

Merit Pay Increases–Design Options

Fiscal Year 2020

Overview

Performance-based rewards are an important component of Total Rewards at the University of Minnesota and are essential to creating a culture of operational excellence and continuous improvement. A merit pool of 2.25% is being recommended for fiscal year 2020, and this document outlines approaches you can take to differentiate pay increases for top performers. If a 2.25% merit pool is not approved by the Board of Regents in June, this memo still provides fundamental guidance but does not in any way guarantee there will be a 2.25% merit pool.

Pre-Work: Setting the Foundation

Each academic and administrative/support unit at the University of Minnesota is afforded flexibility in how merit increases are awarded. However, the following steps should be taken to ensure a solid foundation for your area’s merit increase planning. Please work with your OHR consultant, senior leadership team, finance, and communications to address the following pre-work:

Step 1	Review and update your performance review tool to ensure it will: <ul style="list-style-type: none">• Effectively measure the behaviors and work outcomes you wish to reward• Provide information and/or ratings you will need to differentiate low from high performance
Step 2	Clearly identify the group of employees whose performance will be compared. <ul style="list-style-type: none">• Will performance of all employees within a college be compared (college-wide performance comparison)?• Will smaller groups be used for comparison within the college (department, unit, etc.)?
Step 3	Determine how much money you have for each merit comparison grouping as calculated by, or with direction from, the chief financial manager of each campus/college/support unit (RRC). The amount of increases you award cannot exceed 2.25% of the total base salaries of eligible faculty and staff within a unit. <ul style="list-style-type: none">• Units may propose to exceed the 2.25% increase pool only if there is a need to address documented market challenges or exceptional performance results, and is permitted by the budget.• Units may propose to deliver an increase pool lower than the 2.25% recommendation if facing significant financial stress, defined as permanent loss of revenues or a recurring structural budget deficit, and insufficient carry-forward plans.• The alternative plan and supporting documentation must be detailed in the unit’s budget/compact submissions, or a supplement to those materials. This proposal will be considered for FY20 only, not for subsequent years. The Budget Office will send a written response to proposals based on a final decision by the President and in time for implementation of increases for FY20.
Step 4	Select the approach you will use to award performance-based increases. <ul style="list-style-type: none">• See next section on “Selecting Your Design Option” for sample models.
Step 5	Agree on how you and senior leaders in your unit will conduct a joint review to calibrate performance ratings, ensure legal compliance, and adhere to University policies and guidelines.

Note Regarding Employees Paid Over Range Maximum: Employees who are paid above their salary range maximum must receive their annual increase in the form of a lump sum payment, rather than having it applied to their base salary. In situations in which an employee will be paid over the range maximum after receiving his or her merit increase, the employee can have the merit increase applied to his or her base until their salary reaches the range maximum. Any further portion of the merit increase must be awarded as a lump sum increase.

Selecting Your Design Option

There are limitless ways to award performance-based increases. This guide highlights three approaches, arranged from least to most structured. Please note that the success of any merit increase model is highly dependent on the ability to:

1. Identify and sort people into unsatisfactory and low performance categories
2. Award increases to top performers that are 75%–80% higher than the 2.25% increase. This translates to an increase of roughly 4% for top performance.

MODEL 1: UPSIDE POTENTIAL FOR HIGHEST-RANKED PERFORMERS (Lump Sum or Increase to Base Salary)

All employees are first sorted into one of two categories, either “unsatisfactory” or “satisfactory” performance. The amount of total salary increases is calculated using the increase percentages in the chart below:

<i>Increase for unsatisfactory and low performers</i>	<i>Increase for all remaining employees who are performing both proficiently and beyond expectations</i>	<i>High-performance award</i>
0%	2.0%–2.25%	*See calculation options below

*The amount remaining for a high-performance award is calculated by subtracting the total salary increases from the first step of this exercise from your full 2.25% salary increase budget. The remaining dollar amount is the fund for your high-performance award pool. Simply divide the high-performance award pool by the dollar amount you would like to provide to a top performer. This will tell you how many employees can receive this additional increase. This additional increase could be:

- Awarded as a percentage increase to base salary
- Awarded as a one-time lump sum payment

MODEL 2: PERCENT INCREASE AWARDED BASED ON FORCED RANKING OF PERFORMANCE

<i>Employees Performing in Lowest 10%–20%</i>	<i>Employees Performing in Middle 60–70%</i>	<i>Employees Performing in Top 10–20%</i>
<i>0% Increase</i>	<i>2.25% Increase</i>	<i>4.5% Increase</i>

MODEL 3: PERCENT INCREASE AWARDED BASED ON PERFORMANCE RATING AND RANGE POSITION

The increase percentages awarded in this model would be calculated based on the overall merit pool and the distribution of people falling into each cell. This model should only be used if highly accurate salary ranges are in place.

	Performance Is Unsatisfactory	Performance Requires Improvement	Performance Is Proficient	Performance Exceeds Expectations	Performance Is Outstanding
Salary Is High In Range	0%	0%	1.75%	2.00%	2.25%
Salary Is Mid-Range	0%	0%	2.25%	2.75%	3.25%
Salary Is Low In Range	0%	0%	2.75%	3.75%	4.75%

Create an Implementation Plan

Once you have your performance review tool, merit increase percentage, and employee peer groups identified, work with your OHR consultant, senior management of your unit, and communications to create a merit pay implementation timeline that includes:

1. Clear assignment of roles and responsibilities
2. Creation of communications, forms, and supporting documents
3. Dates when preliminary performance reviews will be completed
4. Dates when senior leadership will meet to discuss preliminary reviews and distribution performance among employees
5. Financial analysis: translation of performance rankings into merit increase amounts
6. Dates when final reviews and merit increase awards will be communicated to employees
7. Training dates for managers and supervisors on the tools and process, as well as how to effectively determine the merit amount and communicate the results to employees
8. Training dates for employees on how performance will be evaluated, how increases will be determined, and timing of the merit increase cycle
9. Handoffs with payroll and HRMS at the local and central level to ensure appropriate and efficient processing of increases

Any communications to employees about salary increases for fiscal year 2020 should state that the increase is contingent on final approval of the budget by the Board of Regents in June.