

# HR INSIGHTS

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## Fair Employee Compensation

Providing nondiscriminatory, fair employee compensation is a top concern for employers across the country. Because HR specializes in areas like recruiting and compensation packages, they are in the best position to determine appropriate compensation plans, make acceptable initial salary offers, establish guidelines for merit increases, suggest pay audits, and, if necessary, help the company phase in compensation change.

### Designing Compensation Plans

Having a well-designed compensation plan that ensures equity should be a high priority for all employers. Yet, a compensation plan should not be focused on the salary for a position. Compensation plans can, and typically do, include things like commissions, bonuses or merit pay, stock options and a comprehensive benefits package to complement a base salary.

Compensation will typically be perceived as fair if it is designed with a system of components including job descriptions, job analyses and evaluations, and pay structures. Ensuring that these elements are included when determining compensation plans is essential to maintaining internal and external equity.

- **Internal equity** refers to employees' perception of their pay in comparison to their co-workers.
- **External equity** refers to employees' perception of your company's pay in comparison to the pay of similar positions at other companies.

### Job Descriptions

Defining and documenting the responsibilities, requirements, duties, conditions, environment and other applicable aspects of a job is an important element of a compensation system. Having well-written job descriptions can help you set the parameters for fair salary offers and ranges and help you appropriately group jobs. Additionally, it can help streamline the recruiting process and ensure compliance with federal laws like the Americans with Disabilities Act (ADA) and the Fair Labor Standards Act (FLSA), as well as applicable state and local legislation.

### Job Analyses and Evaluations

Analyzing and evaluating job elements like safety risks, job stress, work schedule, autonomy and level of supervision are factors that play into determining fair levels of

*Ensuring your company is offering fair compensation to its employees is crucial for recruitment and retention efforts, productivity levels and legal compliance.*



compensation. Often, this task involves comparing your company's positions and evaluations with industry market data and adjusting both the position itself, ranking levels of each position (entry level, intermediate, senior) and pay grades, as necessary.

### *Pay Structures*

After deciding how many different levels (if any) of each position your company wants to have, you must determine pricing and salary structures for each. Be sure to set a minimum and maximum percent spread for each salary range and pay grade.

It's important to look at market trends for salary ranges of each level and align them with company pay philosophy; or, in other words, decide if you want to pay your employees at, below or above market salary trends. Take your company's industry and geographic location into account when drawing comparisons and adjust accordingly.

### **Making an Appropriate Salary Offer**

Perceived pay fairness begins with a new hire's initial salary offer. The offer should be placed within the current workforce's population and within market trends to maintain internal and external equity, respectively. HR should document if salary negotiation occurs or if any unique issues occur for future reference, if needed.

Be mindful of the perceived market value of a specific position, but also remember that it's not all about the monetary offer. Company culture and benefits offerings play a role in an employee's perception of whether or not they are being paid fairly for their work.

### **Establishing Guidelines for Merit Increases**

Merit increases, also known as merit bonuses, are a great way to reward employees, but without set guidelines, there is no real way to ensure that these incentives are being awarded fairly. It may be beneficial to develop a standardized, objective method for evaluating employees.

Consider the following suggestions when establishing and implementing merit increase procedures:

- Emphasize to managers which accomplishments and behaviors will warrant a reward.
- Offer performance-management training for all managers to ensure all managers are capable of conducting performance reviews to your company's standards.
- Remain transparent with employees about how your company's bonus structure works.
- Provide opportunities for employee feedback.
- Review your merit increase program regularly.

### **Suggesting Pay Audits**

As previously mentioned, because HR deals with employee compensation directly, they are in the best position to bring up the topic of—and, in some cases, to conduct—a pay audit. HR will be instrumental in gathering the necessary paperwork for a legal counsel to conduct a pay audit and will likely be responsible for explaining differences in pay among employees based on the job descriptions, which exacerbates the importance of having proper job descriptions written for each position at your company.



If a pay audit is needed at your company and your company uses legal counsel to conduct the audit, remember to discuss the terms of attorney-client privilege with them so that you do not put your company at risk of losing it.

### **Phasing in Compensation Change**

If a pay audit reveals that compensation changes need to be made in order to comply with fair employee compensation legislation, HR will be responsible for helping implement them. A large part of their role will involve communicating these changes to employees and managing any issues that may arise following these changes.

Taking a thoughtful approach is often the best way to phase in compensation changes for both the employer and the employee.

### **The Importance of Fair Compensation**

If your company's employee compensation is fair, it can be a useful tool to help you recruit and retain talent, increase employee morale and reward or encourage high performance. Employees are coming to expect fair compensation as well. If your company does not offer compensation that is deemed "fair" by potential and current employees or state and federal governments, it may find itself in trouble in the near future.

It is in your company's best interest to ensure you abide by federal and local fair pay regulations. Be proactive and look at your employee compensation data today.

