Merit Pay Increases – Design Options for Small Merit Pools
Fiscal Year 2019

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 2.0% is being recommended for Fiscal Year 2019, and this document outlines approaches you can take to differentiate pay increases for top performers. If a 2% merit pool is not approved by the Board of Regents in June 2018, this memo still provides fundamental guidance but does not in any way guarantee there will be a 2% 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: • 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. • 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% of the total base salaries of eligible faculty and staff within a unit. • Units may propose to exceed the 2.0% 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 2.0% recommendation if facing significant financial stress, defined as permanent loss of revenues and/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 FY19 only, not for subsequent years. A written response to proposals will be sent from the Budget Office based on a final decision by the President and in time for implementation of increases for FY19.
Step 4	Select the approach you will use to award performance-based increases. • See next section on "Selecting Your Approach: Design Considerations for Small Merit Increase Pools" 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 applied to their base salary. In situations in which an employee will be paid over the range maximum after receiving his/her merit increase, the employee can have the merit increase applied to his/her base until the point his/her salary reaches the range maximum. Any further portion of the merit increase must be awarded as a lump-sum increase.

Selecting Your Approach: Design Considerations for Small Merit Increase Pools

There are limitless ways to award performance-based increases. This guide highlights three approaches you may wish to consider in years with merit increase pools that are at or below 2%. The options are generally less structured than traditional merit increase approaches. However, the success of these options is still 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 2.0% increase. This translates to an increase of 3.5–3.6% for top performance.

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

Increase for unsatisfactory and low performers	Increase for all remaining employees who are performing both proficiently and beyond expectations	High-Performance Award
0%	1.5 or 2%	*See calculation options below

*The amount of the High-Performance Award should be determined after sorting all employees into the unsatisfactory versus satisfactory performance categories and determining the overall percentage increase that will be spent on raises for these employees. Any remaining dollars (up to 2.0% of total salaries) would be divided by the award amount the unit would like to provide to the highest-level performers. This will tell you how many employees can receive the additional increase. This 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

Employees Performing In Lowest 10-20%	Employees Performing in Middle 60-70%	Employees Performing in Top 10-20%
0% Increase	2.0% Increase	3.5% Increase

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

	Performance Is Unsatisfactory	Performance Requires Improvement	Performance Is Proficient	Performance Exceeds Expectations	Performance Is Outstanding
Salary Is High in Range	0%	0%	1.0%	1.5%	2.0%
Salary Is Mid-Range	0%	0%	2.0%	2.5%	3.5%
Salary Is Low in Range	0%	0%	2.5%	3.5%	4.5%

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 any salary increases for fiscal year 2019 **should state that the increase is contingent on final approval of the budget by the Board of Regents in June.**