



Managing your salary structure and pay ranges with confidence

With most companies using a formal salary structure, knowing how to administer and assess your salary structure is a critical skill for compensation professionals.

Understanding what type of salary structure is right for your company is important. Making sure the design of the structure supports your compensation and talent strategy is paramount.

Once you have the right structure in place, you need to know how to keep track of it and when to adjust it. With the increased demand for pay transparency and employees asking to see ranges, it's more important than ever that you proactively manage the effectiveness of your salary structure. Over time, all structures, and the assignment of jobs to ranges will need tweaking. Having in place a way to identify opportunities for improvement will help you head off major misalignment and disconnect.



What to look for

Regardless of the type of structure you have in place, it's important to keep tabs on these five things:

1 Difficulty recruiting

Compensation professionals, working with those in talent acquisition, will typically identify a portion of the salary range that aligns with the hiring range. When there is a disconnect, recruiters will have difficulty getting applicants to accept offers using these ranges. Keep in mind, this is only one possible reason for difficulty in recruiting. Pay is rarely the only reason offers aren't accepted. If the difficulty is persistent, however, it's something to look at.

2 Distribution of employees in ranges

Depending on the design of your salary ranges, you should have a certain expectation of how your population will fall within each range. With a traditional salary range, you would indicate a portion of the range for new hires and then progress up the range with more experienced employees.¹ Does the makeup of your employee population — from those who are new in the role to those who are experienced — align with what you see in the overall positioning of employees in your ranges? Included in this observation would be whether you have employees above the maximum of the range or below the minimum, which we'll talk about below.



¹The employee's performance also impacts position in range, and that can vary from year to year, so it's not possible to align years of experience with position in range. Variations in performance will explain deviations from expected employee positioning.

3 Out-of-range employees

There are possibly valid reasons for employees to be below the minimum of the range or above the maximum of the range. However, to make your job easier, you should work to prevent those situations from happening. Employees below the range could mean that a job is aligned to the wrong salary range. Employees above the maximum of the range could mean the same, but it's often an indicator of someone who has been in the job for a long time and has reached the maximum value of the job. While it's ok, it's worth keeping an eye on these situations and working with your teammates in HR to actively manage the situation. Another issue may come when employees in a certain location are out of range.

4 Location or department placement

Look at individual departments or geographies. Track whether there are certain groups that are not following the distribution you would expect. For example, if employees in HR all fall in the lower quartile of their ranges with a compa-ratio of less than 80% (see more on compa-ratio below), you might have a problem either with how they are paid or how the jobs are assigned to ranges.

5 Promotion/development challenges

This all depends on your talent management strategy and connection to your compensation philosophy. The way you recognize employees achieving new skills or stepping into new roles should fit within your salary structure and ranges. If you are having trouble agreeing with managers and HR partners on off-cycle increase adjustments or promotions, then there might be a disconnect in what they are doing (or expecting) in terms of rewarding employees for taking on new responsibilities.

Another thing to watch for is how particular ethnicities, genders, or other protected classes are positioned within ranges. It's important to always have an eye on pay equity — a bigger topic that requires its own article.



Overall structure adjustment

Basic math, along with inflation, dictates that you adjust your overall salary structure on some sort of regular interval.

Several times a year, Mercer asks companies about their plans for adjusting salary structures. In the most recent version of the [Compensation Planning Survey](#), 74% of companies responded that they adjust their pay structures annually.

The same survey asks participants what adjustment they plan to make. Of the respondents who do plan to make a pay structure adjustment, the average adjustment is 2.9%, which follows the pattern of being a percentage point or so below the merit increase budget. However, keep in mind there is some variety in the responses both by employee segment (e.g., executive, professional, etc.) and by industry. Make sure you have a data source that will provide you with intel relevant to your industry.

Useful metrics and formulas

Keeping your salary ranges and structures healthy is something you can automate by reporting on certain metrics regularly. A compensation management tool can make this an automated process. Even in a spreadsheet, once you've identified the metrics you want to watch and set up the formulas, it can become a fairly easy part of your compensation management responsibilities.

Here are a few useful formulas to get you started.

Salary Compression Ratio: This ratio measures the difference in pay between employees in different job levels or with different levels of experience. It helps identify potential issues of pay compression within an organization. The formula is:



Salary Compression Ratio = Average Salary of Higher-Level Employees / Average Salary of Lower-Level Employees

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Salary Range Penetration: This ratio assesses how employees' salaries compare to the salary range for their respective positions. It helps determine if employees' salaries are within the appropriate range. The formula is:



Salary Range Penetration = (Employee's Salary - Minimum Salary of the Range) / (Maximum Salary of the Range - Minimum Salary of the Range)

Pay Equity Ratio: This ratio compares the average salaries of different demographic groups within an organization to identify any potential pay disparities. The formula is:



Pay Equity Ratio = Average Salary of Group A / Average Salary of Group B

Compa-ratio: This ratio measures the relationship between an employee's actual salary and the midpoint of the salary range for their position. This ratio compares an employee's current salary to the target or reference point within the salary range. The formula is:



Compa-ratio = (Employee's Salary / Midpoint of Salary Range) * 100



What happens if you don't adjust your pay structure?

Employees are in jobs that are assigned to grades or ranges in salary structures (i.e., minimum, midpoint, and maximum). Each year, the employee gets an annual salary increase while in the same job. If the salary range never changes, what eventually happens? The employee's pay ends up at the top of the salary range.

Of course, to some degree, that is the intention — there should be a maximum value that a company will pay for any job and that is represented by the maximum of the salary range.

However, by not adjusting your salary ranges you are not accounting for changes in the economy that impact the labor market, such as inflation and a constricted supply of labor.

If your employees all end up at the top of their salary ranges, even with a career development plan in place to facilitate promotions, you're going to have a morale situation on your hands.

Looking for help?

Mercer provides a wealth of resources to help you keep your salary structures in shape, including salary surveys, guidance on determining whether pay is competitive, policies and practices reports, and much more.

Reach out to one of our associates at surveys@mercer.com or 1-855-286-5302 to find just the right tools for your organization.