disAbility Law Center of Virginia

Guide for Compensation Management

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dLCV Guide to Compensation Management

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Introduction

The disAbility Law Center of Virginia values the many talents and abilities of its employees and seeks to foster an open, cooperative and dynamic environment where employees and the organization will thrive. In order for this to occur, dLCV must provide appropriate recognition and compensation to its employees. This *dLCV Guide to Compensation Management* provides dLCV with a basis for sound compensation decisions.

Compensation Philosophy

Our philosophy is to provide market competitive compensation that includes direct pay and benefits, designed to attract and retain highly skilled, motivated, productive, and client- focused employees who will consistently deliver exceptional service and value to our clients and the organization.

Importance of Confidentiality

dLCV compensation information is critical business information for use by the Executive Director and by managers in their jobs as leaders of the organization. As such, they are expected to treat it as highly sensitive and confidential, sharing it only for legitimate, business-related reasons. Individual pay information should not be shared by a manager with anyone who does not have a specific, appropriate need to know. Any records, files, or reports including employee information should be appropriately safeguarded. In addition, all aspects of these pay programs and policies are the property of the organization and may not be taken if a manager leaves dLCV.

Job Titles and Salary Ranges

Each position is assigned a Job Title for the basis of managing pay. For each Job Title, a Salary Range is determined that reflects the prevailing market rates in base pay for the particular functions of that job. There are three key points in a range: Minimum, Market Value, and Maximum. The range of pay for employees in any job will reasonably vary up to 50%, reflecting differences in performance, skill and experience.

The Market Value of a salary range, also known as the median or midpoint, is the most prevalent pay rate for a particular job. ***This is the target pay rate for most employees***. A typical employee paid at the Market Value would generally be expected to have at least three to five years of experience performing the duties of the job; would possess and apply broad knowledge of relevant principles, practices, and procedures; and would work independently, requiring minimal supervision. Most satisfactorily-performing employees reach this level of pay over time.

The Minimum of a range is often the hiring rate for an employee who has not had proven experience in the job he or she is entering. It reflects that the employee has the aptitude and ability to perform the job and is qualified to learn the role, but has not yet become fully seasoned in it.

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The Maximum of a range is the top rate an employee can earn for a given job at dLCV. It is ***not*** the rate of pay most employees will earn for a job. The Maximum is reserved for the most experienced, top performer who continues to perform above expectations over time.

A chart detailing the Job Titles and associated salary ranges is in a separate, confidential password protected document.

Comparing Pay of Employees in Different Jobs

When dLCV is reviewing the pay of multiple employees to determine merit or other forms of pay changes, it is helpful to have a tool to assist in this comparison, especially when the employees are in different salary ranges. This starts by calculating a simple ratio that shows each employee's actual pay relative to the target pay (or Market Value) for their job. This ratio is called a “compensation-ratio” or “CR”. It is useful in determining new hire offers, merit increases and promotional increases.

Example of how to calculate a compensation-ratio:

Salary Range	**Minimum**	**Market Value**	**Maximum**
As Annual Salary	$25,750	$32,000	$38,250
As Hourly Rate	$12.38	$15.38	$18.39

Employee salary = $29,800 (or $14.33 per hour)

CR calculation = $29,800 / $32,000 = 93.1% (or $14.33 / $15.38 = 93.1%)

In most cases, this ratio will be calculated for the Executive Director to use as a tool in decision making. It is more important to understand how to use the CR rather than how to calculate one.

Minimum	**Market Value**	**Maximum**
$25,750 CR = 80%	$32,000 CR = 100%	$8,250 CR = 120%

The range of employees can generally be divided into thirds, and the typical characteristics of employees in each third are:

Lower Third	Middle Third	Top Third
• Less than 5 years experience in position • Meets many, but not all, position requirements	• Fully experienced • Fully meets all, and may exceed some, job requirements	• Highly experienced • Consistently exceeds most job requirements
CR less than 90%	CR of 90 - 110%	CR greater than 110%

In this example, the employee's pay is slightly below the Market Value for the job and in the middle third. If this employee has satisfactory performance and only three years of experience, this would be a perfectly appropriate pay rate. If the employee, however, consistently exceeds expectations and brings eight years of applicable experience to the job, the Executive Director should consider awarding a merit increases that moves the employee's pay closer to the Market Value (and over time, slightly above). By considering these factors, dLCV can best allocate its merit increase budget to reward key employees.

Determining the Base Salary for New Employees

The Executive Director determines the base salary for newly-hired employees. dLCV should consider a variety of factors in determining the annual base salary for an employee. Factors that should be considered include:

- The individual's past duties and performance, including experience, education, and competencies
- The individual's compensation history;
- Current market conditions;
- Specific job requirements and responsibilities;
- Salaries of comparable employees within the agency;
- Budget impact; and
- Relative position within the salary range.

In general, the offer should be reflective of the value of the job within dLCV, as shown by the salary range and, in particular, the Market Value of the range. Based on the employee's experience and skills, the appropriate position in the range should determine the actual offer, with strong consideration to not exceed the pay of current, satisfactory performers. Attached in Appendix B is a *New Hire Worksheet* for use in determining appropriate offers.

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Merit Increases

Philosophy

dLCV provides a Merit based compensation plan. Merit increases will be based on individual performance, and not granted as a cost of living or across-the-board adjustment. In years where the agency offers merit increases, employees who meet or exceed performance expectations are eligible for a merit increase; employees who do not meet the performance expectations for their job are not eligible for a merit increase.

Recommendation and Approval

As appropriate based upon dLCV's budget and financial conditions, the Executive Director will recommend to the Board of Directors whether merit increases will be granted for a given year and the proposed budget for those increases, if any. The Board will approve the percentage range of salary increase based upon the level of performance, and the proposed budget amount for those increases. The Board does not review or approve individual salary actions for employees other than the Executive Director.

Timing

The timing of merit increases is determined based on the organization's financial ability to fund increases and the competitiveness of current employee pay. When approved, increases are ordinarily granted on a common date determined that year, usually on January 1st of each year.

Matrix

When merit increases are granted, a merit matrix will be developed to assist the Executive Director in determining the appropriate increase for employees, based on their performance and position in the salary range (as shown by their compensation-ratio). By using the matrix to guide dLCV management, there is more consistency in determining increase amounts and it is simpler to stay within the approved budget amount. A sample matrix, based on a 3% merit budget, is shown:

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Sample Merit Matrix Based on a 3% Merit Budget

Performance Level		Below Expectations	Meets Expectations	Exceeds Expectations
Position in Range	**CR**	**About 5% of employees**	**Approx. 65% of employees**	**At most, 30% of employees**
> Maximum	120%	0%	0%	1.0% - 2.5% *
Top Third	110 -120%	0%	1.0% - 2.5%	1.5% - 3.5%
Middle Third	90 - 110%	0%	1.5% - 3.5%	2.5% ~ 4.5%
Lower Third	80 - 90%	0%	2.5% - 4.5%	3.5% - 5.5%
< Minimum	80%	0%	Ideally, to minimum in 6 - 12 months	

* Merit increases awarded to employees over Maximum *and* Exceeding Expectations are awarded as a Lump Sum bonus rather a change in base pay. Other employees over Maximum are not eligible for an increase.

Promotions, Lateral Transfers and Demotions

Definition of Promotion

A promotion is a significant change in job duties that results in an individual moving into a Job Title with a higher salary range. All changes in job duties or working title are not necessarily promotions - changes in duties falling within the same Job Title are considered lateral moves, while movement into a Job Title with a lower salary range is a demotion (see below for more information).

Promotional Increase Guidelines

The percentage of increase in the salary ranges between the old and the new job, as indicated on the following chart, provides a guideline for determining a promotional increase percentage:

Increase in Minimum of Salary Range	Percentage Increase in Salary
Up to 10%	3-7
10% or more	6 -10%

The position of the employee's current salary (before a promotional increase) in the *new* salary range determines how much of promotional increase is appropriate. If the current salary is low in the new range, consider the higher end of the promotional guidelines. If the current salary is already in the middle or top third in the new range, use the lower end of the promotional guidelines (if any increase is given at alI). Promotional increases should at least bring employees to the minimum of the salary range for the new Job Title.

Definition of a Lateral Transfer.

If an employee changes job duties and both Job Titles are within the same salary range, it is considered a lateral transfer between the jobs.

Lateral Transfer Pay Change Guidelines

Since the salary range of the employee’s old and new jobs is the same, a promotional increase is not typically warranted. In some circumstances, there may be a justification for a base pay change:

- The employee moves from a non-exempt to an exempt position and would effectively take a pay cut due to the elimination of overtime;
- The employee is making a significant job change at the organization's request to develop the employee for succession planning.

The amount of the increase, if warranted, should consider the pay of existing employees in the job, to avoid creating internal inequities within the new Job Title.

Definition of Demotion

A demotion occurs when an employee moves into a Job Title with a lower salary range. Demotions can occur for several reasons, including the organization's decision to move an employee based on performance concerns, an employee's personal choice, or a cross-training opportunity for an employee's longer-term career growth. The reason for the demotion impacts management's decision regarding the change, if any, to an employee's pay.

Impact of Demotion on Pay

If the employee is demoted based on poor performance in the initial position, a reduction in pay is often warranted. In this case, the pay reduction, if any, would depend on the percentage difference in the minimum salary range between the two jobs and the pay of other employees in the new position. When considering a performance-based demotion, dLCV management should ensure that this is the correct decision - in some cases, continued employment is not the best choice for the individual or the organization.

If the demotion occurs based on an employee's personal choice, adjusting the employee's pay to an appropriate level relative to others within the same Job Title should be considered.

If the move to a position in a lower salary range is related to the organization's cross-training desires, a pay reduction is not normally warranted. But if the employee's pay is over the maximum salary range for the new Job Title, his or her pay may be frozen while performing in the lower-paid position.

Below Salary Range Minimum Adjustments

In some cases it is acceptable to hire or promote an employee into a position with a starting salary below the minimum salary range for that Job Title. For example, a candidate, such as a recent college graduate who does not possess the required experience for a job may, however, be a suitable candidate. In these circumstances, selecting the applicant with the appropriate aptitude but who requires additional training may justify hiring him or her below the suggested minimum. Such employees should have a written employee development plan to ensure they meet minimal acceptable performance standards and are brought to the minimum of the appropriate salary range within a reasonable period of time, preferably within 1-2 years from date of hire.

In some cases, a current employee's base pay may fall below the minimum salary range, due to the initial adoption or a subsequent adjustment in the salary range for that Job Title. If their merit increase during the year does not bring them up to the salary grade minimum, an additional increase should be considered to bring them to the minimum if their performance meets or exceeds standards.

Above Salary Range Maximum Increases

If an employee's performance "Exceeds Expectations" and has base pay that is above the range Maximum, the Executive Director may consider a minimal merit increase. The increase, if approved, will not be granted as a base pay change, but rather as a one-time, lump sum payment.

(insert bonus or adjustment policy here)

Summary of Compensation adjustment process

The Board will annually establish a maximum amount in the budget that will be available to the Executive Director for salary adjustments. The Executive Director is not compelled to allocate the full amount, but will report to the Board at its next meeting the total amount that was allocated for adjustments.

The Board will also establish, annually with the budget, a maximum percentage by which any staff salary can be adjusted, and may establish a range of percentages within which most salary adjustments will be made. (i.e. a range of 1-5% with maximum of 7% for exceptional performance)

Staff who are in their first year of employment will not receive a salary adjustment in January, but may receive one at or after their anniversary date.

In making individual salary adjustments, the Director will consider staff performance over the previous evaluation period and will consider each employee's experience and compensation ratio.

Any staff who has received disciplinary notices that have not been fully resolved, who has performed below expectations in one or more key assignments or duties, and who has been advised in writing of the poor performance, will not be eligible for a salary adjustment of any kind. The Executive Director may reconsider making a salary adjustment later in the year if a poorly performing staff demonstrates consistent improvement.

Experienced staff who have met expectations but not exceeded any expectation will be eligible for a minimal increase if they have a compensation ratio that is below 85%.

Staff who have met expectations and have exceeded some expectations will be eligible for an increase within the range established. Staff who have exceeded all expectations will be eligible for an increase up to the maximum established by the Board.

In determining where within the range any salary adjustment is made, the Executive Director will take into account each individual's level of experience and each individual staff compensation ratio. So, for example, two staff performing at the exact same level with comparable years of experience may receive different percentage salary adjustments because they have different compensation ratios.

Where a well-performing staff has a compensation ratio in excess of 110%, the Director may consider a bonus instead of a salary adjustment.

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Appendix: New Hire Worksheet

Fill in the following information on new hires to support the proposed offer:

Candidate's Name:			
Position Applying for:			
Education Level / Years of Related Experience:			
Salary Grade of Job:			
Salary Range of job:	<u>Minimum</u> $	<u>Market Value</u> $	<u>Maximum</u> $
Budget for Position:			
Unit or Department:			
Pay Requested by Candidate on Application:			
Candidate's Current Pay (if unemployed, note last pay rate with asterisk):			
# of Current Employees in same Job Title:			
Range of Pay of Current Employees in same Job Title:	<u>Lowest</u> $	<u>Average</u> $	<u>Highest</u> $
Proposed Hiring Rate:			
Any Additional Information or Considerations to Support Proposed Rate:			
Date Prepared:			
Prepared by:			