Let’s Simplify Comp Speak

What is Comp Speak?

Compensation terms are numerous and difficult for most to understand. In the Q&A’s below, we are going to simplify “comp speak” so that you may have a better understanding of various compensation terms that are used in organizations.

What is a comp-a-ratio?

This is a calculation whereby the employee’s annual salary is divided by their salary range midpoint. For example, a $55,000 annual salary divided by a $60,000 midpoint is a comp-ratio of 92% (rounded). The most misunderstood myth is that all employees should have a comp-a-ratio of 100% (so their pay is on average at the market value for their role). Not all employees should have a 100% comp-a-ratio. Comp-a-ratio placement is based on years of previous relevant experience, time in job, performance, and how an employee stacks up against other same or similar employees in the same or similar job. So, some employees will have a comp-a-ratio of less than 100%, and others will have a comp-a-ratio of more than 100%. The longer an employee is in a role, they will achieve or exceed a 100% comp-a-ratio based on the role’s requirements for education and experience vs their own.

What does we pay at the 50th percentile mean?

This means an organization on average has a comp-a-ratio of 100% for all employees. An organization can have a 50th percentile philosophy, but if they have a lot of new and inexperienced employees who are and should be paid lower in their range, then their average comp-a-ratio could be lower than 100%. The term 50th percentile is also referred to as 100% of market or market average.

How do companies benchmark their jobs to market?

Some companies do this analysis internally and others use outside compensation consultants to do the analysis. Job documentation is compared to third party published and validated surveys that use employer reported data to pull appropriate job matches to their organization’s job. Once matches are finalized, the data is pulled and aggregated at the 50th percentile for all matches from all surveys used if that is the organization’s compensation philosophy.

How are pay ranges determined?

Like valued jobs are placed together in a pay range. Pay ranges have a minimum, midpoint (based on the organization’s compensation philosophy), and a maximum rate of pay. Depending on the level of the job, the spread from minimum to maximum can typically be 50% to 80%. Jobs which are narrower in scope (typically lower-level roles) usually have a 50% spread while executives which have wider scope jobs are typically 80%.

How is it decided where an employee will be paid in a pay range?

While not all organizations use the same methodology to determine where an employee is placed in their pay range, it is common to think of pay ranges in thirds. The lower third is for new and untested employees with little to no experience and who also may have been recently promoted to a new role. Middle third is for employees with relevant education and experience to the job requirements, who can perform all aspects of the job with little supervision, and who can also mentor and train other employees. The upper third is for employees with sustained and outstanding performance over a prolonged period of time. An employee's experience relative to the job requirements, time in job, and performance are also compared to others in the same or similar job.

What is fair and equitable pay?

Fair pay is established when an organization completes a market benchmarking study and creates pay ranges aligned with the market. Equitable pay is determined through an internal equity analysis. A further explanation of pay equity is answered in the next question.

What does pay equity mean?

Pay equity is ensuring each employee is appropriately placed in their pay range based on their total relevant experience, time in job, and performance compared to others within their same role and similar roles. Not all experience is relevant experience for every job.

What does pay transparency mean?

Pay transparency can be when an organization shares their pay ranges in their job postings to sharing each employee's pay range with them and where they sit in the pay range. Full pay transparency (required by government agencies) can include each employee knowing all employee salaries. Transparency is also achieved when an organization shares their compensation philosophy, how they benchmark their jobs, the scopes they use to compare to other companies, and are open with other compensation policies and practices. Each organization has a level of pay transparency with which they are comfortable. Some organizations have validated concerns over their competitors learning of their pay practices and therefore consider their compensation proprietary information and may choose to keep some or most of their compensation confidential.

In Summary

We all have a journey ahead of us to clarify and simplify "comp speak" as well as to achieve some level of pay transparency, but we are all well on our way into that journey.

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