

EDAD 636 -- LECTURE NOTES

TOPIC #6: EMPLOYEE COMPENSATION

- I. Terminology - Definitions
 - A. Compensation - Direct (salary/wages) + Indirect pay (benefits)
 - B. Pay level - average pay for a given job (job as unit of analysis)
 - C. Pay structure - relationship between jobs and pay levels
 - D. Key jobs (benchmark jobs) - primary or most common job within a given job cluster or job family
 - E. Job cluster or job family - jobs that are related by technology or service or social custom
 - F. External equity (or External competitiveness) - pay equity between similar jobs in different organizations
 - G. Internal equity - pay equity between/among different jobs within same organization
 - H. Personal equity - equity of individual employee's outcomes relative to his/her inputs (compared to that of referent others) -- see Adams Equity Theory
 - I. Market wage survey - survey of competing organizations (wage contour) to determine pay levels of jobs similar to those in own organization (used to determine external equity)
 - J. Job Evaluation - evaluation of jobs within organization (& within job cluster) to determine relative "worth" of each position --- based on compensable factors (e.g. skill, effort, responsibility, working conditions)
 - K. Other?

- II. Compensation Policies & Pay Systems
 - A. Should reveal basis of organization's decisions/values (e.g. pay for performance (merit) versus pay for employee inputs such as education, experience, etc)
 - B. Explains way pay system works -- e.g. salary ranges, salary steps, etc.
 - C. May describe ways to monitor internal & external equity of system; methods & timelines for modification, etc
 - D. Includes benefits package info

- III. Determinants of Compensation levels & pay system policies
 - A. Supply & demand of labor pool
 - B. Organization's ability to pay
 - C. Cost of living
 - D. Prevailing wage rate
 - E. Unionization/union contract
 - F. Government reg's -- e.g. minimum wage laws, etc

- IV. External Equity - equity between same/similar job(s) across organization's
 - A. Wage Contour - stable group of wage-determining units or org. which are linked together by:
 - 1. Similarity of product/service
 - 2. Resort to similar sources for a labor force
 - 3. Common labor market (by custom)
 - 4. Occupation groups and wage contours sometimes linked by contract settlement date such that one contract influences another
 - 5. Occupation clusters or job families within an organization are not necessarily defined by same wage contour (e.g. teachers vs. custodians)
 - B. Do market wage survey to establish external equity
 - 1. Survey of wage contour org's to determine salary levels & benefits for similar jobs as your org's jobs

- V. Internal equity - equity between/among different jobs (job clusters) within the same org.
- A. Job evaluation -- assess “worth of job(s)” in terms of compensable factors (e.g. skill, effort, responsibility, working cond’s)
- B. Methods of job evaluation
1. Ranking (whole job/relative standard) - global compensable factor
 2. Job classification (whole job/absolute standard) - description of job families, assign a job to an appropriate family, each job family has a labor grade (e.g. fed gov’t GS “grade system”)
 3. Factor comparison (multiple job factors/relative standard) - rank order jobs on identified compensable factors (factors may be weighted in terms of importance in compensation), average rankings for each job
 4. Point factor system (multiple job factors/absolute standard) - evaluate each job (use job analysis & job description) based on compensable factors (factors may be weighted) -- more points, higher pay

	Ranking (compare w/other jobs)	Rating (against a standard)
Whole job (single factor)	RANKING	JOB CLASSIFICATION
Multiple Job Factors	FACTOR COMPARISON	POINT FACTOR SYSTEM

- VI. Determining pay structure -
- A. Point of intersection between external equity & internal equity using key job(s) as focal point; tricky to keep these in balance
- B. Both internal & external equity rely on key jobs for comparison
1. Job content comparison as basis for salary determination
 2. Comparison is stronger within certain job clusters than between different groups (e.g. instructional versus service personnel or maintenance versus clerical); comparison also stronger between more similar job clusters (e.g. instructional versus instructional support)
 3. As difference between job content of key jobs widens, the greater the reliance on history and/or market influences in wage determination
 4. Close association of employees forces close & direct comparison of salaries
 5. Adjustment of key job rate influences internal & external equity; nonkey jobs can respond to market influence more without upsetting internal equity (e.g. teacher’s salary versus school psychologist’s salary)
- C. After doing market wage survey & job evaluation, compare key job rates between/among clusters because internal wage structure is determined by key job rates across different job clusters
- D. Also draw comparisons between/among each key job and jobs in its own cluster and other jobs within each job cluster
- E. Equity adjustments typically must be made every 7-10 years to maintain balance between internal

& external equity

- VII. Types of pay systems & pay determination in education
- A. Single salary schedule (w/ horizontal & vertical dimension -- education & experience)
 - B. Salary increases -- percentage versus fixed rate
 - C. Incentive pay plans
 1. Merit
 2. Productivity plans (e.g. load, length of contract day/year)
 3. Differentiated staffing
 4. Career ladder
 5. Market sensitive salaries
 6. Supplemental pay - e.g. extracurricular
- VIII. Indirect pay - common benefits (typically 35% or more of compensation package)
- A. Retirement (state versus other)
 - B. Social security (legally required)
 - C. Health coverage
 - D. Life insurance
 - E. Long-term disability
 - F. Severance pay
 - G. Tax-sheltered annuity (or other investment options)
 - H. Professional liability insurance
 - I. Pay for time not worked
 1. Sick leave
 2. Personal/emergency leave
 3. Vacation
 4. Sabbatical
 5. Religious leave
 6. Civic & jury duty
 7. Professional leave
 8. Military leave
 - J. Income equivalent pay
 1. Credit unions
 2. Tuition reimbursement
 3. Employee assistance and/or wellness programs
 4. Payment of meeting/conference expenses
 5. Payment of prof org dues
 6. Transportation allowance
 7. Subsidized food service
 8. Child care
- IX. Legal issues
- A. Equal Pay Act 1963 -- “equal pay for same/similar work” where equal work is work requiring same “skill, effort, responsibility, working cond’s”; only exceptions are salary differential for seniority, merit/performance, productivity, etc. --- cannot differentiate on basis of race, sex, creed, nat’l origin, etc. (Tell story re: Bennett Amendment)
 - B. Other employment equity legislation -- e.g. Civil Rights Act, ADA, ADEA, etc
- X. Other compensation issues
- A. Gender equity in pay & Comparable worth
 - B. Merit pay for educators
 - C. Market-sensitive salaries