



Compensation Basics

For Managers and Supervisors



Truths About Compensation

Truth #1: Compensation management is more of an art than a science.



Truths About Compensation

Many elements influence pay decisions –

1. Job duties
2. Market value
3. Organization's pay philosophy
4. Salary budget and financial condition
5. Business pressures
6. Labor supply
7. Individual qualification & performance



Truths About Compensation

Truth #2: The best employees are not attracted, motivated and retained solely by money.

*Pay, benefits,
career, & work/life*



*attraction,
motivation &
retention*

Truths About Compensation

The Royal Bank Workforce 2000 Study indicated –

67% choose very positive work environment + average compensation package

31% choose above average compensation package + average work environment



Truths About Compensation

Truth # 3: Fairness does not mean equal pay.



Truths About Compensation

Distinct Forms of Fairness

- External equity – pay vs. market pay
- Internal equity – pay across different jobs
- Individual equity – pay between similar jobs
- Procedural equity – how pay is decided

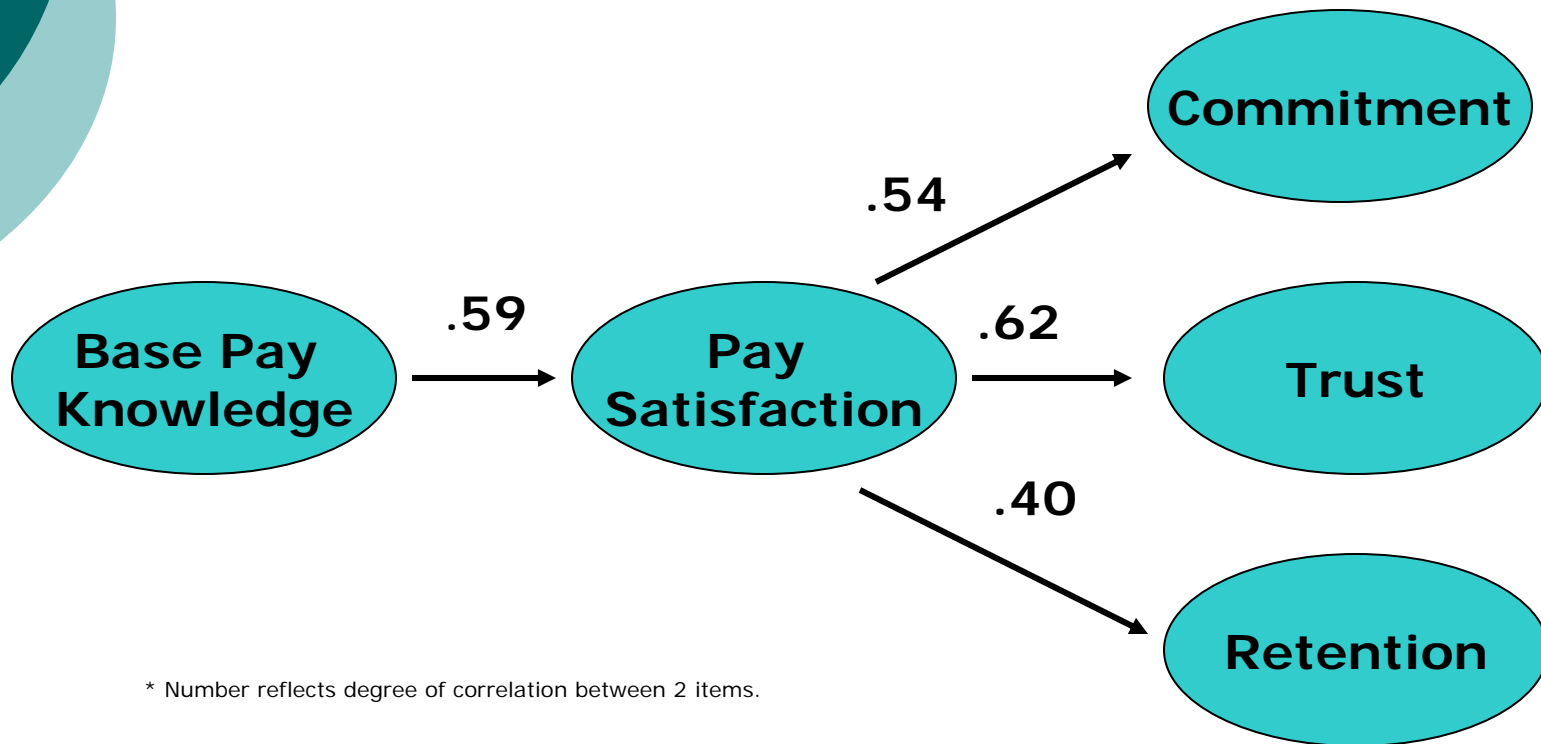


Truths About Compensation

Truth # 4: An employee's knowledge of base pay correlates highly with pay satisfaction which is highly associated with job satisfaction.

(Source: Knowledge of Pay Study (2000) conducted by The LeBlanc Group)

Truths About Compensation





Truths About Compensation

This study shows ...

1. employees lack understanding of how pay decisions are made
2. understanding how pay decisions are made is a better predictor of job satisfaction than the actual amount an employee is paid



Truths About Compensation

The study also shows...

1. most effective source for an employee's understanding about pay is the employee's supervisor
2. understanding pay concepts is not enough – needs to be personalized
3. one-on-one communication is key



Truths About Compensation

Some Statistics

**One/One
Discussion
With Supervisor**

**Satisfied
With Job**

**Satisfied
With
Supervisor**

Very often
Occasionally
Never

74%
50%
32%

88%
48%
15%

Truths About Compensation

Truth #7: Talking about pay with an employee is an emotional and uncomfortable experience ...BUT it is worthwhile having these conversations



Manager/HR Partnership

Effective compensation management requires collaboration and partnership between managers and Human Resources.

Job Classification	Market Surveys	Pay Decisions	Legal Compliance
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Manager/HR Partnership

Job Classification



Manager/HR Partnership – Job Classification

Process

- Review of job duties, responsibilities and requirements
- Assign the job a role, level, and salary range
- Identify market pay for the job



Manager/HR Partnership – Job Classification System

Key concepts

1. Job classification depends on accurate job information & understanding
2. Job classification involves interpretation & judgment



Manager/HR Partnership – Job Classification System

Key concepts

3. Consensus & consistency are vital
4. Look at a job when work is done properly
5. Level does not equal salary range



Manager/HR Partnership – Job Classification

Managers/Supervisors

- *Provide accurate job information*
- *Assist HR/Comp understand the job*
- *Provide objective insight/input*
- *Understand/explain job classification*

HR/Compensation

- *Understand job; ask questions & listen*
- *Make objective assessments*
- *Make internal comparisons*
- *Make classification decision*



Manager/HR Partnership

Market Surveys



Manager/HR Partnership – Market Surveys

Process

- Participate in market surveys annually
- Purchase market surveys annually
- Collect & analyze market data regularly

Manager/HR Partnership – Market Surveys

Uses of Market Surveys

- How we compare
- What we need to pay
- Range to assign a job
- How much to adjust ranges
- Amount of annual salary increase

Manager/HR Partnership – Market Surveys

Market Pricing Process

Step 1: Match JHU job to survey job

Step 2: Select market data to use

Step 3: Calculate market rate composite

Step 4: Determine appropriate salary range



Manager/HR Partnership – Market Surveys

Key concepts

1. Market data not available for all jobs
2. No such thing as 100% match
3. Market reference point is not an exact amount



Manager/HR Partnership – Market Surveys

Key concepts

4. Valid and reliable data is critical
5. A job's market value does not always reflect internal equity



Manager/HR Partnership – Market Surveys

Managers/Supervisors

- *Alert HR of market pay pressures*
- *Identify market and sources of data*
- *Assist with job matching*

HR/Compensation

- *Conduct survey*
- *Collect/analyze data*
- *Help you make sense of data*



Manager/HR Partnership

Pay Decisions



Manager/HR Partnership – Pay Decisions

Process

- Know the different salary increase opportunities available
- Know your internal approval path & parameters
- Identify need → find \$\$\$ → request/justify



Manager/HR Partnership – Pay Decisions

Key concepts

1. Pay is a significant & important consideration
2. Employees expect fairness in pay
3. Knowledge of base pay more strongly predicts pay satisfaction than actual \$\$



Manager/HR Partnership – Pay Decisions

Key concepts

4. Pay discussions with employees correlate with job, supervisor, and pay satisfaction
5. Pay decisions must be made appropriately and timely



Manager/HR Partnership – Pay Decisions

Managers/Supervisors

- *Be aware of different salary increase opportunities*
- *Make the case for compensation awards*
- *Create development plan*

HR/Compensation

- *Provide market data & conduct research*
- *Provide tools, guidelines and resources*
- *Assist and review development plan*



Manager/HR Partnership – Pay Decisions

Managers/Supervisors

- *Be fiscally responsible*
- *Monitor & maintain equity & fairness*
- *Communicate/explain pay decisions to staff*

HR/Compensation

- *Review and support salary increase requests for fairness and equity across departments*
- *Assist with salary planning and costing*



Manager/HR Partnership

Legal Compliance



Manager/HR Partnership – Legal Compliance

Key Regulations

- Fair Labor Standards Act
- Wage & Hour Laws
- Sherman Anti-trust Act
- Equal Pay Act
- Title VII of Civil Rights Act (EEO)

Manager/HR Partnership – Legal Compliance

Your role

- Know & observe what the law requires
- Update and maintain accurate job documentation
- Use bona fide occupational qualification



Manager/HR Partnership – Legal Compliance

Managers/Supervisors

- *Know & observe what the law requires*
- *Update and maintain accurate job documentation*
- *Use bona fide occupational qualification*

HR/Compensation

- *Monitor compliance and enforce the law*
- *Provide guidance & answers to issues & questions*
- *Keep up with changes in the law*



FLSA

Fair Labor Standards Act (FLSA)

- Enacted in 1938
- Defines the criteria for determining exemption status for white collar employees
- Either exempt or non-exempt from overtime pay, minimum wage, and time record keeping requirements

FLSA Background

- According to the FLSA regulations, employers do not have to pay overtime to white collar employees who are determined to be exempt.
- Employers are required to pay non-exempt employees at least the minimum wage and overtime pay at time and a half of their regular hourly rate for hours worked in excess of 40 in a work week.
- Employers are required to maintain accurate records of actual hours work for non-exempt employees.



FLSA Background

- Recently, the U.S. Department of Labor (DOL) revised the FLSA regulations. These new rules are the first significant update of the FLSA regulations in nearly 50 years.
- Failure to comply with these rules could result in back pay liability, penalties, payment of attorney fees, and/or class action claims.

Exempt Employees

- University job titles and salary grades do not determine exempt status.
- Exempt employees must make a minimum salary of \$455 per week or \$23,660 annually (cannot annualize or use FTE figures).
- Exempt employees must meet one of the primary duties tests/exemptions.

Primary Duty

- The principal, main, or most important duty that the employee performs.
- Factors to consider
 - The relative importance of the exempt duties as compared with other types of duties.
 - The amount of time spent performing exempt work.
 - The employee's relative freedom from direct supervision.
 - The relationship between the employee's salary and the wages paid to other employees for the same kind of non-exempt work performed by the employee.

Primary Duty

Primary duty also includes the exercise of discretion and independent judgment *with respect to matters of significance* beyond the use of skill or experience in applying specific standards described in a manual or other sources.

Discretion & Independent Judgment in Matters of Significance – Must have 3 examples

- Authority to waive or deviate from established policies and procedures without prior approval.
- Authority to negotiate and bind the company on significant matters.
- Provides consultation or expert advice to management involved in planning long- or short-term business objectives.
- Investigates and resolves matters of significance on behalf of management.
- Represents the company in handling complaints, arbitrating disputes, or resolving grievances.

Discretion & Independent Judgment in Matters of Significance – Must have 3 examples

- Authority to formulate, affect, interpret, or implement management policies or operating practices.
- Carries out major assignments in conducting the operations of the business.
- Performs work that affects business operations to a substantial degree, even if the employee's assignments are related to operation of a particular segment of the business.
- Authority to commit the employer in matters that have significant financial impact.

Discretion & Independent Judgment in Matters of Significance

- Discretion and independent judgment does not include:
 - Applying well-established techniques, procedures or specific standards described in manuals or other sources
 - Clerical or secretarial work
 - Recording or tabulating data
 - Performing mechanical, repetitive, recurrent or routine work

FLSA Exemptions

- The following are the various kinds of exemption classifications defined in the Fair Labor Standards Act:

Executive Exemption

Administrative Exemption

Learned Professional

Creative Professional

Computer Exemption

Outside Sales Exemption

Combination Exemption

Executive Exemption – All must be met

- Employee's primary duty must be managing the enterprise, or managing a customarily recognized department or subdivision of the enterprise.
- Employee must customarily and regularly direct the work of at least two or more other full-time employees or their equivalent.
- Employee must have the authority to hire or fire other employees, or the employee's suggestions and recommendations as to the hiring, advancement, promotion or any other change of status of other employees must be given particular weight.

Administrative Exemption – All must be met

- Employee's primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer's customers.
- Employee's primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

Professional Exemption – All must be met

○ Learned Professional

- Employee's primary duty must be the performance of work requiring advanced knowledge, defined as work which is predominately intellectual in character and which includes work requiring the consistent exercise of discretion and judgment.
- Advanced knowledge must be in a field of science or learning.
- Advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction.

Professional Exemption – All must be met

- Creative Professional
 - Employee's primary duty must be the performance of work requiring invention, imagination, originality or talent in a recognized field of artistic or creative endeavor.

Computer Employee Exemption

- The employee must be employed as a computer systems analyst, computer programmer, software engineer or other similarly skilled worker in the computer field performing the duties described below:
 - The application of systems analysis techniques and procedures, including consulting with users, to determine hardware, software or system functional specifications;
 - The design, development documentation, analysis, creation, testing, or modification of computer systems or programs, including prototypes, based on and related to user or system design specifications.

Computer Employee Exemption (cont.)

- The design, documentation, testing, creation or modification of computer programs related to machine operating systems; or
- A combination of the aforementioned duties, the performance of which requires the same level of skill.

Exemptions Simplified

Executive Exemption

Exempt: Supervisor of dept. or subdivision with full authority over 2+ FTE.

Non-Exempt: Lead worker

Administrative Exemption

Exempt: Administrator in functional area making decisions re: matters of significance.

Non-Exempt: Administrative support

Learned Professional

Exempt: Specialized analyst, lawyer, medical provider in recognized field of science or learning.

Non-Exempt: High level technician

Exemptions Simplified Continued

Creative Professional

Exempt: Work requiring invention, imagination, originality or talent in recognized field (Graphic Designer).

Non-Exempt: Work requiring intelligence, diligence and accuracy (Desktop Publishing Specialist).

Computer Exemption

Exempt: Systems analysis; design, create, test computer systems or programs; design, create, test machine operating systems (all mainframe oriented).

Non-Exempt: High-level technical work.