Manager's Quick Reference to Compensation Decisions

GENERAL POINTS

- Compensation practices are intended to be effective tools in addressing business needs. While decisions should not be based on emotion, feel comfortable with the opportunity and flexibility these provisions provide.

- With the flexibility allowed in making pay decisions, be sure to understand the purpose and limits for each type of movement and differential. Consider your department's parameters along with state personnel system policies.

- Take a longer-term perspective and be mindful of the impact on budgets. Anticipate all of the actions that will or may occur over the next year. Remember adjustments from the annual compensation survey process. Specifically, achievement pay is earned by the vast majority of the workforce and may be base and non-base building.

- Carefully examine the **total compensation** picture to avoid unintentionally over-expending at a future point or setting an unintended precedent. The *My Total Compensation* summary is a useful online tool for managers and employees (http://www.colorado.gov/dpa/dhr/forms/tcvsinstruct.htm).

- There are a number of non-salary options available that can be very powerful motivators. Consider them along with the cash components, e.g., benefits, leave, work-life options. Remember to promote and utilize the whole **total compensation** package.

- Each department is strongly encouraged to create a review process to examine each potential compensation decision. *If you need help with pay components or potential scenarios, please ask*. For further assistance a sample worksheet is attached.

- Do all of this **before** any negotiations or offers to employees or applicants. Be sure you and the employee understand all the components and conditions of an offer, including limits and ending dates.

HIRES (new or returning to the state personnel system)

- Base salary should be the minimum of the appropriate pay range, unless recruitment difficulty or unusual circumstances exist.

- Hiring above the minimum should be a unique practice due to severe labor market shortages in order to avoid inflating labor costs (future hires and compression with current staff) or setting an unintended precedent for the future. Can you clearly articulate and defend your business rationale for this decision to management and other employees, especially those with lower base salaries in the range? Is there consistency with past or future decisions?

- Although the hire rate is part of base salary, discretionary pay differentials, in-range salary movements, and, if appropriate, other pay premiums may also apply.

- **Considerations** (along with budget and department parameters):
  - ✓ market conditions, including specific recruiting efforts, size of the applicant pool, salary

requirements of applicants and salary history of the candidate;

- ✓ retention or turnover rates and the causes;
- ✓ uniqueness of competencies and background in relation to the job requirements, total applicant pool, and similarly situated employees;
- ✓ other future increases, whether base or non-base building, that will or could occur (the beginning of the next fiscal year at least), their proximity to the date of hire, and their impact on total compensation for the employee and on the budget;
  - Remember to figure in other premiums or differentials that may be applicable, e.g., shift differential, overtime;
  - When negotiating salaries between April 1 and June 30, take into account the impending July 1 increases and perhaps adjust the salary offer accordingly.
- ✓ non-salary options that could be used to fully enhance total compensation, e.g., flexible scheduling, telecommuting;
- ✓ impact of proposed salary to current staff salaries in the salary range (e.g., avoid creating salary compression for other staff); and,
- ✓ proposed salary in relation to the supervisor's salary.

UPWARD (move to pay range with higher maximum) **AND LATERAL** (move to position in the same range or to a range with same maximum)

- Base salary can remain the same or increase by any amount up to and including the maximum.

- All increases are **base** building and a part of regular salary.

- Lateral adjustments within the same pay range and position are allowed for the following special circumstances. There are limits and other conditions, including the requirement that a department have a written plan **before** using these pay mechanisms so work closely with your human resources and budget offices.
  - Salary range compression applies where current employees' salaries have been below new hires' salaries within the same class for a period of time, resulting in documented, ongoing retention problems.
  - Counteroffer may be used when there is a need to retain a critical strategic skill in the same class and position, and the other employing entity's counteroffer is confirmed.
  - Delayed promotion applies where no increase or a partial increase is granted at the time of promotion. A one-time increase is allowed within 12 months when budget becomes available or performance is proven. Intent to grant the increase must be documented at the time of the promotion.
  - New hires may be granted a one-time increase within 12 months when budget becomes available or performance is proven. Intent to grant the increase must be documented at the time of hire.

- Can you clearly articulate and defend your business rationale for this decision to management and other employees? Is there consistency with past or future decisions?

- **Considerations** (along with budget and department parameters):
  - ✓ market conditions, retention or turnover rates (and causes), pay position of current staff and hires within the range (compression issues), other pay premiums that may be applicable, non-salary options, and uniqueness of competencies in relation to the job requirements, current staff and talent pool (refer to considerations under "Hires" section);
  - ✓ other future increases, whether base or non-base building, that will or could occur (the beginning

of the next fiscal year at least), their proximity to the date of this action, and their impact on total compensation for the employee and on the budget;

- Remember to figure in other premiums or differentials that may be applicable, e.g., shift differential, overtime;
- When determining salary increases between April 1 and June 30, take into account the impending July 1 increases and perhaps adjust the proposed salary accordingly.

✓ degree of change to the assignment and its value to the organization's mission and objectives. For example, a lateral move to a new occupation that requires mission-critical competencies may be more valuable than a lateral in the same occupation where duties are essentially the same, or a promotion with higher level duties may be more valuable than a lateral; and,

✓ your department's written plan on in-range salary movements and other policies.

DISCRETIONARY PAY DIFFERENTIALS (four types)

- Be sure to follow your department's existing written plan.

- An individual written agreement is required each time a discretionary pay differential is used. The agreement addresses the amount, any forfeiture/repayment requirements, frequency of payment, start and end dates, reason for the differential, requirements for payment, and any other terms.

- These differentials are **non-base** building and, in combination with other pay, cannot exceed the *statutory lid* in any given month.

- These differentials are not guaranteed and are not a substitute for position allocations, promotions, system maintenance studies, and annual compensation adjustments, including achievement pay.

Counteroffer.

☞ Applies to **current** employees in the state personnel system.

☞ **Use.** When there is a need to retain a critical strategic skill and the other entity's counteroffer is confirmed. This is different from the similarly named base-building in-range salary movement (refer to "Upward and Lateral" section) in that it is non-base building.

Signing Bonus.

☞ Applies to **new** employees to the state personnel system.

☞ Only for positions in critical occupations where there are documented recruitment and retention problems due to a shortage in the labor market.

☞ Consider paying the bonus in at least two payments -- part when the person reports to work and the remainder after a specified amount of time, e.g., 6 months or completion of probation.

☞ **Use.** Fill positions in critical occupations or attract unique critical skill sets in relation to market.

Referral Award.

☞ Applies to **current** employees, except those who influence or are responsible for recruiting and hiring, e.g., HR professionals, appointing authorities.

☞ There must be documented recruitment and retention problems for unique skills.

☞ Consider paying the award in at least two payments -- part when the new employee reports to work and part after a specified amount of time, e.g., 6 months or completion of probation. Consider requiring that the current employee, and possibly the new employee, still be employed at the time the second payment is due.

☞ **Use.** Reward a current employee for referring a person who is subsequently hired into a position

requiring unique critical skill sets in relation to the market.

Temporary Pay Differential.

- ☞ Applies to **current** employees.
- ☞ The differential is paid through regular monthly payroll.
- ☞ **Uses.** "Acting" assignments where the employee has assumed the **full** set of duties from a higher-level position. The "acting" assignment must be *longer than 30 days and cannot exceed 6 months* for purposes of eligibility for temporary differential pay.

OR

Critical, long-term project that is *outside the normal assignment* and *mission critical* to the department.

OR

Retain a critical, unique set of specialized skills where the loss of the skill set would result in documented severe impact on the department and its mission.

- **Considerations** (along with budget and department parameters):
  - ✓ market conditions, use of in-grade hiring, retention or turnover rates (and causes), pay position of current staff and hires within the range, other pay premiums that may be more applicable, non-salary options, and uniqueness of competencies in relation to the talent pool (refer to considerations under "Hires" section);
  - ✓ other future increases, whether base or non-base building, that will or could occur (the beginning of the next fiscal year at least), the proximity, and their impact on total compensation for the employee and on the budget; and,
  - ✓ your department's written plan for non-base discretionary pay differentials.

DOWNWARD (move to a pay range with a lower maximum)

- Downward movements have very specific provisions. ***It is recommended that you work closely with your department HR professionals on downward movements.***

- Job evaluation activity, including individual position review, system maintenance study, and annual compensation adjustments. A "saved pay" statute applies and base salary **must** remain *unchanged* for up to three years from the effective date of the downward movement that resulted in salary exceeding range maximum.

- Non-disciplinary and disciplinary demotions. Base salary may be set anywhere in the new range, up to the *maximum* of the range that does not exceed current base salary.
  - ✓ In the case of a layoff, the department must be consistent regarding discretionary "saved pay".
  - ✓ In the case of a disciplinary demotion, base salary may be set below the *minimum* of the range for a period not to exceed 12 months and subject to minimum wage requirements.

- **Considerations** (along with budget and department parameters):
  - ✓ refer back to the considerations in other sections; and,
  - ✓ contact your department HR office.

INCENTIVES AND RECOGNITION

- Incentives are non-base cash awards that are goal-based and earned for achieving pre-defined criteria

linked to individual, team, or organizational performance. Incentives link pay and performance, either with the individual or team, and have measurable results that can be tracked and monitored over a defined period of time.

- Recognition awards may be cash or non-cash rewards that have a lower cash value than incentive awards and can be awarded throughout the year. Recognition awards can be given immediately (spot awards) or periodically (employee of the month) and can be individual or team oriented. These are on-the-spot cash or non-cash awards to recognize special accomplishments or contributions.
  - ☞ Suggestion and savings awards allow employees to share in cost savings that are the result of innovative ideas that increase productivity and service levels while decreasing costs.

- Cash awards are **non-base** building and are not subject to the statutory lid.

- Be sure to follow your department's existing written plan.

- Awards may be used to augment achievement pay, but are not a substitute for base pay movements such as position allocations, promotions, system maintenance studies, annual compensation adjustments, including when base achievement pay is not funded.

- **Considerations** (along with budget and department parameters):
  - ✓ if using on-the-spot cash awards, consider other salary increases that have or will occur and the budget impact;
  - ✓ possible tax implications for cash and non-cash awards;
  - ✓ review your department's written plan, in order to use awards as an effective part of performance and total compensation management; and,
  - ✓ provide the award as soon as possible following the accomplishment.

Other sources of information:

- Department human resources office.
- Technical assistance on Open Ranges, In-Range Salary Movements, Incentive and Recognition Programs, & Discretionary Pay Differentials at www.colorado.gov/dpa/dhr.
- Director's Rules Chapter 3 (Compensation), at www.colorado.gov/dpa/dhr.
- *My Total Compensation* summary tool at http://www.colorado.gov/dpa/dhr/forms/tcvsinstruct.htm.

Prepared by the Division of Human Resources, Department of Personnel & Administration, as a guide. Updated August 18, 2008.

Sample

MANAGER'S COMPENSATION DECISION WORKSHEET

Today's Date _____ Effective Date _____
Department _____ Work Unit _____
Employee/Candidate Name _____ Position # _____
Current class/code _____ New class/code _____

Helpful Hint: Fill in the salary figures on the pay lines as a visual aid (include current base pay).

Current Grade _____ _____
Min. Max.
New/Hire Grade _____ _____
Min. Max.

Monthly Earnings	Current	Proposed
Base Salary: (If effective in July, be sure to reflect any base-building annual compensation adjustment.) 1. Base building: ___% or $ _____ proposed increase/hire (subject to max.)	1. $	1. $
In-range Salary Movement (base building subject to max.) 2. Salary Range Compression: ___% or $ _____ proposed increase. Date _____		2. $
3. Counteroffer (base-building): ___ % or $ _____ proposed increase. Date _____		3. $
4. Delayed Promotional: ___ % or $ _____ proposed increase. Date _____		4. $
5. New Hire: % or $ _____ proposed increase. Date		5. $
Discretionary Pay Differentials (non-base building) 6. Signing Bonus: $_____ Lump sum in ___# payments		6. $
7. Referral Award: $ _____ Lump sum in ___# payments		7. $
8. Counteroffer (non-base): $ _____ or % __		8. $
9. Temporary Pay Differential (non-base building subject to salary lid) A. Acting: end date _____		9A. $
B. Long-term special project: end date _____		9B. $
C. Critical skill: end date _____		9C. $
Pay Premium Increases (received on **regular, planned** basis) 10. Overtime: _____ # overtime hours/month x 1.5 base hourly rate	10. $	10. $
11. Shift Differential: (check) ___2nd ___3rd ___ Weekend/Holiday	11. $	11. $
12. Other: (specify)	12. $	12. $
Total Monthly Base Salary (add 1, 2,3, 4, 5. 10, 11, 12)	A. $	A. $
Total Monthly Non-Base (add 6, 7, 8, 9A -C)	B. $	B. $
TOTAL MONTHLY EARNINGS (A + B)	**$**	**$**
Total Impact on Personal Services Budget (monthly), include 12.05% for employer's retirement contribution (14.75% for troopers). Also include 1.45% Medicare if employee was hired after 3/31/86. Exclude 6, 7, 8.	$	$
Annualized: monthly difference between current and proposed x # months remaining in fiscal year = $ _____ .	Difference: $	
Other pay increases (for informational purposes) Last salary adjustment increase (within past 12 months): ___ % Recommended base pay adjustment (next July): ___ % Last non-base building achievement payment (last July): ___ % Any other recent (past and/or expected) pay increases, e.g., incentive. % or $ ___		

Justification for proposed increase and for awards/differentials (attach additional sheets if necessary).

_____

_____

_____

Submitted by: _____ Date _____
Approved by: _____ Date _____

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