April 2019

Top 5 Ways to Maintain Your Salary Structure

Having a strong salary structure is crucial for determining individual employee pay. This article shares the top 5 things you should consider to successfully maintain your organization's salary structure and remain competitive in the market.

For most financial services roles, salaries represent the majority of pay for an employee. For example, most individual contributor roles in consumer banking and back-office areas can have up to 80% or even 90% of pay delivered in salary. Firms worldwide use salary structures to organize their jobs and provide a consistent framework for paying employees. But, when a salary structure is neglected, its value decreases and it can become an impediment and potentially cause serious problems within your firm. By regularly maintaining your salary structure, the compensation department can become a trusted partner and proactive advisor to business leaders at your organization.

Primarily, salary structures are your firm's internal representation of the market. In addition to providing the framework for paying your employees, they are also often the anchor-point for a variety of other HR programs (merit matrices, incentive targets / eligibility, paid time off, corporate titles, etc.). A properly functioning salary structure allows managers and recruiters to determine competitive compensation levels that are aligned with the company's values and philosophy. In an era of pay transparency and disclosure rules, the need for more internal rigor around what the firm is willing to pay for a specific role has become evident. Salary structures help ensure that cost is aligned with internal and external factors, reducing risk of pay equity related issues.

In practice, however, salary structures and job grades are often poorly maintained. According to a recent World at Work survey, most firms noted that while they do adjust their structures, the most common method for maintaining a salary structure is an overall structure adjustment. This means that the overall structure is adjusted upward commensurate with expected market movement, which has been 2% for the past decade. On average, the market is moving about 3% per year, though this varies by market and job function. When an overall structure adjustment is the only thing being done, salary structures are going to fall behind market.

Here are the top 5 things you should be doing to maintain your organization's salary structure.

1. Perform an annual market review

The annual market review is commonly overlooked, but your organization should be doing this process yearly. In this review, market data for your benchmark jobs is compared to your aggregate employee pay and salary grades. This enables HR to identify potential market misalignment before it becomes a recruiting and/or retention issue. This process should be added to your annual compensation calendar.

Empower Results®

Having a consistent annual review process in place reduces administrative burdens and allows HR to reduce the number of frustrated managers and recruiters, or an influx of job re-evaluation requests. It also enables HR to proactively focus on addressing key problem areas.

If your firm does not use compensation survey management software, other tools can be developed such that when the survey results become available, comparing your jobs to market is a relatively efficient process. Exclusively for McLagan survey participants, we have developed a Salary Structure Diagnostic tool that can help you through this process.

2. Evaluate employee positioning within ranges

Once you've evaluated your grades to market, the lens is turned to employee pay within salary ranges. While market data is the primary driver of salary grade determination, internal leveling is an important factor when finalizing job grades. Analyzing employee positioning can reveal how effective the structure is for managing employee pay. If you find that a large number of employees are paid at the high end in their respective range for a particular function, there may be a bigger story. Is this a hot function that perhaps needs to be paid at a premium within your organization? What about roles that are perpetually at the low end of the range? What impact on employee engagement does that have? How do you handle new roles? Perhaps a separate salary structure is needed to manage these jobs? Evaluating positioning can prompt important discussions at your firm.

3. Listen to feedback from managers and recruiters

Your organization's managers and recruiters are on the front line. They are the ones having conversations with current and prospective employees, acquiring a strong understanding of what business and labor market peers are doing. Their voice is crucial to understanding the story behind issues you may be observing within your salary structure.

If employee pay for a particular function is trending high within the salary range and your market research shows that the job is appropriately graded, talking with management and recruiting can uncover a larger story. Perhaps your firm is competing for talent with a different industry that tends to pay above what is common at banks and credit unions. You may choose to increase pay at your organization to remain competitive or leave the job grade as is. In either case, you're aware of what your managers and recruiters think, you know where you stand in the market, and you can quantify and communicate other components of your employee value proposition if needed.

4. Perform location analysis

Being competitive in the market does not mean only considering business competitors. It also means accounting for labor market competitors with roles with fungible skills. Location-specific pay differentials for each of your firm's operating locations should be reviewed every year or two. The intent of this analysis is to assess large swings in the cost of labor among your work locations. Data needed to perform this analysis can be derived from compensation surveys or through the Economic Research Institute (ERI). Be wary of new entrants into your market. In recent years, location strategies have been upended by premiere employers entering into new labor markets (e.g., Amazon HQ2 is influencing the Washington D.C. labor market). As we have seen in our data, cost efficient locations have had their discounts eroded by over-heated competition for talent.

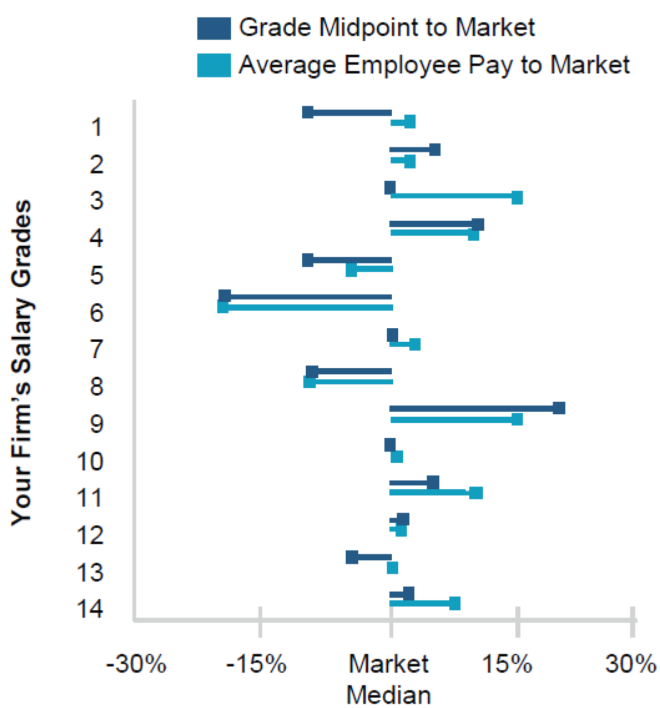
5. Adjust your salary structure according to market trends

Once you have researched the inputs of your structure and compared your jobs to market, you can perform an overall structure adjustment. Salary budget surveys, such as McLagan's annual Salary Budget and Turnover Survey for community banks and credit unions, or [Aon's U.S Salary Increase Survey] for large banks and other industries, provide information on expected market movement for both base salaries and salary structures.

A hypothetical example of how this process could work:
Consider a scenario where you are performing a market analysis on a regular basis and notice that pay for the senior level underwriter position has been rising faster than the general market over the past 3 years. This has led your firm's internal midpoint of the current job grade falling below market and aligning with the 25th percentile of market, versus the targeted market positioning of the 50th percentile.

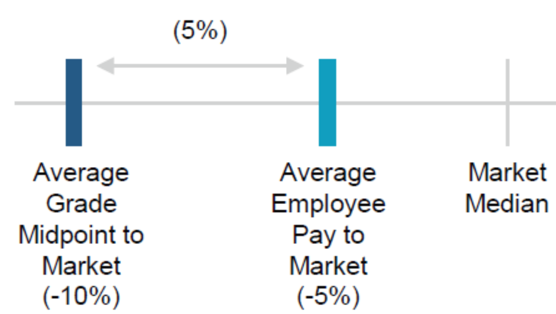
You proactively bring this up with the manager of the department and find that there hasn't been turnover in the group. However, there is one individual retiring soon, so they will be recruiting for a replacement. The decision is made to increase the grade of the position so that it aligns with the current market median. This leads to current employees being positioned lower in the range, with more room to grow, and a competitive range being used for the recruiting process.

Salary Grade Variance to Market



All data is illustrative.

Average Employee Pay to Structure



Note:

- Structure has fallen behind market (10% below market median on average)
- Average employee pay is above midpoints of internal structure however remains 5% below market due to structure misalignment

Partnering with a third party can help your team tackle the annual market review process. Not only do our teams and compensation experts know the market and have the best data in the industry, but we offer a tool exclusively for participants in our compensation surveys, referred to as the Salary Structure Diagnostic. This tool does the heavy lifting for you and compares your salary structure and employee pay to the market. We know the market and you know your organization. The custom analysis found in the diagnostic provides the market intelligence that you need to evaluate your salary structure to determine the best course of action.

To learn more about the Salary Structure Diagnostic tool and other employee rewards insights, please contact our team.

Author Contact Information

Gayle Appelbaum
Partner, McLagan
Aon
1.952.886.8242
gayle.appelbaum@mclagan.com

Katrina Gerenz
Associate Partner, McLagan
Aon
1.952.886.8247
katrina.gerenz@mclagan.com

Bryan Lemke
Principal, McLagan
Aon
1.952.886.8272
bryan.lemke@mclagan.com

Todd Leone
Partner, McLagan
Aon
1.952.886.8254
todd.leone@mclagan.com

Kate Noble
Director, McLagan
Aon
1.952.886.8575
kate.noble@mclagan.com

Rob Northway
Partner, McLagan
Aon
1.203.602.1234
rnorthway@mclagan.com

About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals. McLagan is a part of Aon plc (NYSE: AON). For more information, please visit mclagan.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit http://aon.mediaroom.com.