Creating a Market-Based Compensation Structure

Lara Salazar, SPHR
• Understanding that compensation is both an art and a science

• Understanding salary ranges, placement and movement on a grid

• Understand and communicate about pay systems to work more effectively with:
  – Compensation Consultant
  – Staff
  – Managers
  – Board members

“Compensation is partly art and partly science.”

From SHRM article “Building a Market-Based Pay Structure from Scratch”, Rajiv Burman (principle author), SPHR, CHRP, CCP, CEB, VP HR Griffith Labs, USA, July, 2010
Overview

Disclaimer!

The CHAMPS survey – a beautiful tool

Markets based compensation method

Getting started

Design your compensation grid

Updating your grid between surveys
• Senior Professional of Human Resources (SPHR) certified.

• I am not a compensation specialist

• Studied and practiced designing simple compensation structures.

• Worked with a compensation specialist.
<table>
<thead>
<tr>
<th>Steps</th>
<th>1. Gather Background Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Selecting data from relevant market</td>
<td></td>
</tr>
<tr>
<td>3. Conducting market data analysis</td>
<td></td>
</tr>
<tr>
<td>4. Developing the pay structures</td>
<td></td>
</tr>
<tr>
<td>5. Calculating the costs of pay structures</td>
<td></td>
</tr>
<tr>
<td>6. Implementation and evaluation</td>
<td></td>
</tr>
</tbody>
</table>
1. Start by Gathering Background Information
The Three Compensation Philosophies

- **Market Lead**
  Focuses on the 75th percentile of market
  75th percentile is the mid-point of the range

- **Market Match**
  Focuses on the 50th percentile of market
  Is the mid-point of the range

- **Market Lag**
  Focuses on the 25th percentile of market
  Is the mid-point of the range
<table>
<thead>
<tr>
<th>Gather Background Information</th>
<th>Selecting and Preparing Data</th>
<th>Conducting Market Data Analysis</th>
<th>Developing Pay Structures</th>
<th>Calculating Cost of Pay Structures</th>
<th>Implementation and Evaluation</th>
</tr>
</thead>
</table>

2. Selecting Sources of External Market Data & Preparing the Data

- Determine your relevant market.
  - Industry
  - Budget
  - Geography
  - Most position matches

- Collect a survey or surveys.

- Salary survey examples:
  - CHAMPS Regional
  - CHAMPS State (additional purchase)
  - Bureau of Labor Standards (free)
  - MGMA
  - SHRM
### Montana Bureau of Labor Standards Wage Data Sample

<table>
<thead>
<tr>
<th>Occupation Title</th>
<th>Group</th>
<th>Employment</th>
<th>Employment RSE</th>
<th>Employment per 1000 jobs</th>
<th>Location Quotient</th>
<th>Median Hourly Wage</th>
<th>Mean Hourly Wage</th>
<th>Annual Wage RSE</th>
<th>Mean Wage RSE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Healthcare Practitioners and Technical Occupations</strong></td>
<td>major</td>
<td>25,240</td>
<td>3.0%</td>
<td>59.381</td>
<td>1.01</td>
<td>$25.71</td>
<td>$31.01</td>
<td>$64,500</td>
<td>2.0%</td>
</tr>
<tr>
<td>Chiropractors</td>
<td></td>
<td>190</td>
<td>8.7%</td>
<td>0.442</td>
<td>2.06</td>
<td>$25.97</td>
<td>$28.40</td>
<td>$59,060</td>
<td>14.4%</td>
</tr>
<tr>
<td>Dentists, General</td>
<td></td>
<td>310</td>
<td>13.5%</td>
<td>0.730</td>
<td>1.03</td>
<td>$49.98</td>
<td>$57.50</td>
<td>$119,590</td>
<td>12.3%</td>
</tr>
<tr>
<td>Dietitians and Nutritionists</td>
<td></td>
<td>190</td>
<td>6.9%</td>
<td>0.438</td>
<td>1.00</td>
<td>$21.93</td>
<td>$21.86</td>
<td>$45,460</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

### CHAMPS Region 8 Salary Survey 2012

**TABLE 5: Alphabetical Listing of Administrative Positions with Salary and Benefits Summaries, continued**

<table>
<thead>
<tr>
<th>ADMINISTRATIVE POSITIONS</th>
<th>Count</th>
<th>Actual FTEs</th>
<th>10th PCTL Salary</th>
<th>25th PCTL Salary</th>
<th>50th PCTL Salary</th>
<th>Average Salary</th>
<th>75th PCTL Salary</th>
<th>90th PCTL Salary</th>
<th>Average Benefits</th>
<th>Benefits as % of Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAINTENANCE/FACILITIES - ALL</td>
<td>54</td>
<td>39.42</td>
<td>$16,731</td>
<td>$20,894</td>
<td>$26,489</td>
<td>$27,881</td>
<td>$33,410</td>
<td>$39,441</td>
<td>$8,407</td>
<td>30.15%</td>
</tr>
<tr>
<td>Maintenance/Facilities - LT 1.5M</td>
<td>1</td>
<td>0.63</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Maintenance/Facilities - 1.5M - 7M</td>
<td>14</td>
<td>6.69</td>
<td>$20,240</td>
<td>$20,800</td>
<td>$23,356</td>
<td>$25,302</td>
<td>$25,927</td>
<td>$31,289</td>
<td>$3,762</td>
<td>14.87%</td>
</tr>
<tr>
<td>Maintenance/Facilities - MT 7M</td>
<td>39</td>
<td>32.11</td>
<td>$16,120</td>
<td>$21,299</td>
<td>$27,648</td>
<td>$28,882</td>
<td>$33,250</td>
<td>$40,081</td>
<td>$9,662</td>
<td>33.45%</td>
</tr>
<tr>
<td>MANAGER, CLINIC OPERATIONS (ADMIN.) - ALL</td>
<td>40</td>
<td>39.69</td>
<td>$45,328</td>
<td>$47,616</td>
<td>$50,167</td>
<td>$56,714</td>
<td>$63,997</td>
<td>$80,152</td>
<td>$10,186</td>
<td>17.96%</td>
</tr>
<tr>
<td>Manager, Clinic Operations (Administrative) - LT 1.5M</td>
<td>1</td>
<td>1.00</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Manager, Clinic Operations (Administrative) - 1.5M - 7M</td>
<td>6</td>
<td>5.69</td>
<td>$45,445</td>
<td>$48,444</td>
<td>$53,451</td>
<td>$55,122</td>
<td>$62,641</td>
<td>$66,470</td>
<td>$11,457</td>
<td>20.79%</td>
</tr>
<tr>
<td>Manager, Clinic Operations (Administrative) - MT 7M</td>
<td>33</td>
<td>33.00</td>
<td>$45,550</td>
<td>$47,320</td>
<td>$50,334</td>
<td>$57,277</td>
<td>$63,856</td>
<td>$80,152</td>
<td>$9,689</td>
<td>16.92%</td>
</tr>
</tbody>
</table>
3. Conducting the Market Data Analysis

- Selecting benchmark jobs
- Creating a market composite for each position
  
  Can combine percentiles from more than one survey (from chosen market philosophy) to get a blended average midpoint

  OR

  Use the position average salary
### Benchmarking Jobs Example Using CHAMPS Salary Surveys

You can use the percentiles, the average salary, or a blend of survey salaries.

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Surveys for Appropriate Market (BLS for comparison only, not included in aging or averages)</th>
<th>Percentiles CHAMPS Regional 2012 MT Trim Mean Aged 2010 6% (Budgets 1-7 Mil or average if not enough data available)</th>
<th>25th Percentile Mid-point (lag)</th>
<th>50th Percentile Midpoint (match/meet)</th>
<th>75th Percentile Midpoint (lead)</th>
<th>Average Salary for Budget Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHAMPS Regional</td>
<td></td>
<td></td>
<td>24241</td>
<td>28059</td>
<td>31533</td>
<td>27,011</td>
</tr>
<tr>
<td>CHAMPS MT</td>
<td></td>
<td></td>
<td>28044</td>
<td></td>
<td></td>
<td>15,579</td>
</tr>
<tr>
<td>BLS Montana</td>
<td></td>
<td></td>
<td>29140</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receptionists</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHAMPS Regional</td>
<td></td>
<td></td>
<td>23920</td>
<td>26100</td>
<td>28080</td>
<td>26,075</td>
</tr>
<tr>
<td>CHAMPS MT</td>
<td></td>
<td></td>
<td>26834</td>
<td></td>
<td></td>
<td>15,579</td>
</tr>
<tr>
<td>BLS Montana</td>
<td></td>
<td></td>
<td>28240</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. Assist.</td>
<td></td>
<td></td>
<td>25328</td>
<td>27148</td>
<td>30711</td>
<td>28,084</td>
</tr>
<tr>
<td>CHAMPS Regional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35,713</td>
</tr>
<tr>
<td>CHAMPS MT</td>
<td></td>
<td></td>
<td>25270</td>
<td></td>
<td></td>
<td>15,579</td>
</tr>
<tr>
<td>BLS Montana</td>
<td></td>
<td></td>
<td>26020</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Living Wage for Flathead County
http://livingwage.mit.edu/

One Adult, One Child = $17.16 per hour

One Adult = $7.49
4. Developing the Pay Structures

- Creating job grades
- Using your established market philosophy (lead, match, lag)
- Calculating Range Spread, Ranges and Steps
<table>
<thead>
<tr>
<th>Gather Background Information</th>
<th>Selecting and Preparing Data</th>
<th>Conducting Market Data Analysis</th>
<th>Developing Pay Structures</th>
<th>Calculating Cost of Pay Structures</th>
<th>Implementation and Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade A = Receptionist</td>
<td>Grade A = Receptionist</td>
<td>Grade A = Receptionist/Scheduler 2</td>
<td>Grade A = Admin Assistant</td>
<td>Grade A = Medical Assistant (non-certified)</td>
<td></td>
</tr>
<tr>
<td>Grade B = Billing Clerk</td>
<td>Grade B = Billing Clerk</td>
<td>Grade B = Enrollment Clerk</td>
<td>Grade B = Data entry</td>
<td>Grade B = Medical Assistant (certified)</td>
<td></td>
</tr>
<tr>
<td>Grade C = Billing Specialist</td>
<td>Grade C = Billing Specialist</td>
<td>Grade C = Patient Account Rep.</td>
<td>Grade C = Medical Records Specialist</td>
<td>Grade C = Patient Visit Specialist</td>
<td></td>
</tr>
<tr>
<td>Grade D = Billing Coordinator</td>
<td>Grade D = Billing Coordinator</td>
<td>Grade D = Front Office Coordinator</td>
<td>Grade D = Medical Records Coordinator</td>
<td>Grade D = Outreach Coordinator</td>
<td></td>
</tr>
</tbody>
</table>

After Evaluating Jobs and Job Descriptions, Establish Grade Structure
Recall that we benchmarked salaries for several positions........

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Surveys for Appropriate Market (BLS for comparison only, not included in aging or averages)</th>
<th>Percentiles CHAMPS Regional 2012</th>
<th>25th Percentile Mid-point (lag)</th>
<th>50th Percentile Midpoint (match/meet)</th>
<th>75th Percentile Midpoint (lead)</th>
<th>Average Salary for Budget Category</th>
<th>Living Wage for Flathead County</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA</td>
<td>CHAMPS Regional 2012 MT Trim Mean Aged 2010 6% (Budgets 1-7 Mil or average if not enough data available)</td>
<td>24241</td>
<td>28059</td>
<td>31533</td>
<td>27,011</td>
<td>35,713</td>
<td><a href="http://livingwage.mit.edu/">http://livingwage.mit.edu/</a></td>
</tr>
<tr>
<td></td>
<td>CHAMPS MT</td>
<td>28044</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>One Adult, One Child = $17.16 per hour</td>
</tr>
<tr>
<td></td>
<td>BLS Montana</td>
<td>29140</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>One Adult = $7.49</td>
</tr>
<tr>
<td>Receptionists</td>
<td>CHAMPS Regional 2012 MT Trim Mean Aged 2010 6% (Budgets 1-7 Mil or average if not enough data available)</td>
<td>23920</td>
<td>26100</td>
<td>28080</td>
<td>26,075</td>
<td>35,713</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CHAMPS MT</td>
<td>26834</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>One Adult = $7.49</td>
</tr>
<tr>
<td></td>
<td>BLS Montana</td>
<td>28240</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. Assist.</td>
<td>CHAMPS Regional 2012 MT Trim Mean Aged 2010 6% (Budgets 1-7 Mil or average if not enough data available)</td>
<td>25328</td>
<td>27148</td>
<td>30711</td>
<td>28,084</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CHAMPS MT</td>
<td>25270</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>One Adult = $7.49</td>
</tr>
<tr>
<td></td>
<td>BLS Montana</td>
<td>26020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grade</td>
<td>Jobs in Grade</td>
<td>25th Percentile Mid-point (lag)</td>
<td>50th Percentile Midpoint (match/meet)</td>
<td>75th Percentile Midpoint (lead)</td>
<td>Average Salary for Budget Category</td>
<td>Market Philosophy</td>
<td>Entry</td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>--------------------------------------</td>
<td>---------------------------------</td>
<td>----------------------------------</td>
<td>------------------</td>
<td>-------</td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Receptionist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Administrative Assistant</td>
<td>24496</td>
<td>27102</td>
<td>30108</td>
<td>27,057</td>
<td>35,713</td>
<td>Lag</td>
</tr>
<tr>
<td></td>
<td>Medical Assistant</td>
<td>15,579</td>
<td>22,576</td>
<td>31,628</td>
<td>31,628</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coder</td>
<td>30923</td>
<td>34545</td>
<td>38067</td>
<td>34,741</td>
<td>35,713</td>
<td>Lag</td>
</tr>
<tr>
<td></td>
<td>Eligibility Coordinator</td>
<td>15,579</td>
<td>28,776</td>
<td>40,314</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Licensed Practical Nurse</td>
<td>31,710</td>
<td>38,067</td>
<td>44,424</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Living Wage Adj.</td>
<td>35,713</td>
<td>42,213</td>
<td>49,895</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Now we can “bundle” positions we have evaluated for similarity in salary into Grades......
# Establishing Pay Grades and Wage Steps

<table>
<thead>
<tr>
<th>Grade</th>
<th>Job Title</th>
<th>Market Philosophy</th>
<th>Entry</th>
<th>Midpoint</th>
<th>High/ Cap</th>
<th>Range Spread</th>
<th>Wage Steps using 10 year Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Receptionist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Administrative Assistant</td>
<td>Lag</td>
<td>20,405</td>
<td>24,496</td>
<td>28,587</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medical Assistant</td>
<td>Meet</td>
<td>22,576</td>
<td>27,102</td>
<td>31,628</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lead</td>
<td></td>
<td>25,080</td>
<td>30,108</td>
<td>35,136</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Living Wage Adj</td>
<td></td>
<td>35,713</td>
<td>42,213</td>
<td>49,895</td>
<td>40%</td>
<td></td>
</tr>
</tbody>
</table>

- **Administrative Assistant Lag**
  - Entry: 20,405
  - Midpoint: 24,496
  - High/Cap: 28,587
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Medical Assistant Meet**
  - Entry: 22,576
  - Midpoint: 27,102
  - High/Cap: 31,628
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Living Wage Adj**
  - Entry: 35,713
  - Midpoint: 42,213
  - High/Cap: 49,895
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Coder Lag**
  - Entry: 25,759
  - Midpoint: 30,923
  - High/Cap: 36,087
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Eligibility Coordinator Meet**
  - Entry: 28,776
  - Midpoint: 34,545
  - High/Cap: 40,314
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Licensed Practical Nurse Lead**
  - Entry: 31,710
  - Midpoint: 38,067
  - High/Cap: 44,424
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

- **Living Wage Adj**
  - Entry: 35,713
  - Midpoint: 42,213
  - High/Cap: 49,895
  - Range Spread: 40%
  - Wage Steps: 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

The chart illustrates the salary ranges and wage steps for various job titles. Each job title is categorized under a specific grade, with entries for market philosophy, entry, midpoint, high/cap, range spread, and wage steps. The range spread is specified as a percentage (e.g., 40%). The wage steps are represented by a line graph with markers for each step (0 to 10).
<table>
<thead>
<tr>
<th>Gather Background Information</th>
<th>Selecting and Preparing Data</th>
<th>Conducting Market Data Analysis</th>
<th>Developing Pay Structures</th>
<th>Calculating Cost of Pay Structures</th>
<th>Implementation and Evaluation</th>
</tr>
</thead>
</table>

- **40% = Support, service, labor** = Non-exempt/hourly positions, the job descriptions of which do not require significant or specialized education or experience

- **50% = Executive and management** = typically Exempt/salary positions requiring specific education levels and experience

- **60% = Professional** = Licensed, Exempt/salary position requiring minimum of Masters or Doctorate level education
**Bring to minimum:**  Amount to bring employee from current to minimum of pay range

<table>
<thead>
<tr>
<th>Employee</th>
<th>Position</th>
<th>Current Wage</th>
<th>Minimum of Range</th>
<th>Bring to Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astrud Bingham</td>
<td>Medical Asst.</td>
<td>$10.05</td>
<td>$10.85</td>
<td>$.80</td>
</tr>
<tr>
<td>Alistair Crumbucket</td>
<td>Coder</td>
<td>$12.95</td>
<td>$13.83</td>
<td>$.88</td>
</tr>
<tr>
<td>Balthazar Sodababy</td>
<td>Coder</td>
<td>$14.50</td>
<td>$13.83</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Compa-Ratios:**  Percentage from the mid-point

<table>
<thead>
<tr>
<th>Employee</th>
<th>Position</th>
<th>Current Wage</th>
<th>Midpoint of Range</th>
<th>Compa-Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astrud Bingham</td>
<td>Medical Asst.</td>
<td>$10.05</td>
<td>$13.02</td>
<td>79%</td>
</tr>
<tr>
<td>Alistair Crumbucket</td>
<td>Coder</td>
<td>$12.95</td>
<td>$14.87</td>
<td>87%</td>
</tr>
<tr>
<td>Balthazar Sodababy</td>
<td>Coder</td>
<td>$14.50</td>
<td>$13.83</td>
<td>105%</td>
</tr>
</tbody>
</table>
6. Implementation and Evaluation

- Policy development
- Communication
- Transparency
- Training

- Evaluation
  - Employee and manager feedback
  - Ability to attract and retain
  - Exit interviews
  - Sustainability of wages over time
• **Placement**: 2.5% “credit” for each year of additional education and years of experience after minimum qualifications

• **Movement** along your grid depends on your policy.
  – Flat
  – Performance or merit based

**Placement** versus **Movement**
• No more than 2 years old

• Healthcare salaries projected to grow

• Economic factors arose in 2008, so can gauge by COLA and market data
• Compensation Philosophy
• Relevant Market
• Salary Surveys in Relevant Market (CHAMPS)
• Benchmarking
• Constructing Pay Ranges and Grades
• Implementing, Communicating and Evaluating
• CHAMPS
• Bureau of Labor Statistics (include example of state data)
• Medical Group Management Association
• American Society of Healthcare Human Resources Administration
• Society for Human Resource Management
• www.salary.com
• "How to Build a Market-Based Compensation Structure from Scratch“ SHRM Article, July, 2010
Questions?