow the market to catch up with the individual's base salary; or
- Provide any increase in the form of a bonus (i.e., lump sum payment, monthly installments).

- Review whether individuals are positioned appropriately, taking into consideration experience, performance, tenure, etc.
- Consider whether adjustments are needed to maintain competitiveness with the market and to retain/incentivize employees.

- Client X could consider adjusting employees up to the minimum immediately, or by using a phased approach over time.
- Typical practice is a phased approach over a 2 to 3 year period, taking into consideration budgetary considerations.

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: Radford, Towers Watson, Korn Ferry, Mercer, ERI, Culpepper, IPAS, Compa, Croner, eMsight, Equilar, PayScale, World at Work, Pulse/custom peer group surveys, etc.

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	Anniversary Date
Everyone included in the designated group receives their increase effective the same date **More common approach**	Each person is eligible for a base pay increase on a date unique to that individual Organizations using an anniversary date approach are moving awa from this as it's administratively burdensome

Q&A

1. When should we build pay ranges by job family vs. job family group?

- **Answer:** Build pay ranges by job family when roles have distinct skill sets, career paths, or market value differences. Use job family groups for broader consistency, especially when roles share similar skills and market dynamics.

2. How do we determine the right number of geographic (geo) tier zones?

- **Answer:** Start by analyzing labor market data for each location where your employees are based. Create separate geo tiers for regions with significant cost-of-living or market pay differences, such as NYC, California Zone 1, Austin, and Chicago.

3. How do we decide which jobs to slot into national vs. geo-specific pay ranges?

- **Answer:** National pay ranges work best for fully remote roles or positions with a broad, nationwide talent pool. Geo-specific pay ranges are ideal for roles that must be performed in a particular location (e.g., NYC or Silicon Valley) or have significant pay variations by region.

4. When should we freeze salaries instead of creating range overlap?

- **Answer:** Freeze salaries for employees significantly above the range maximum rather than creating excessive range overlap. This avoids overpaying and aligns salaries with market value.

Q&A

5. How often should we review and update pay ranges?

- **Answer:** Ideally, pay ranges should be reviewed annually to ensure competitiveness. However, in rapidly changing industries (e.g., tech), consider semi-annual reviews.

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6. Which compensation surveys should we use for specific job types?

- **Answer:**
  - **Tech Jobs:** Radford, Aon Hewitt (post-acquisition by Radford).
  - **Corporate and General Industry Jobs:** Mercer, Korn Ferry, Willis Towers Watson.
  - **Sales Compensation:** Alexander Group, Xactly.
  - **Creative Roles (Marketing, Design):** Radford, Aon Hewitt, Culpepper.
  - **Healthcare Roles:** SullivanCotter, Compdata.
  - **Retail and Consumer Services:** Retail Compensation Association (RCA), Mercer.

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7. What is the best approach for determining pay range spreads?

- **Answer:** Use narrower spreads (30-40%) for lower-level roles and wider spreads (50-80%) for executive or senior roles. This allows for progression within a grade.

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8. How can we ensure pay equity within our salary structure?

- **Answer:** Regularly conduct pay equity audits, using regression analysis to identify disparities. Correct any inequities found through salary adjustments.

Q&A

9. How do we manage employees who are below the minimum of their pay range?

- **Answer:** Adjust these employees to the minimum of the range immediately or through phased adjustments, depending on budget and business priorities.

10. How do we handle employees who are above the maximum of their pay range?

- **Answer:** Consider freezing base salary increases and providing bonus opportunities instead. Evaluate if the employee's role should be re-leveled or if they should transition to a higher grade.

11. What should we do if we cannot afford to bring all employees to the market rate?

- **Answer:** Use a phased approach, prioritizing high-performing and critical roles. Communicate transparently with employees about your market alignment strategy.

12. How do we address compression issues (e.g., new hires paid more than tenured employees)?

- **Answer:** Conduct a compression analysis and make targeted adjustments for existing employees. Implement guidelines to prevent compression going forward.

Q&A

13. How should we determine the midpoint of each salary range?

- **Answer:** Midpoints should reflect your target market position (e.g., 50th percentile for market median). Calculate using the average of market data for the specific role.

14. What is range overlap, and when is it necessary?

- **Answer:** Range overlap occurs when the maximum of a lower grade is close to or exceeds the minimum of the next grade. It is useful for promoting employees without a significant salary increase and providing more flexibility for pay decisions.

15. How do we manage employee expectations around pay increases?

- **Answer:** Communicate your compensation philosophy clearly, explaining how market data, performance, and company budget impact pay decisions. Offer career development paths to encourage engagement.

16. How should we handle salary adjustments for promotions?

- **Answer:** Establish clear guidelines (e.g., 5-15% increase for promotions) based on the employee's current pay relative to the new range and their experience.

Q&A

17. What are geographic pay differentials, and how are they calculated?

- **Answer:** Geographic differentials adjust pay ranges based on location-specific market data. They are calculated using cost-of-living data and market pay data for each region.

18. How do we balance internal equity and external competitiveness?

- **Answer:** Regularly benchmark roles to ensure market alignment while maintaining fair pay among employees performing similar work.

19. Can we use salary ranges for incentive or commission-based roles?

- **Answer:** Yes, but ensure the base pay is competitive, and the variable pay is structured to align with performance metrics.

20. What is the difference between broadbands and narrowbands in salary structures?

- **Answer:** Broadbands have wider ranges and fewer levels, providing more flexibility, while narrowbands offer more control with clearly defined levels and smaller range spreads.

Q&A

21. How do we educate managers on using salary ranges effectively?

- **Answer:** Provide training on compensation philosophy, how to make salary decisions, and how to communicate pay decisions to employees.

22. How do we determine which roles should have pay ranges or be classified as pay zones?

- **Answer:** Use pay ranges for roles with clear market data and predictable progression. Use pay zones for highly variable roles (e.g., sales) or roles with diverse market value.

23. How do we account for remote employees in our salary structure?

- **Answer:** Decide if you will use a national rate, a specific geographic rate based on their location, or a blended approach.

24. What should we do if our market data is outdated?

- **Answer:** Age the data using a market trend factor (e.g., 3-4% annually) until new data is available.

25. How do we ensure our salary structure aligns with our compensation philosophy?

- **Answer:** Regularly review your compensation philosophy and make sure your salary structure (ranges, adjustments, policies) is consistent with it.