How to Build Pay Grades and Salary Ranges
Creator of the largest database of individual compensation profiles in the world, PayScale, Inc. provides an immediate and precise snapshot of current market salaries to employees and employers through its online tools and software.

PayScale’s products are powered by innovative search and query algorithms that dynamically acquire, analyze and aggregate compensation information for millions of individuals in real time.

Publisher of the quarterly PayScale Index™, PayScale's subscription software products for employers include PayScale MarketRate™ and PayScale Insight™. Among PayScale's 2,500 corporate customers are organizations small and large across industries including Mozilla, Tully’s Coffee, Clemson University and the United States Postal Service.
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.
### 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
  - \( \text{Differential} = (\text{MidB} - \text{MidA}) / \text{MidA} \)

- **Range Spread.**
  - Distance between bottom and top of range
  - \( \text{Spread} = (\text{Max} - \text{Min}) / \text{Min} \)
  - Typical range spreads are 30% to 60%

- **Min** relative to Mid.
  - \( \text{Min} = \text{Mid} / (1 + (\text{Range Spread}/2)) \)

- **Max** relative to Min.
  - \( \text{Max} = \text{Min} \times (1 + \text{Range Spread}) \)

<table>
<thead>
<tr>
<th>Range</th>
<th>Range Width</th>
<th>Min</th>
<th>Mid</th>
<th>Max</th>
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<tr>
<td>B</td>
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</table>
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.

<table>
<thead>
<tr>
<th>Internal Title</th>
<th>Grade</th>
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<tr>
<td>Member Services Specialist I</td>
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<tr>
<td>Service Delivery Agent I</td>
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<tr>
<td>Accounts Payable Specialist I</td>
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<tr>
<td>Billing &amp; Collections Specialist II</td>
<td>12</td>
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<tr>
<td>Branch Inside Sales I</td>
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<tr>
<td>Member Services Specialist II</td>
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<tr>
<td>Quality Assurance Analyst I</td>
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<tr>
<td>Service Delivery Agent II</td>
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<table>
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<th>Grade</th>
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<tbody>
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<tr>
<td>Billing &amp; Collections III or TL</td>
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<tr>
<td>Branch Inside Sales II</td>
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<td>Desktop Support Technician</td>
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<td>Marketing Coordinator</td>
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<td>Office Manager</td>
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<td>Project Coordinator</td>
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<td>Quality Assurance Analyst II or TL</td>
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<td>Service Delivery Agent III or TL</td>
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<td>TAC Engineer I</td>
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<tr>
<td>Branch Inside Sales III</td>
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<tr>
<td>Corporate Accountant I</td>
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<tr>
<td>NOC Technician I</td>
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<td>TAC Engineer II</td>
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<td>Project Manager I</td>
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<tr>
<td>Software Development QA I</td>
<td>15</td>
</tr>
<tr>
<td>TAC Engineer III or TL</td>
<td>15</td>
</tr>
</tbody>
</table>
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

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

Calculations:
- Range Penetration = (EE Pay - Min) / (Max - Min)
- Compa-Ratio = EE Pay / 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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