Compensation Principles, Philosophy and Policy

The purpose of this document is to provide guidance to managers, supervisors and authorized users in the appropriate usage and disclosure of staff salary information. This document is to be used as a guide and does not represent all situations. Managers, Supervisors or Authorized Users are encouraged to reach out to their designated Human Resources Generalist for additional support. Compensation Planning, as a center of expertise, is responsible for developing Compensation philosophy, policies and objectives. This document has three sections as follows:

Section 1: Compensation Philosophy, Policy and FAQs
Section 2: Tips for having Salary Conversations with staff
Section 3: Confidentiality of Salary Information

Section 1: Compensation Philosophy, Policy and FAQs

The following information is found in the Staff Workplace Policies - Section 200 - Compensation Management.

Compensation Objective:
Yale develops its compensation and classification programs with several goals in mind:

- To attract and retain extraordinary talent.
- To create appropriate salary structures based on the responsibilities and technical requirements of each position, and to establish salaries accordingly.
- To award salary increases based on individual contributions and performance.
- To pay salaries that are competitive with those of comparable positions at comparable employers, within comparable labor markets.
- To develop salaries that are consistent with the University's budgetary guidelines and are a key element of the University’s total rewards package.

Job Evaluation Process & Method:
A job evaluation process allows an organization to measure, compare and categorize job information so that each job can be placed in the appropriate structure for salary administration purposes.

The University uses a “whole job comparison” evaluation for its job evaluation process, wherein Yale looks at both internal and external market comparisons to help determine the appropriate salary.

In addition to market factors, Yale evaluates positions based on requirements for the job that include the level of knowledge and skill, problem solving and decision making, scope and complexity, and impact and accountability of the position.
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Salary Ranges and Bands:

Each salary grade/band has an established salary range. These ranges define the minimum and maximum salaries to be paid for a job, but also allow sufficient latitude for an individual to progress through the salary range as a result of merit increases.

Salary ranges/bands are reviewed annually, and may be adjusted periodically to respond to economic and market conditions.

Staff members are typically paid at least the minimum of the appropriate salary range/band, but not more than the maximum, with rare exceptions based on authorization from Human Resources.

Staff members whose salaries are at or above the maximum of their assigned salary range/band are not eligible for regular merit increases, but are eligible to receive non-base building salary increases. The salary increase will be based on individual performance as well as the annual guidelines issued by Human Resources for merit increases. Exceptions to this policy must be requested in writing and approved by the Director of Compensation.

Annual Salary Review & Merit:

The University’s compensation programs are designed to recognize and reward staff members based on individual performance. Most salary actions, including merit increases, salary adjustments and position reviews, will typically occur on a coordinated basis during the annual Salary and Performance Management Review Process. The funds available for merit increases vary from year to year depending upon budgetary considerations, salaries paid in the identified marketplace and economic conditions. Merit increases are not subject to the grievance procedure.

The University develops merit increase guidelines which establish ranges for individual increases based on several factors:

- Individual performance during the most recently completed fiscal year (July 1 – June 30)
- Individual’s current salary compared to the salary range for the job or position in range (PIR)
- Consideration of salaries and qualifications of peers in comparable positions
- Available budget

Merit increases are normally awarded on an annual basis during the Salary and Performance Management Review Process and are normally effective on September 1. In some cases, merit increases can be deferred for performance or other reasons. Merit increases are recommended by supervisors based on their evaluation of performance and other salary considerations.

Staff members hired from April 1 to August 31 will normally not receive a merit increase until September of the following year.
Q12: For some managers, this will be the first time they have access to subordinate salary information, what should they expect?

Because of the Workday framework and reliance of supervisory organizations as the “driver”, many front line managers and supervisors will have access to this important component of their employee’s employment record. Managers and supervisors should expect to see salaries that may not make sense unless there is a deeper understanding of the circumstances behind the salaries. Managers should understand that because each employee discusses their own salary, many factors will be considered such as the individual’s years of experience, education, special training and licenses and external market pressures.

Q12a: What should managers know about setting salaries when an employee is hired into a new job internally and externally?

First, managers should be aware that when an offer is extended to a candidate, oftentimes, the candidate will have a pre-determined salary in mind, which may or may not line up to what the department can afford or the value they place on the job within their organization. It is the responsibility of the recruiter to screen the candidate to gain an understanding of their salary requirements. Sometimes, in order to land the right candidate, departments will increase their target salary which may create internal pay inequities. These inequities are brought to the department’s attention at the time the offer is made, and many times peer salaries are adjusted to account for the market pressures, other times, manager’s will account for future salary adjustments during the budget planning process. It is not unusual for equity adjustments to take more than one merit cycle.

Q12b: What type of analysis does the University conduct that takes into account gender/ethnicity pay equity and the right balance of manager versus subordinate pay?

The Office of the General Counsel engages an outside firm to conduct a gender/ethnicity pay analysis once a year. The results of the analysis is shared with Human Resources and it is the responsibility of the Human Resources Department to alert department managers of necessary remediation.

The Compensation Planning department conducts a Wage Compression analysis periodically throughout the year, which looks at manager and supervisor salaries vis a vis their direct subordinates. The analysis will reveal instances where the manager or supervisor’s salary is compressed by a certain percentage. This information is shared with the Employee Relations department for further action. Managers are encouraged to address the pay discrepancies in a systematic manner. This activity typically occurs with the annual salary planning which precedes the Merit cycle. Managers should understand that it may take a few merit cycles to fully address the inequities, but as long as they are actively aware and addressing the issue, they should feel confident when discussing pay with their direct reports. In addition, managers should be aware that compression analysis is conducted whenever there is internal movement into another job or whenever an external candidate is hired into a department. At the time of hire, the recruiter is basing the offer on the candidates’ years of experience and education, and in most cases, the hiring manager is part of that discussion. In the instances, where a manager is seeing salaries for the first time, they need to be aware that employee salaries are based on a number of factors. If the manager has concerns, they should bring their concerns to the HRG.

Q13: How are union salaries and classification determined? What role does the manager have?
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Union salaries are based on a collective bargaining agreement between the union and university. The wage schedules are negotiated by each union. The jobs are classified based on joint guidelines established by the union and university. The agreements are binding and each party has a legal obligation to adhere to the provisions of the collective bargaining agreements. The manager’s role is to understand and abide by the agreements.

**Q14: What effect do salary grades and bands have on an employee’s salary?**

The University has several compensation structures (traditional grades, bands, tri-bands and ungraded which are used to set the applicable salary ranges for a position.

**Q15: How often are the salary and band ranges reviewed?**

Annually, before Merit the salary ranges for the grades are evaluated to ensure they meet economic and market conditions. This is a complicated process, but a necessary exercise to ensure our ranges continue to be relevant.

**Q16: What does it mean to be at the minimum, midpoint or maximum of a grade?**

Staff members are typically paid at least at or above the maximum of the appropriate salary range or band, but not more than the maximum, with rare exceptions based on authorization from Human Resources.

**Minimum:** Generally, each job has a minimum pay level. The minimum pay level is the wage that has been determined to be the lowest wage the market (internal structure) will bear for a position. Typically, employees who are close to the minimum of the pay range are individuals who are new to the position and responsibilities.

**Midpoint:** The midpoint or middle-pay value for the range usually represents the competitive market value for a job. An employee at the midpoint of the range is someone who is fully competent to complete all the tasks required for the job.

**Maximum:** Generally, each job has a maximum pay level, both in the external market and internally. When an employee is at the maximum of a pay range, it typically means that the employee would no longer be eligible for pay increases unless the range is adjusted or the employee obtains new skills or gets promoted. The closer an employee is to the maximum of the range, the closer they are to exceeding the requirements to competently perform the job duties.

**Q17: How does years of experience, age, college degrees factor into the salary decision?**

Let’s start with years of experience and education, these two factors are important in assessing whether a person qualifies for the job, along with the work experience they bring with them. These are known as “job specifications” and are defined in terms of knowledge, skills and abilities (KSAs). These KSAs are used to define worker characteristics required to perform the job competently. We use these specifications as the **minimum** required for the job. Example: Bachelor’s degree with two or more years of experience.
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Age is never a direct factor in determining salary. Once a job is classified into a grade or band. The hiring manager provide a target salary and the recruiter sources candidates that have the minimum job requirements. The salary that is discussed is based upon the target salary identified when posting requisition was submitted, the internal equity of others in the same department and across the university in similar positions and the candidate’s negotiation skills.

Q18: What does the term “market based pay” mean?

It’s the market competitive salary for a job that represents the average prevailing pay rate for that job in a particular data set. Market pricing assists organizations in remaining competitive by helping companies know what the going rates for jobs are in the current market place. It also helps organizations analyze pay competitiveness by collecting information on the going market rate for benchmark jobs in organizations with whom the university competes for human resources.

Q19: What does the term “equity” mean?

This term is used to determine whether salaries for similar jobs are equitable to one another. The internal equity refers to how salaries within a particular department and across the university compare to one another. The most common analysis done is gender-pay equity.

Q20: What makes up total compensation?

Total compensation is made up of two elements: fixed pay and variable pay. Fixed pay is nondiscretionary compensation that does not regularly vary according to performance or results achieved.

Variable pay is compensation that is contingent on discretion, performance or results achieved (example; recognition or performance bonus).

Q21: What makes up a Total Rewards Package?

Total rewards is comprised of the following five elements: Compensation, Benefits, Work life, Performance & Recognition and Development & Career Opportunities.
Section 2: Tips for having Salary Conversations with Staff

With greater visibility of salary information, it may be more tempting for managers to try to answer certain types of questions raised by individual employees about their salaries, just by referencing the collective salary information that is visible for all employees within their supervisory organization.

The following potential questions or statements an employee might ask or make to seek a pay raise, or express their perception of salary inequity can present pitfalls for the manager that may result in inappropriate expectations on the part of the employee, or conveying wrong information to them. And it can always be challenging to respond to requests of employees when you are worried about their morale, or suspect there in fact could be some basis to the issue they are raising. Several possible examples follow, along with pitfall answers managers should avoid.

1. **Employee:** I think I’m the lowest paid person in our department and should get a salary adjustment.

   **Answer to avoid:** Yes, it does look like you are the lowest paid person in our office, and I’m going to look into requesting a pay increase for you.

2. **Employee:** I think my pay is really too low after all the years I’ve been here.

   **Answer to avoid:** Pay is low for everybody at Yale. That’s just the way it is.

3. **Employee:** I don’t think I’m fairly paid in relation to everyone else around here.

   **Answer to avoid:** Your pay is fine. In fact, you make more than Bob and Mary make.

4. **Employee:** I really want a pay increase, and I think I deserve it.

   **Answer to avoid:** I want to give you a pay increase but we don’t have the budget right now. – Or – I want to give you a pay increase but HR won’t approve it.

All of the potential responses to employees listed above are not helpful and will contribute to poor morale issues and disengagement of staff. The impression left on employees is that the manager has no authority or influence on performance, merit, or salary decisions, and undermines the relationship between manager and employee.

In general Manager’s should not feel responsible for providing immediate responses to employees’ salary concerns when an appropriate answer may be outside of their area of experience or expertise, and do not need to operate without expert guidance in this process. In In order to keep conversations with employees about compensation productive and positive, managers should consult with their HRG to obtain proper guidance before having what they believe may be a difficult conversation about salary. This maintains best practice of having the manager respond to the employee directly rather than have Human resources intervene, and will help the manager gain or maintain credibility rather than weaken the relationship between manager and subordinate.
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Following are some specific questions managers may have about how to handle a variety of situations where they will want or need to have salary conversations with employees. The answers are intended to provide important guidance managers can use to keep the conversation productive and positive.

**Q1: What is the best practice for having salary adjustment conversations?**

Just like performance reviews, salary adjustment conversations are best conducted behind closed doors and should be scheduled ahead of time. This sets the tone for employees to trust and have confidence that the manager is prepared for and totally engaged with the matter at hand. When these conversations relate to the subject of merit related to performance, they should be follow ongoing conversations about performance that have occurred through the year so that there are no big surprises.

**Q2: Who is the best person to relay an individual employee’s compensation information to them?**

Compensation information should be relayed to the employee by the manager. The prerequisites would be appropriate advance consultation between the manager and HRG and/or Compensation as needed, and being prepared for the conversation. In most cases (with some exceptions possible) it is not advisable to conduct these conversations with a third person (for example, someone from HR or even the manager’s manager) present. The presence of a third person may inadvertently diminish the employee’s confidence in the manager’s message. It may also be perceived as “ganging up.” In either case, this can undermine the authority of the direct supervisor.

**Q3: Do managers relay the salary offer information to a job candidate before they are hired, or the new salary information that results from an employee being moved into a completely new position?**

No, this is the common exception to the above practice. When a new employee is being hired into a new position, or an existing employee is being moved into a new position, the Staffing and Career Development office will have the initial compensation discussion with the candidate, with the hiring manager following up to support those efforts, when appropriate. University offer letters are generated by the Staffing office.

In all instances, be prepared:
Don’t be surprised if the employee gets upset, even if you think you’re delivering good news, it might be less than s/he expected. When employees are disappointed by their raise it is often because they lack information. Working with HR to understand fair and consistent processes, checks and balances, how not to engage in conversation about other employees’ pay and individual expectations will prepare you to explain how the decision was made so the employee understands you’re being fair and how to rehearse what you’re going to say and how you’re going to respond to any question, concerns or complaints.
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Section 3: Confidentiality of Salary Information

Q1: How should managers treat salary information?

As stated in the Standards of Business Conduct:

In their various capacities, Yale faculty and staff become privy to confidential information of many different types. Such information may concern students, patients, employees, research sponsors, for example, or it may be proprietary information of an enterprise licensing Yale intellectual property or otherwise subject to contractual or legislated obligations of confidentiality. Yale faculty and staff are expected to inform themselves about applicable obligations and to maintain the confidentiality of such information, safeguarding it and using it only as any applicable restrictions permit. (See HIPAA)

Managers’ access to salary information is privileged, and managers should not generally or openly share it with others. Individual salary information is part of an employee’s employment, and should be kept confidential.

Q2: Can I share my staff’s salaries with other managers (who also have access to salary information) in order to determine if our employees are paid equitably?

It is not advisable to share employee salaries with other managers as a way to attempt to determine salary equity, particularly across organizations.

These questions should be discussed with your designated Human Resources Generalist, and Compensation Specialist when necessary, to properly ascertain the correct comparable to measure and determine equity.

Q2 a. Should managers be allowed to share their employee’s salaries with peer managers that are part of the same division (Example: a unit that has two or more organizations reporting to the same department head) for the purpose of determining peer equity?

Generally, department leadership should encourage transparency of information at the senior leadership level to facilitate management and decision making across the unit. Questions of equity across or among peers may involve a significant number of factors, and can be complex. These questions should be discussed with your designated Human Resources Generalist, and Compensation Specialist when necessary, to properly ascertain the correct comparable to measure and determine equity.

Q3: Workday allows me to download salaries into Excel. Is it appropriate to do this, save it to my desktop, and email it to others who may need to know?

If the information needs to be shared with others for business reasons, it is acceptable to place this information on a secure network server for access, or to send the information in a secure file that is password protected. In all cases, the recipient of this information should be told the information is “confidential and privileged” and is not to be shared. Files that are sent securely should include a footnote to that effect.

Q4: Can I share my employee salary information with external organizations for purposes of making market comparisons?)
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No, this is not allowed under the Yale University Antitrust Compliance Guidelines. Managers are not permitted to share specific salary information with any external/peer organizations for purposes of making market comparisons. Yale’s Compensation department regularly participates in and obtains data from peer market surveys conducted by third party organizations to ensure that reliable (comprehensive) information is available when making salary offers or reviewing salaries on a regular basis. To obtain needed market information, managers should contact their Human Resources Generalist for assistance, and the HRG can work directly with Compensation Planning to assure proper market information is identified and provided.

Q5: Another office is submitting a grant proposal that may allow one of my employees to be paid from. Their office assistant wants to know my employee’s salary. Can I tell him?

Yes, if it is part of the office assistant’s job responsibilities it would be allowed. The recipient of this information should be instructed to maintain confidentiality and not disclose information to others not directly involved in the grant preparation.

Q6: I’m promoting somebody and she wants to know if the salary being offered is in line with my other two employees at that level. In fact, she will make more than them? Can I share that with her?

Information about employees is confidential and privileged and should not the shared. If directly asked, you can explain that this information is confidential and you are not at liberty to share it. Instead, you can share and reinforce that the salary is within the correct grade range for the position, and can also share the position in range (PIR) for the specific individual.