

Annual compensation planning



What are the key steps in the annual compensation planning process?

Most administrators follow this general planning process every year:

- Update job descriptions, if necessary.
- Determine market comparators (peers by industry, region, headcount size and so on).
- Collect market salary data.
- Match benchmark jobs to market salary data.
- Set measurement standards to determine status against desired position.
- Conduct measurement of:
 - Internal equity (review for potential problem areas).
 - External competitiveness (review for underpayment or overpayment).
 - Alignment of pay and performance (consider whether the plan is workable).
 - Alignment with business and strategic goals (determine whether the plan helps employees achieve overall organizational goals).
- Formulate recommendations to adjust overall or specific salary levels.
- Obtain management approval of recommendations.
- Implement the compensation plan.
- Communicate the plan to employees.



What steps should a company take when using salary surveys?

Companies should consider the following:

- Review the company's current position in the market. One way of doing so is to use a scatterplot (a mathematical technique of displaying the relationship between two variables using points on x and y axes). Companies may choose to compare their base salaries, guaranteed cash, total cash, total remuneration, or other compensation figure with other competitors' on the market.
- Determine the company's desired position in the market (for example, 25th percentile, median, or 75th percentile).
- Relate company pay policy to practice. Correlate the market data to the company's grades. It is important to "age" survey data — that is, increase market survey data by an assumed percentage that represents wage movement to calibrate the data to a consistent point in time.
- Analyze the differential between the grade salary (policy) and the company trend line (actual practice).
- Set reference salaries for each grade.



How do companies designate pay levels that fall outside the established salary ranges?

Companies should strive to maintain pay ranges, whereby an employee's pay falls somewhere within a designated salary range, depending on experience, performance, and other factors. However, when an employee's compensation strays outside of these ranges, it may be said to be a:

- **Red circle rate:** A pay level that is above the established range maximum assigned to the job grade. Employees with a red circle rate usually are not eligible for further base pay increases until the range maximum surpasses their pay rate.
- **Green circle rate:** A pay level that is below the established pay range minimum for a specific job. The incumbent is usually eligible for larger or more frequent base salary increases until pay penetrates the minimum range.



Need more? Mercer's [Global Compensation Planning \(GCPR\)](#) provides everything you need to know about salary increase budgets, economic indicators, promotional increases and more.