

Understanding different compensation metrics can seem complicated at first, but with this handy guide you'll be able to master compensation conversations like a pro!

Salary Increase Metrics – These are metrics to consider when making salary adjustments and/or promotional increases. Most of these can either be displayed as a ratio or percentage (1.0 or 100%).

- 1.) **Compa-Ratio:** This metric looks at how the employees pay compares to their salary grade or band.
 - Formula: = recommended salary / (divided by) mid-point of the range
 - Instead of dividing by mid-point of the range, you could also use the market rate per position, when there are no formal salary band ranges established (usually referred to as market index).

Example: A compa-ratio at 1.0 or 100% means the individual is paid at the midpoint of the range or market. A compa-ratio of .8 or 80% or less, means they are paid 20% or more below the midpoint. Anything above 1.0 or 100% and they are above the midpoint of the range.

- 2.) **Market Index:** Also called the market rate, this metric looks at how the employees pay compares to what the external market is paying very similar jobs/positions.
 - Formula: = recommended salary / (divided by) market rate
 - The market is usually determined through several sources of salary surveys that can be purchased or sometimes are free when you participate in the survey process.
 - Companies can choose different targets for their market rates – do they want to pay at 25th, 50th or 75th percentiles? These different percentiles come from salary surveys, but there are also various options when it comes to which surveys to use.

Compa-Ratio or Market Index? The difference between these 2 metrics is the compa-ratio will look at the organization's internal salary range or band. A salary range could cover many positions in an organization, but the external market rate looks to compare very similar jobs/positions and the going rate for those. The market index has a more external focus. Both are good metrics to consider.

- 3.) **Range Penetration:** This considers the individual's pay in relation to the entire salary range.
 - Formula: (individual's recommended pay – new range min) / (new range max – new range min)
 - The compa-ratio only considers the midpoint, but this will also look at the ranges min and max.

Example below taken from the [Salary Increase Template](#) you can find here. Save time with this template that already has the formulas set up and ready to go. Simply plug in your information.

Current Position		New Position			New Position Salary Range			Market Rate	Recommended Salary Stats			
Employee Name	Current Salary	New Position	New Band	Requested Salary	New Band Range Min	New Band Median	New Band Range Max		Increase Amount	Compa Ratio	Range Penetration	Market Index
Example Employee #1	50,000	Supervisor	K	60,000	55,000	70,000	80,000	68,000	10,000	0.86	0.20	0.88

Salary Range Metrics – These metrics help when determining salary ranges for an organization’s band or grade structure.

1.) **Midpoint** – The middle number between the minimum and maximum. The midpoint should be based on market data, gathered from salary surveys and can also be referred to as the ‘market’ rate. The midpoint is considered the target pay for someone who meets the requirements and performs the position efficiently.

In survey data, the midpoint is the same as the 50th percentile. A company can still choose to target a higher or lower percentile in survey data, then use a different percentile as their salary band midpoint.

2.) **Midpoint Differential** – The difference between the midpoints of each adjacent salary band.

Midpoint progression should be designed to provide midpoints that reflect market rates, as well as considering how internal promotions and career progressions will occur as an employee is promoted to the next grade. Typically, lower-level jobs tend to have a smaller midpoint differential, and the differential increases for higher-level positions.

Here are a couple examples of typical midpoint differential progressions:

Position Type	Typical Midpoint Differential
Non-exempt positions	5% - 10%
Exempt and professional positions	8% - 15%
Managers and Directors	10% - 15%
Vice-President and Executive	15% - 20%

Position Type	Typical Midpoint Differential
Clerical/ production positions	5% - 12%
Paraprofessional, Professional, Management	10% - 15%
VP, Executive	20% - 35%

The midpoint differential is typically 15% to 25% between a manager and their subordinates. Reviewing the organizational charts against a new band structure can help to check for any issues.

3.) **Range Spread** – Displayed as a percentage to show the range from the minimum to maximum within each salary band range. When you have the range midpoint, it can help to use a consistent range spread across similar positions/bands to develop the min and max:

- $Max = Min \times (1 + \text{range spread } \%)$
- $Min = \text{Midpoint} / (1 + (\text{range spread}/2))$
- Or use if you have min and max: $= (\text{range max} - \text{range min}) / \text{range min}$

Typical range spread per position types:

Job Type	Typical Range Spread
Manufacturing or service	20% - 30%
Clerical or technical	30% - 40%
Supervisory or professional	40% - 50%
Management or executive	50% +

*Others allow for 50% - 60% range spread in all positions, so it varies a lot per organization.

*Higher range spreads can be appropriate for jobs at higher levels in the company, where there is a lot of variance in incumbent pay.

*Smaller range spreads can benefit lower level positions where the market rates are closer. If the range spread is too large it becomes harder to ensure the internal progression of entry hires to the market rate/ midpoint.

Examples below taken from the [Pay Structure Design template](#). Save time with this template that's already set up with the formulas in the grey columns. Simply enter your data in the green cells.

The 1st page calculates the midpoints when you have the min and max:

Grade or Band	Organization Level	Minimum	Midpoint	Maximum	Midpoint Differential	Range Spread
12	Directors	100,000	125,000	150,000	39%	50%
11	SR Managers	80,000	90,000	100,000	30%	25%
10	SR Specialists	59,000	69,000	79,000	31%	34%

The 2nd page calculates midpoints by starting with the bottom midpoint and enter your midpoint differentials:

Grade or Band	Organization Level	Minimum	Midpoint	Maximum	Midpoint Differential
7	SR Associate		36,300		10%
6	Intermediate Associate		33,000		10%
5	Entry/Associate		30,000		

On the 3rd page, you can enter the midpoints and range spreads, and the template will calculate your min and max for each grade or band:

Grade or Band	Organization Level	Minimum	Midpoint	Maximum	Midpoint Differential	Range Spread
14	Manager	68,008	81,610	95,211	15%	40%
13	SR Specialist	60,396	70,965	81,534	15%	35%
12	Int Specialist	53,660	61,709	69,758	12%	30%